KION GROUP AG

Q2 2014 Update Call

Conference Call Transcript

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Thomas Toepfer (CFO)

Gordon Riske: Yes, thank you very much. Welcome ladies and gentlemen to our KION Update Call for the first half year of 2014. As in usual procedure I will present some of the highlights for the first half of 2014. Thomas Toepfer will give you the financial update and then we will report outlook and then turn it over to you for possible questions which you may have after the presentation. I hope everyone has the presentation in front of them.

I am on page three at the moment. The headline 'Our Current Performance' means that we can confirm our guidance for successful 2014. The order intake in the second quarter with €1.228 billion that is 11 percent. So a very strong second quarter, which then accumulated, brings us to €2.424 billion that is up 8 percent compared to previous year. So a very strong second quarter that is mainly driven by Western European markets, a strong recovery and we do believe in the second quarter also some slight increases in market share.

Our order book now with €835 million that is up 20 percent so that gives us a solid foundation for revenues in the second half of the year. The revenue with a stable book to bill ratio in Q2 was €1.144 billion also at approximately prior year levels. So, again with the higher order intake we should see revenue increases in the second half of the year. The service business has also provided strong growth within the first half of the year. What we have seen so far

The adjusted EBIT, Q2 with €109 million. So that is 9.6 percent, slightly above previous year. So that also helped our performance in the first half year with €197 million EBIT close to first half year margins last year of 8.8 percent. The net income, which is €33 million, is below previous year, but you know last year we had the special tax effect, a positive tax effect and this year we also paid back part of our bonds. So we are able then to reduce our interest costs going forward and Thomas will go into more detail. I am sure there will be some questions on that. Then we have a net income of €61 million, slightly below the first half of 2013. Through this re-financing, of course, our interest costs will be reduced.

Turning over to page four, some of the operational highlights in terms of investments and innovation. The Western European markets were very robust. Also in the second quarter, but China and Eastern Europe, in spite of all the trouble that we see in the media regarding Ukraine and Russia, was a strong Eastern Europe quarter last quarter. We did, after a long process of negotiations in our German factories, did make a major move with an investment program to optimise that means simply in our core factories in Germany to have a very stringent optimisation and productivity improvement program for those plants. We also made the commitment now to move part of the production to Czech Republic. That is an on-going productivity effort that we have going and we will intent or we intend to start a production in that new facility in the year 2016. Addressing mainly the so-called value markets that is a growing market also in Eastern Europe and Southern Europe and we want to address that with the facility that's optimally located in that area.

We also had the traditional trade fairs in the first half of 2014. Every three years we have the CeMAT for the forklift industry as the showcase fair for the industry. STILL was a very attractive presenter at that show and for the first time LMH bringing the largest premium brand in the world, launched an interactive trade show on their own. So they made their own trade show, we will show you some highlights on that in the pages ahead. We also introduced a number of new products especially in the area of lithium ion trucks for warehouse solutions and we introduced beyond the products also new fleet management tools and automation solutions for our customers. The free float – on page five – increased after the sell down of Goldman Sachs of 7.5 million shares on June 10th. So our shareholder structure has changed again in the first half of 2014 compared to the previous period. That means for our investors I think a good message with free float being almost at 40 percent. Weichai Power now at 33.3 percent; Goldman Sachs/KKR at 26.9 percent and we have a couple of shares that we purchased for an employee stock program. The lock-up period for the management has also expired now so that is the change now in the shareholder structure on page five.

On page six, a few words about the market. Overall the global market did reach an all-time high, so an increase of 9 percent in Q2 for a volume of 284,000 units, so a very robust and continued after that momentum started the end of last year. That has continued. Especially Western Europe and China are the biggest growth contributors. We do believe the broad trend will continue in the established market. Although we are now at a higher level, I think the year-to-year or the quarter-to-quarter growth will slow down somewhat becoming a more normalised state. The Chinese economy, the Chinese demand is very strong and, as I said earlier, even though Eastern Europe is negatively affected by Russia and the Ukraine crisis, we have seen very, very positive development of over 20 percent in the other markets. South America continues to be weak.

On page seven – we've put that into a chart form where you can see the differences in the different regions in the world: North America, South, Western Europe, Eastern Europe and China and the bottom right hand side fourth quarter of last year, 13 percent, 9.7 and 8.7 percent so very strong quarters. The last three quarters even China with 12.6 percent, a very strong Q2.

On page eight, specifically the Western European market, the recovery is continuing across key markets. We would like to turn your attention a little bit on the bottom of that page. Italy and Spain, of course they are nowhere near the peak levels that once were in 2007/2008. But we have seen a continuous stabilisation in these markets. It is the highest level in over two years, they are well below but that is a good sign that market demand has started to stabilise and hopefully continue to grow.

