

KION GROUP AG

Q3 2014 Update Call

Conference Call Transcript

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                                      Thomas Toepfer (CFO)

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Gordon Riske:

Yes, thank you. Welcome, ladies and gentlemen, to the KION update call for Q3 2014. Hopefully, all of the sound and technical infrastructure works well enough; this is the first call we're doing where the KION team is in two different locations, so hopefully, that will work out okay. If you have the presentation in front of you, we'd like to go through the process, as we have done in previous quarters. I will give you some highlights, Q1 through three 2014. Dr Toepfer, Thomas, will give you the financial background to all those numbers, and then we'll have the outlook, followed by the Q&A.

So on page three, just some highlights of the third quarter and year to date, as a third quarter with the €1.142 billion in sales, 9% above the previous year. I would say a very, very solid, very strong third quarter. The unit growth being driven by Western Europe and, of course, China, and a solid order book, which is now 16% over year-end 2013.

Which leads us, then, to Q3 revenues, also up versus the previous year by 5%. As you know, some of that order intake and building up will be delivered, then, in Q3 and Q4, and we now have a book to bill ratio of one time in the third quarter. An adjusted EBIT margin of 9.8%, which is significantly above the 9.3% that we had in Q3 2013, so a very good performance. I think September alone was one of the best order intake months, so one of the best Septembers we've had in several years, so a very solid September.

Which leads us, then, to of course, a very good net income, €58 million. Significantly above 2013 for the third quarter, and €119 million significantly, year to date, above the same period a year ago. So if you remember, we did some free financing and reduced interest and a good running business, very solid third quarter for 2014.

On page four, one of the big highlights, of course, was the MDAX inclusion of KION that happened on September 22nd. Thank you, all of the analysts who are on this call and have supported us in the underlying, I think, positive development of KION. We appreciate very much all the positive comments that have been written and various reports and road shows, and it's our job to continue to keep our promises and to continue to develop the business. The free float has, of course, increased significantly, and we see the trading volumes have substantially increased since being listed in MDAX. So, I think, for the company, a very good move, one year after going public.

On page five, some of the operational highlights for Q3. As I said, the KION unit growth at 10%, that is above world market growth of 6.4%, so we were able to beat the growth in the market. Double-digit growth in Western Europe, outperformed also in China and also Eastern Europe. We have continued to introduce new products. A whole line of warehouse trucks with lithium ion batteries has now gone into series production. We have also continued our development in electrics, electronics and fuel cell technology. And, of course, our service business, very, very strong increase. We'll give you some flavour of the service business increases in a couple of pages ahead.

On page six, the market development as a whole. The global order increase of 6% in the third quarter, so a very solid third quarter, 260,000 units. Electric and warehouse trucks are driving that growth. IC engine driven trucks are slightly slower. Continued momentum, despite all of the negative press and negative news we hear, whether it's Russia, Ebola and so forth, we still have a strong momentum in Western Europe, and Q3 was a solid quarter for the industry. China continued with moderate growth and Eastern Europe. Sure, we had a negative effect on Russia, but still positive development, which, in our case, has overcompensated that by quite a margin.

On page seven, the usual chart that we give you, the quarter to quarter development of the world markets, bottom right hand corner, 9.7%, 8.9%, 6.4% in the last couple of quarters. So a slight, let's say, steadiness and a little bit slower growth, but that means that growth has not stopped. That's a base effect. As you know, the Q4 of 2013 was also strong, so the comparative numbers will be a little bit softer. Western Europe in there with 13.7%, as I said, is our third quarter 2014 Eastern Europe, China also, are very strong.

If we look at page eight, at the moment, the upward trend in many of the markets, Germany is still strong, UK. France is the only big European market that is developing sideways, so at the moment, lower growth. Italy, Spain, surprised us somewhat that it has continued. When they started up a few months ago, we more or less felt that was a few larger orders, but now Italy and Spain have the highest levels in the past two years, and still have some road to go to be back to normal levels. But that's a very solid development, I

think, also being led quite a bit by the need to replace existing trucks in existing fleets.

On page nine, the KION global order intake for Q3, 10% above the previous level. We had 35,300 units in Q3 with the best September, as I said, that we've had in many, many years. And the momentum is continuing. Also, the emerging markets growing. KION growing above the market and significantly growing in Eastern Europe, especially outside of Russia.