On page nine of the presentation, the KION performance then compared to the market, orders increased 14 percent in Q2, so the volume in units was higher than the volume in Euros with 40,800 units in Q2. Again, benefiting from strong European performance, of course that was mainly driven by warehouse and electric trucks and that is why the order intake due to the mix in units is slightly higher than what you see in the Euro numbers. In Q2, Germany, France very strong performance and the improvement in Italy and Spain, but also as I said earlier in China the best quarterly result that we have ever had in units (over 5,000 units). Very strong performance by our economy brand Baoli in the past quarter and we do believe that will continue and in the Eastern European markets we were significantly above the market trend.

You can see that very clearly on page ten where KION outpaces market growth in Europe in China if you look at Q2 Western Europe, the market grew by 14 percent; KION by 18 percent. So we did gain some market share.

Eastern Europe only 9.5 percent, we had 20.7 percent growth so very nice performance in Poland and Czech Republic. China with 16.5 percent also very strong and then South America the only one where the markets are weak at the moment with minus 17.7 percent.

Now, on page 11 the European Investment Program. You know those of you that have followed us for the last years, we have always increased our performance in Western Europe. We have restructured the Western European footprint totally with the closure of several plants and integrating them into existing plants. That process of increasing our competitiveness continues and we have a long-term program, by the year 2021 to invest another €80 million or so into the core plants in Hamburg and Aschaffenburg to increase or to make our cost efficiency better. The production process is to be completely redesigned. At the same time we want to make a small investment of around €12 million into a factory in Pilsen, so in the Czech Republic. That is scheduled to go online in 2016 initially for warehouse products and then addressing the so-called economy and value segments in Eastern and Southern Europe.

On page 12, a little bit of colour on the trade fairs. As I said Linde the World of Material Handling was a three week, very Linde-specific show. So we were able to introduce customers very personally and very specifically to new products and services. A very interactive fair and we were all surprised but I think 6,000 visitors that are able to spend almost a whole day with the company was a very unique experience and I think helped in increasing market share and market awareness. STILL also very successful CeMAT show in Hannover, one of the most visited attraction of the entire show was the STILL booth and we had several thousand visitors and interested customers. So I think that gives the entire industry a boost in this year and specially the KION brands in Western Europe.

On page 13, the innovations from the past year that we introduced now at these shows, the Linde pilot, or safety pilot. It is an electronic driver assistant it is kind of like having ESP that you have on passenger cars so a very safety oriented system for the forklift driver. We introduced a new generation of pallet trucks with own lithium ion solutions, compact double stackers and for STILL a very interesting reach truck with a so-called active load, so you can raise the payload seven-eight meters in the air, move it quickly and the payload does not shake due to the active load stabilisation system that we introduced. We re-introduced or re-engineered the electric forklift, the two ton, and STILL with a completely re-designed heavy duty truck (an eight tone truck) is also introducing this RX60 in a new market segment for STILL and they certainly will be more competitive with this new product. So very big focus on new products, product innovations and I do believe that will show in increases in market shares in the quarters to come.

On page 14, we have also invested - and we have talked about this to many investors during the road show times and the one-on-ones - invested in solutions beyond the simple truck. Linde introduced a new state-of-the-art fleet management system where the customer and the service organisation can really follow what is happening with the truck anytime. The truck remotely gives information so that benefit reducing the total cost of ownership and on the STILL side the so-called 'iGo Easy' system that is programmed with an iPad and fully automated, can be easily configurated. Also very interesting technology for our customers. So that big focus on innovation, new products will help us maintain the premium positioning that we have and I think you will see it in the Q2 results that we were able to show also with an increase in our operating profit.

With that I would like to turn it over to Thomas Toepfer to go through the financial updates.

Thomas Toepfer: Yes, thank you very much and also warm welcome from my side. I would like to guide you through our financial numbers and please turn directly to page 16 of the presentation, which gives you an overview for the first half-year of our key financial indicators. I think quite obviously starting from the left side you can see we had very strong momentum in terms of our order intake, which is up almost 8 percent to €2.424 billion. Despite a negative foreign exchange effect of roughly €39 million, so that really gives us a good momentum especially also for the second half of the year. You can also see the order intake has not found its way yet into our revenue and adjusted EBIT line. So revenue is at the same high level as last year with €2.233 billion. Again, we have a negative FX effect of €36 million here. If you adjust for that our revenue line has been up 1.5 percent over the first half of the year. The adjusted EBIT with €197 million on the same high level as last year, but with especially some good momentum in the second quarter (you will see that on the next page). Last, but not least, our net income is down some €9 million with €61 million. However, there are two one-off effects to be kept in mind. One is we had a positive tax gain in 2013 which positively influenced our net income in that year while we had a negative effect from the early repayment of our bonds as of April 15 this year and that obviously affected 2014. So that is essentially driving the fact that our net income is below prior year in the first half of the year, but as you will see in our outlook we obviously are expecting this to reverse in the second half of the year.

If you then turn to page 17 of the presentation, you have the same set of KPIs for the second quarter and you can see that a good momentum in terms of order intake has even accelerated in that quarter with 11.1 percent uplift. Again negative foreign exchange effects to be kept in mind; the revenue is at the same high level, again FX with the negative effects. But maybe most importantly, you can see that on our adjusted EBIT we have managed to increase our margin to 9.6 percent which is a very good level for a second quarter. Also in absolute terms our adjusted EBIT is up by 1.7 percent. The net income, I was mentioning the two effects both affect the second quarter and that, obviously, then explains the decrease or the slight decrease in the net income to €33 million in that specific quarter.

If you then please turn to page 18 of the presentation, that gives you the more historic development of our order intake and you can see that also in that context Q2 was a very strong quarter with €1.228 billion up 11.1 percent. As I said, that is mainly driven by Western Europe with a very good recovery and also China where we were very strong. Very important is that we have increased our order backlog by 20 percent to €835 million compared to the year-end of 2013 and that obviously gives us a good basis for an increased performance in the second half of the year in terms of revenue. Our book to bill ratio stays above 1x with 1.07x, so that obviously is the logic of the figures that you had just seen.

If you then please turn to the next page, that is page 19, you have a more detailed split of our revenue for the year. First half and then on the left-hand side and for the second quarter on the right-hand side, you can see that the pattern is quite similar in both periods. So we have a decrease in our new business revenue which is compensated by a very, very healthy

development in our services revenue. I would just give you a little bit more colour what are the effects behind it. First of all, obviously, the largest part of the foreign exchange effect that has been negatively affecting us can be found in the new business. So that is a big part of this and secondly, please keep in mind that we have closed our facility in Merthyr Tydfil, so while in 2013 we were still generating new business from the heavy trucks business, this is not the case anymore in 2014 and both effects together – FX plus Merthyr Tydfil – explain a large part of the decline in our new business.
At the same time we want to be transparent that we have acquired, you know we have acquired a dealer called Willenbrock and this obviously positively affects our service business and roughly 50 percent of the increase in our service revenue can be attributed to that acquisition. Therefore I think these three effects have to be kept in mind when you look at the pattern of our revenue line that you can see.

If then you go to page 20 with the adjusted EBIT and EBITDA; EBIT on the upper-hand of the chart and EBITDA on the lower side, you can see good momentum especially in the second quarter for our EBIT. We have a good increase in our gross margin both from our new truck and from our services business. Obviously, we have got some negative effects in terms of our costs driven by wage inflation. You have seen that we are very strictly monitoring our fixed cost increase for the last six months. But obviously wage inflation plays a role here. Some extra costs for the trade fairs and also some costs increases following the IPO are driving this. But overall you can see that especially in Q2 we were managing our EBIT margin up in the specific quarter. With respect to the adjusted EBITDA, it is also above our 2013 level and that is mainly driven also by the effect from the first time consolidation of the dealer that I was just referring to.

If you then turn to page 21, that gives you the reconciliation between the adjusted EBIT and our reported EBIT and then all the way down to net income. I think you are well familiar with the concept. I would like to highlight one number, which is our net financial expense line. On the right-hand side you can see that we have improved our net financial expense from €112 million to €81 million and that is despite the fact that we had the negative effect of €23 million due to the early repayment of the bond, which is included in the €81 million of this year. So there is a sustainable interest reduction after the IPO that you can observe here. Then secondly, if you go to the tax line, you can see that our tax for 2014 was €27 million is very much in line with the guidance that we have given for the entire year of a tax rate of roughly 30 percent. While in 2013 you can quite obviously see the positive tax gain that we have booked in that year and that, of course, was not repeated, in 2014.

So with that I would like to turn to page 22 of the presentation and that is the cash flow statement. I think the, really we have managed a strong improvement in our operating cash flow from €125 to €151 million and also the free cash flow is up to €20 million in the first half of the year. Structurally there are no big movements in the numbers. I would simply like to highlight that, of course, our trade working capital is kept at very tight levels. The increase of €96 million in the first half of the year, which you can see in the table is purely a seasonal effect. The leasing cash flow is zero, which we have always mentioned would be the case in a steady state environment. If you then go to the cash flow from investing activities you can see that our operating CAPEX is up some €6 million to €58 million in the first half of the year. That is the expected gradual increase in our operating CAPEX and the rental fleet CAPEX is mainly driven by fleet replacements which we have already reported on in the first quarter of the year.