On page ten, the regions from the perspective full year Q1 to Q3 2014, and then Q3 2014, how did the market perform? How did KION perform? Western Europe, 13.7%. We had 11.5%, so slightly behind the market, but still a very strong quarter for us. Eastern Europe, 16%, so quite significant outpacing competitors. And also, China, very, very strong. 8.9% development in that market. In China, the IC market is, as I said, somewhat slower, but the demand for warehouse and electric trucks is continuing to grow, and we are in a great position to serve those markets going forward.

On page 11, leading innovations are trucks that we introduced earlier this year at various shows. In Hanover and in Mainz, the KION warehouse trucks now are fully series productions with lithium ion technology, so we can offer customers now with twice as long capacity as what they're used to. That is being rolled out through the entire portfolio, so that is very well along the way. Another technological innovation, of course, it's nothing new, the fuel cell, but we have continued the development on this product. We have quite a number of trucks and various fleets around Europe, especially test customers, like BMW. So we are continuing our R&D investment into this new technology, which we feel will have a strong impact in the years ahead.

The service business on page 12, just to give you a flavour of the quarterly development, Q1 2014, two and three. 7%, 9.6%, 8% growth. One of our key cornerstone activities and initiatives for the KION 2020 strategy, as you know, is to make our company more resilient. The good growth in the service business, whether it's after sales service parts, ad hoc service, but also used truck, rental business has been very vibrant in the past quarters. And that gives us not only the attractive margins, but makes the company much more resilient to ups and downs.

All in all, we can say that the third quarter 2014 was a very solid performance, a very good base, and gives us a lot of confidence to finish out a good year, 2014. We'll come to the outlook a little bit later. Right now, I'd like to turn it over to Thomas to give you the financial update.

Thomas Toepfer:

Thank you very much, and also, a warm welcome from my side to our update call. Please turn to page 14 where you have the overview of our key KPIs for the first nine months of the year. And you can see that all KPIs are above prior year. Order intake, in terms of euros, at €3.566 billion, that's 8.2% above prior year, despite a negative foreign exchange effect of roughly €45 million, this is 8.2% up. The same is true directionally for the revenues, now at €3.372 billion. Here, also, we do have negative FX effects of €40 million. Despite this, we are above prior year by 1.7%. And we do have a good uplift in our operational result with €309 million, and that also brings our margin to 9.2%, exceeding the respective number of 2013.

Last, but not least, on the right hand side, you can see our net income. We have a very steep increase to €119 million, up 46%. That is driven, as Gordon already said, also by our significant reductions in interest payment through the refinancing after the IPO.

I think, even more telling on page 15 are the results in Q3 as a quarter. You can see the good momentum, in terms of order intake, has continued with 9.2% uplift. And now also in Q3, the good order intake, which we have been seeing starting in the second quarter of the year, has materialised in terms of revenue uplift to €1.139 billion, that's 5.2% above prior year. And that, obviously, has also helped us to increase our profitability. We have a very nice uplift in our operational results to €112 million, up 11% relative to Q3 of 2013. And 9.8% EBIT margin is, actually, a new record margin for a third quarter, so I think we do have a good performance in terms of our operational profitability here. Net income at €58 million, as I said, especially refinancing has had a positive impact on that number.

If we look at these figures a little bit more in detail, please turn to page 16 where you have the order intake, in terms of euros, and the development over the individual quarters. You can see Q3 is up 9.2%, and that is well in line with the 10% unit uplift that Gordon Riske was mentioning earlier.

Obviously, this is driven by Western Europe, Eastern Europe and China, and we have continued with a strong order backlog of over €800 million, which gives us good confidence for the rest of the year. And Q3 had a book-to-bill ratio of one, which we also think is a good result.

If, then, you turn to page 17, you have some more details on our revenue development. If you look to the right hand side of the picture, you can see all business alliances have had solid growth in the third quarter. New business is growing with 2.5%, and all the segments of our services business do contribute to our revenue uplift of, in total, 5.2%. But if you look at the left hand side, you see the first nine months of the year as a new business still being down by €71 million. But please keep in mind, there are two major effects, one being the foreign exchange effect, which mainly materialises in the new truck business. And secondly, please remember, we have sold the Linde heavy truck business end of 2013, so this also depresses our new truck business. And if you take these two effects together, this largely explains two thirds of the €71 million decrease that we still see for the first nine months of the year.