With that I would then like to turn to page 23 of the presentation where you have the overview of our net debt and, as always, we have tried to give you the various components to provide the best transparency. Let me start on the left-hand side. Our net financial debt for the Group stands at €1.066 billion so that is a leverage of 1.45x relative to our adjusted LTM EBITDA. If you then from that work yourself to the right, you can see we have a minor amount of procurement leases of €70 million, €155 million of the €1.066 financial debt can be attributed to our financial services segment and that gives you then the €927 million which is the industrial net financial debt. Not much movement in our internal rental fleet funding which stands at €468 million. The Q1 number was €450 million, however you can observe a bigger movement in our net pension liabilities which have increased to €628 million up from €538 million at the end of last year. That is driven by the decrease in the discount rate of 60 basis points in Germany and some 20 basis points in UK so that, of course, is then also reflected in our balance sheet.

Then last, but not least, I would like to draw your attention to page 24, which gives you the financing update and the maturity profile of our instruments. I think you are well aware we have our RCF line, which is due in 2018 with a total volume of €1.045 billion; €496 million of that has been drawn and roughly €550 million of that is the free headroom. We have a new credit line of €198 million which we have used for the take out of the bonds on April 15 of this year and we still have the bond of €450 million which we placed in 2013 and which is due in 2020. On the lower right-hand side you can see that Standard & Poors and Moody's have both upgraded the rating for KION. Standard & Poors is now a double BB with a positive outlook and Moody's has a Ba2 with a stable outlook. With that I would like to hand it back to Gordon Riske.

Gordon Riske: Thank you we are page 27 here the outlook for 2014 and, as the headline says, we want to confirm that outlook. Our assumptions, of course which we base our confirmation on are on the market side that Europe will continue to stabilise and we see no reason that should not happen. The North American market has grown and it is still an upward trend. Asia, Eastern Europe markets are fairly stable. So we expect a global growth rate to be at least 4 percent in the next couple of years and no significant changes in the revenue generated by each of the product mixes. So based on those assumptions we do believe just like we said in the first quarter, that we confirm our forecast with a slight increase in order intake and consolidated revenue compared with the prior year 2013. That we will have a significant year-on-year rise in the adjusted EBIT reflecting the efficiency gains and some slight growth on the top line and that the adjusted EBIT margin continues to increase in line with our medium-term targets. The net income will increase through the result of a higher EBIT and reduced financial expenses, but we will have in this year, no positive tax one-offs like we did in the previous year. Cash flow should be considerably higher due to the better EBIT and no more one-offs and so our capital expenditure also will be in line with above 2013. All of that together we should be able to reduce our net debt slightly. So all in all I think we can be very happy with a good first half and a very good second quarter and we look forward to being able to deliver on what we forecasted.

On page 27, when you look at the KION investment highlights that we have kept publishing since we did the IPO which is more than a year ago. I think with a quarter like this, world market, it is an attractive market with a world market that grows by 9 percent. I think compared to many other markets that kind of underlines that very well. KION as a global leader, has a very, very strong position in the key markets especially in Europe that helped us in the past reporting period in the technology driving the premium position we showed you some examples of the innovative products that we have brought into the market and with the business model that we have at 9.6 percent EBIT in Q2 also a good benchmark to look forward to. So we thank you for taking part in this call and listening to our presentation. With that we will close the formal presentation and open it up to your questions. Thank you very much.

Operator: Thank you. Ladies and gentlemen at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one their touch tone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. Our first question today comes from the line of Markus Almerud of Morgan Stanley. Please go ahead.

Markus Almerud: Hi, Markus Almerud here from Morgan Stanley. Three questions if I may. Starting out with Europe, can you talk a little bit about which end markets are sticking out and if there is a lasting demand that you are seeing or if there is real demand because there is a lot of mixed signals about what is going on in Europe. But these numbers were very, very strong. Secondly, can I ask a bit about the price mix in the order book? We know that you had 14 percent volume growth and we know that currency took off about 1.8 percentage points of that meaning that price mix should be at least 1 percent but then there should have been some order growth from the acquisition as well. So if we could talk a little bit about the price, the price mix impact on there. Then if I can also ask, what part of your sales is products that were launched less than three years ago, thank you.

Gordon Riske: Starting with the first one, end markets, you know, we have had a number of questions today after our press release. How does the industry grow at 9 percent we hear all these negative things about other industries and how does KION grow at 11 percent and so forth. I can honestly say we do not have a specific end market. If I look at all the regions, which we showed you clearly, other than South America every region is really going very strong. We do not have a particular end market you know that this year it is food and beverages and last year it was automotive. Most of the end markets that we address are, you know, growing not unusually faster than the others. So I cannot point to a particular end market. We have no industry that we serve that makes more than 15 (one five) percent of our sales and so there are no ones that are really, you know, down or up. Price mix:

Thomas Toepfer: Yes, I think your question was the reconciliation between our growth in terms of units versus the growth in terms of Euros.

Markus Almerud: Yes.

Thomas Toepfer: You have observed that the Euro growth is slightly lower, I think there are essentially three effects. One, very obviously, is the foreign exchange effect. You have the numbers that - in the quarter, there is roughly some 20 million negative FX effect that should be associated with the order intake on the new truck business. We also have a slightly negative order mix effect in the sense that you know Baoli is growing very strongly and we are growing in the emerging market. But against that offsetting we have the positive price effect and that then brings, I think especially in Q2 I would like to say that our Euro growth in terms of order intake is almost at the same level as the order intake in units. Despite the negative effect from foreign exchange and that is due to the fact that we are able to push through prices and therefore we are very happy with the development especially in Q2.

Gorden Riske: And the third question, product revenues and products in the last three years. As you know, if I look at total revenues, 40 percent of that or was after the sale of the products so we are talking about the other 60 percent and in that case it is probably about 20 to 25 percent is products in the last three years, because we are talking really mainly new products. There are other products that have had facelifts due to the emissions requirements so they get a new engine and we do a little tuning, but that's not really a clean sheet product - our kind of definition of new products or really new products is about 20 to 25 percent.

Markus Almerud: Thank you and can I ask would you like to quantify the price increases that you have pushed through?

Thomas Toepfer: I think our guidance, as always, that we always try to, as we always have a gross price increase or a list price increase of roughly 2 percent and our target is to push through 1 percent of that because we always have the discount working against that. And I would say we are largely on track to achieve that target in 2014.

Markus Almerud: Yes, thank you very much.

Operator: And our next question comes from the line of Sebastien Gruter of SG. Please go ahead.

Sebastien Gruter: Good afternoon, three questions please. The first one is, if I look at your guidance for the market you are still talking about moderate increase while demand in H1 was up 9 percent and that suggests almost no growth in H2. Is that conservative or do you see something that could drive this lack of growth in the second half? Second question is, I am wondering about the leverage in the business and from higher new equipment revenues. What kind of leverage could we be expecting in H2? I mean if you are making one Euro more new equipment sales, how much incremental profit can we expect? The final question is, if my maths are correct, new equipment order intake has been around €700 million for the last three quarters while new equipment revenues are still about €600 million. Are we talking about longer lead times from your clients or is it the production, is it coming from clients ordering a larger orders and asking for a longer lead time for these orders?

Gordon Riske: Let me give you the first question. Yes, we say moderate growth and after 9 percent you are right, the second half would have to be zero. That's probably not going to happen. That is the mathematics. However, these markets do go up and down sometimes quickly and the forklift you can postpone the purchase for some time. It does not need to be tomorrow. We do have, I think, the tradition of being somewhat conservative in our outlook and forecast and that is why we say we want to stick at this point with what we published, that is confirming it. Of course it is much more comfortable to be able to say that in August maybe with that kind of order back log than it was in March or April. The second question regarding leverage:

Thomas Toepfer: Yes, I think your question was what is the drop through rate of an additional Euro that we make. Our estimate is that on the first incremental 100 million more revenue we will make roughly 20 percent EBIT drop through. But that really is the, what we call, really incremental revenue. So no additions in terms of shifts necessary, no more equipment and then that drop through rate of 20 percent will gradually decline for the next 100 million. But for the really incremental revenue our estimate was 20 percent.

And then your question was on the lead time of our order intake. I would say that has not increased. The good uplift in order intake that we had, mainly came starting in March and then mainly in the second quarter. So the normal lead time we see is three to four months and that I think that is still intact. The fact that we have built up the order book so strongly is due to fact that the strong performance in order intake really started to kick-in in March of this year.

Sebastien Gruter: If I can follow-up on these questions. Does that mean that we should be closer to €700 million new equipment worth in Q3 or given seasonality you will not be there. Then a follow-up on the guidance issue, I mean, I understand your conservative on the market. Now it looks like the guidance on the revenues and especially on the adjusted EBIT is a bit more challenging. How can you reconcile the two?

Thomas Toepfer: Maybe on your first question, I will not give a precise outlook on our revenue for the next quarter, but I think quite obviously you are right, our order intake for the new business has been just below €700 million for the last two quarters and therefore we are confident that we will see also some uplift in revenue in Q3. But I think in our markets it is difficult to be more precise. I would have to ask you, maybe to repeat your last question because I did not fully understand your question on the EBIT that you asked.

Sebastien Gruter: I mean your guidance on the overall demand is conservative but it did not seem so conservative on your top line and especially on the adjusted EBIT level. How can you reconcile both?

Thomas Toepfer: Well, as Gordon Riske said I think maybe it does seem to be a little bit more conservative on the top line, but please keep in mind that there was strong market growth in Q4 of 2013 and therefore the comparable number just get more difficult in that year. And then on the EBIT we are still confident because first of all the second half of the year is seasonally always stronger than the first half and secondly, we do have a very high order backlog, which we will now continue to work through in our factories. And if we look at the production programs we can see what will be the level for the second half of the year and therefore we are confident that while maybe it is difficult to forecast the revenue line, we have much more visibility on the EBIT because we have the order intake in our books and we know what are the production programs for the next four months and this gives us some better confidence here.

Sebastien Gruter: Okay, thank you.

Operator: Our next question comes from the line of Jürgen Siebrecht from HSBC. Please go ahead.

Jürgen Siebrecht: Yes, good afternoon. One question on your adjusted EBIT, is it possible to quantify how much efficiency gains you had year-on-year in the EBIT and is there more to come in the second half? That would be the first question. The question is relating to the market which was, as you say, positive in Q2. Would you dare an outlook on Q3 in unit terms for the market globally or region wise and would you also see your 4 percent market growth outlook as conservative given H1 growth of 9 percent globally and Western Europe also up 12 percent. Thank you.

Gordon Riske: Start with the second question, market in Q3. We already have one month gone, it has been pretty stable. So sure the year could be slightly higher. So yes, the answer is that we are conservative in the 4 percent number, that could certainly be somewhat stronger and in Q3 but I said let us wait and see. July has gone fairly well and after the 9 percent in the market were first six months. Now we have seven months, which have been very consistent and the bottom would have to drop out - you are right - in the last five and we do not see that happening.

Thomas Toepfer: In terms of the efficiency gains, I would say that the margin uplift that you see in the second quarter that is driven by the efficiency gains and despite the negative FX effect that we have this year and that also pose a burden to our EBIT line. And looking forward to the rest of the year, I would expect that this margin uplift will continue because the efficiency measures that we are putting in place are getting effective here. And therefore I think the second quarter is a good indicator that these efficiency gains will continue through the rest of the year.

Jürgen Siebrecht: Okay, thank you.

Operator: And our next question comes from the line of Sven Weier of UBS. Please go ahead.

Sven Weier: Yes, good afternoon gentlemen. One question from my side following up on the good order intake development. What are you actually hearing from your customers precisely? What is your sense why the demand is actually so resilient against the current macro development. I guess in the terms of the VDMA orders, we have already seen a negative impact. We had, again, today, negative German factory orders. So it seems that some of your clients are seeing the impact. So what is it in your view that is making your orders more resilient? What are the precise feedbacks that you are getting from the regions? Thank you.

Gordon Riske: Yes the VDMA announcement a week ago or so was somewhat downbeat that is right. But from our customers the feedback is generally pretty positive and robust. Many, in Europe as you know we sell more than 50 percent of these products in five-year agreements and with the technological changes that have happened in the products, with the efficiency of the products there is a lot of incentive to replace somewhat older trucks in the market that are running into newer, more efficient, more sophisticated trucks. That is part of it that is driving. The other thing is we do serve the so-called *Mittelstand*, which is still very strong, especially in Germany. If I look at other regions around the world, the Chinese are very positive, the Purchasing Manager's Index has continued to increase. What surprised me the most I guess is the 20 percent plus in Eastern Europe that despite all these crisis the investments and the positive mood of growth for the future has continued in countries like Poland and Czech Republic and others that has really driven it forward.

I think bigger customers, where we have bigger fleets, again in the automotive industry there are some question marks, you know how far to go? But those are longer-term investment programs that they really do not turn down. When they invest in a factory, the factory is built. It might take a little bit longer or the investments may be spread out. But they said all in all we have really no big negative customer feedback at the moment and so the forklift industry compared to the general industry outlook is certainly somewhat more positive than the others.

Sven Weier: Okay, thank you.

Operator: And our next question comes from the line of Gerhard Orgonas from BNP Paribas. Please go ahead.

Gerhard Orgonas: Good afternoon, two questions please. You are stating in your guidance that you are aiming to increase your adjusted EBIT in terms of being in line with your medium-term margin expansion plan. I think that was around 50 basis points a year. Do you think that is still achievable in 2014? That is my first question. And secondly, could you please remind us of the Chinese truck order intake in Q2 2013 to have a reference point and maybe a little bit of a split between high-end and low end.

Gordon Riske: Okay we dig those numbers out, the exact numbers, I think we have them in some place. On the first question, EBIT on track; I mean the adjusted EBIT, you know, we have said that we do see in terms of definition of our increase, we said significant. Significant in our definition, I think we have also published that, is the upper half of the single digit spectrum and that is where we continue to see where we will land.

Gerhard Orgonas: That is an absolute EBIT not a margin.

Gordon Riske: Yes, exactly. So we are still digging out the numbers on China.

Gerhard Orgonas: In the mid-term would you still say that the 50 basis points uplift per year is valid.

Gordon Riske: I think as a general pattern if you want to take a ruler and go from, you know, from the year 2013 to the year 2020. It could be from quarter to quarter some ups and downs. I would say that is a normalised line, but if you want to do a perfectly linear the world does not work that way. It is not always going to be like that in every quarter. For totals in China we are talking about Q2 2014 was 5,131 so it is plus 700.

Gerhard Orgonas: Plus 700 year-on-year?

Gordon Riske: Yes, in the quarter.

Operator: Ladies and gentlemen, as a reminder if you would like to ask a question please press the star followed by one on your touchtone telephone. Our next question comes from the line of Felicitas von Bismarck of Deutsche Bank. Please go ahead.

Felicitas von Bismarck: Thank you very much, I actually have a clarification question. When you said your markets in July were stable. Are you talking relative or absolute? So in terms of growth rates, they are in the same region as before or are we talking actual numbers?

Gordon Riske: Yes, the growth momentum has continued stable always sounds like nothing has happened. It is still growing. But do not forget, as Thomas said, we had the last half of the last quarter of 2013 has already started to increase. So when you do a year-to-year comparison, even though we are still growing, the absolute number will not be double digit anymore, but single digit. But it is still growing.

Felicitas von Bismarck: But does it say high single digit, in terms of where we have been growing before.

Gordon Riske: Yes, not double digit but it is high single.

Felicitas von Bismarck: Thank you and the second question I would have is, could you give an indication of your production levels in Q2 and what you expect for Q3 and Q4?

Thomas Toepfer: The production level in terms of utilisation rate or in absolute numbers of units?

Felicitas von Bismarck: Yes, well basically both kind of go in the same direction. I mean Jungheinrich publishes production levels. So what is going for their production if you are still below last year, if you are increasing? What do you expect? So, just a qualitative indication would be enough for me, thank you.

Thomas Toepfer: The qualitative indication would be that in Q2 we were in terms of production levels below the second quarter of 2013 and that our expectation is, as I said we have the production plans very transparent, that in Q3 our production level will be higher than in the year Q3 2013.

Felicitas von Bismarck: And higher than Q2 although you are seasonally normally weak?

Thomas Toepfer: Yes, also on a quarter to quarter comparison Q3 will be stronger than Q2 this year in terms of production.

Felicitas von Bismarck: Okay, thank you very much.

Operator: The next question comes from the line of Felix Wienen of Berenberg. Please go ahead.

Felix Wienen: Yes, hi it is Felix Wienen from Berenberg. Just three questions if I may. First, the order intake was obviously very strong in the second quarter. In particularly in Eastern Europe you outperformed the market quite significantly. Could you briefly comment to what extent that depends on a country-by-country split so probably weaker in Russia where the market, I assume, has been very weak but it is more positioned with other countries where growth has been strong? And also for Europe as a whole, could you briefly comment on product mix in the market in the second quarter, so IC electric and warehouse trucks? The second question would be, quick question on the margin within the STILL segment. Could you briefly comment on the adjusted EBIT here and the difference between adjusted EBIT and the EBIT number and probably you can also split up the costs you had there for CeMAT in the quarter. And third on the LMH segment, I think in the beginning of the year you guided for cost benefits or cost savings from the closure of the Merthyr Tydfil at around €10 to €12 million for the year. Can you update us how many or how much of that has been in the first half. Thank you.

Gordon Riske: The first question, especially Eastern Europe, Russia, Ukraine, the market declined by 16 percent in the first half-year. We declined by 6 percent. So that is Russia/Ukraine. Russia/Ukraine make 30, 40 percent in some quarters of the total Eastern European market. In total for KION the Russian Ukraine market makes only 2 percent of our order intake. It is also about 2 percent coincidentally of the global market. So that means the other countries and especially Poland, especially the Czech Republic had outstanding growth and KION was, especially Linde, was able to get some large orders in those regions maybe because of the set-up and there was a particular, a couple of big projects that they were able to win. Regarding the segment mix, we were definitely stronger on electric trucks and warehouse. IC trucks were at about the level of last year, so not that big of a gain. As in all the trends in Western Europe especially going to more and more electric trucks that in some cases are taking the place of IC trucks because of performance and also the cost these days of an environmentally compliant engine driven truck is becoming more expensive. So people are looking at more electric trucks. But the trend has been electric trucks, warehouse trucks, very strong 7 to 8 percent and IC trucks at about last year's levels with differences in some other countries.

Thomas Toepfer: Well I think in terms of margin of STILL, I think there is no specific effect that we have here. I think the is a certain decline in their result also due to the CeMAT trade fair which is in the selling and marketing budget and is not insignificant. So I would say it is a low single digit million amount, but still noticeable in their amount and therefore that also can be found in the STILL results. Yes, Merthyr Tydfil I can confirm our guidance was that €10 to

	€12 million would be the positive effect for Merthyr Tydfil. And I would say roughly 50 percent of that has come through in the first half of the year as we closed the facility pretty much exactly at the end of 2013. And therefore I think with the precision that will be appropriate here, I would say is relatively equally distributed over the year.
Felix Wienen:	Thank you very much.
Operator:	Our next question comes from the line of Luca Orsini of One Investment. Please go ahead.
Riccardo Romiati:	Good afternoon. Actually Riccardo calling on behalf of Luca. I have just one question. Could you give us a guidance on administrative and R&D expenses and can we expect them to be flat in H2 2014 compared to H2 2013? Thank you very much.
Thomas Toepfer:	I mean if you look at the R&D cost development for the first half of the year you can see it is on the same level. I would expect potentially a slight increase in the second half of the year but nothing really material. And in terms of our administrative expenses, I think we have also outlined in our presentation, we do have some on-going costs due to the IPO and that is reflected in the first half and this uplift I would also expect will continue in the second half of the year. So, the increase you have observed for the first half will probably continue in the second half of 2014.
Riccardo Romiati:	Great, thank you.
Operator:	And our next question comes from the line of Peter Rothenaicher of Baader Bank. Please go ahead.

Peter Rothenaicher:	Yes, hello gentlemen. One question regarding your adjustment items, the KION acquisition items were up significantly in the second quarter. So what was the reason there and what can we expect for the full year? And one question regarding your competition environment. So if I talk to Jungheinrich, they mention there is some more pricing pressure, in particular coming from Toyota. What is your experience and do you have to lower some prices in special markets as well?
Gordon Riske:	Yes, the world is simply not competition free that is a fact. I think we have done an outstanding job with the market the way it is. It is a competitive situation and despite the growth that we have shown in the second quarter we had a very strong price assertion in the second quarter and have not made overly concessions on anything basically. So, yes we are aware of the competition and we respect that, but you know to certain competitors up or down that happens in every region all the time. So I would not say any reason to complain.
Thomas Toepfer:	With respect to the KION acquisition items just to give your broader context that was roughly €40 million in 2012 and then €30 million in 2013 and our guidance was that it would reduce to €20 million this year and you have rightly observed that it seems we are not in line with that after the first half of the year. The reason for that is that we were able to sell one asset faster than we had initially expected and there was PPA attached to that specific asset and therefore that was recognised in the first half of the year with an amount of roughly 7 million. So this is the one-off effect. It will not repeat in the second half of the year. And I think these 7 million you probably have to add to our 20 million guidance for 2014.
Peter Rothenaicher:	Okay, thank you.
Operator:	And our last question for the day comes from the line of Stefan Augustin of Kepler Cheuvreux. Please go ahead.

Stefan Augustin: Yes, hello gentlemen. Just one question, can you comment a little bit on the pre-buying situation in the IC counter balance trucks at the moment? Do you see already for your tier four final trucks significant demand? It should be now soon the time when the emission change takes effect.

Gordon Riske: Well, it depends on the payload class, the emissions were already the prior year so that is where we saw the biggest effect in the year 2013 in our classical two to three-tone region with a tier four. We have made the step already a year ago with tier four final with the full particulate tracks and so forth so we do not see any specific pre-buying. What we do see though is, from some customers, the switch, because it is a more expensive product, away from a diesel to use the electric truck and the additional factor; there are some flexibility clauses coming up for the next emissions level 2015 and 2016. We use that in some markets in the European and German markets, French markets we normally stick with the exact requirements. Especially Linde being the absolute premium company, it’s difficult to deliver products that, yes meet the legal requirements but really do not, you know, provide the best emissions requirements. So we have gone through that process already a year ago. Some others that have a big pre-buy, a number of engines that they are able legally to deliver; yes they have a big change in front of them but most of that has already taken place for our companies.

Stefan Augustin: Okay, thank you.

Operator: So ladies and gentlemen there are no further questions from the phone line. Please continue with any other points you wish to raise.

Gordon Riske: No, I think we are done. Thank you for the participation in today's conference for all the questions and we look forward to our next update for Q3.