In terms of profitability, you have some more details on page 18. So you can easily see, we have a good uplift, both for our EBIT and EBITDA, and also for the third quarter and the first nine months of the year. Definitely, this is driven by a good uplift in our cross margin through the product mix and our growth in services. We clearly have some wage inflation effects and some cost increases through the trade fairs we were mentioning, and some follow-up costs through the IPO. However, as I said, profitability, as a whole, has increased and the adjusted EBITDA is specifically up at a higher pace relative to EBIT because the acquisitions of the first time consolidation of the dealers in our results.

So with that, I would like to turn to page 19, which gives you the reconciliation all the way from the adjusted EBIT down to our net income line. And, at this point, I would like to mention specifically one effect that is relevant for the third quarter, which is the reorganisation that was announced in Q4 for the Linde Hydraulics business. Just to give you the background, and as a reminder, we have sold 70% of that component business end of 2012 to Weichai Power, fully in line with our strategy to reduce our vertical integration. And we still hold 30% of that business with an option to sell 20%

at the original purchasing price to Weichai with two exercise windows. One being in the middle of next year or somewhere next year, and one being at the end of 2016.

So just as a background, now Linde Hydraulics is going through some, I would say, some market turbulences, clearly, not driven by our internal demand. The demand from Linde is very stable, however, the global construction market is down and there is some sharp decrease in the global demand, and that made a reorganisation of that business necessary. In terms of the financial impact, there are two things to be noted. One is an impairment of €32 million, and we have booked that in the line item non-recurring items. So if you look at the third quarter of this year, you can see minus €37 million, that contains €32 million of impairment from Linde Hydraulics, as I just mentioned.

And on the other hand, the value of the put options that we hold has increased by €42 million, and that effect has booked in the line item net financial expense. And that brings this item, actually, to a positive €19 million in the third quarter, as you can see, but as I said, €42 of that stems from the revaluation of the option. Now, the total effect on our net income is close to zero because there are also some taxes on the €42 million. So I would say the net income effect is negligible. But these two things that I was just mentioning, you should keep in mind when you look at the specific reconciliation.

Other than that, I would only like to mention that, obviously, the refinancing initiatives that we have started after the IPO and continued into 2014 do have a very positive effect on our net financial expense. Our guidance was that from the previous level of €32 to €33 million per quarter, we should be able to reduce this by another five. And I think this run rate, you can see there, that we have achieved or even over achieved this in the third quarter of 2014.

So with that, please turn to page 20 for some explanations on our cash flow development. Overall, we have a very good increase, both in our free cash flow, but also specifically in our cash flow from operating activities. Let's start with the first line item, which is the EBITDA, excluding the financial service segment. Obviously, at first sight, it looks as if the number is below previous

years. Please keep in mind that the EBITDA does include the €32 million non-cash effect from the Linde Hydraulics impairment because this is not booked as a depreciation or amortisation item, but as an income at Equity Holdings. So above the EBITDA, and therefore, the number is affected by the €32 million I was already mentioning. It is then reversed in the line item other, which, due to that effect, turns to a positive €34 million in the first nine months of the year.

In terms of working capital, we do manage this very tightly, but obviously, there's a seasonal uplift, in terms of working capital, which is also slightly higher than last year. That is simply due to the fact that we have a steeper uplift in production foreseen for the fourth quarter of the year, and that drives our inventories at the end of September. So I would say this is fully in line with our expectations, and tightly managed. We have an increase in operating Capex to €87 million for the first nine months, which is fully in line with our plans. And the increase, in terms of net rental Capex, as we had already mentioned in some previous calls, is mainly driven by complete replacements that took place in the first quarter of the year.

So with that, I would like to turn to page 21, which gives you the details on the net debt situation of the Group. On the very left hand side, you can see the net financial debt stands at a little over a billion. That's a reduction of €56 million from Q2, due to the good cash generation in that specific quarter. You all know that we have some procurement leases of €16 million, and €161 million can be attributed as net financial debt to our financial services segment. So that brings you, then, to a net industrial financial debt of €864 million. And starting from that, we have always been very clear about two other items. One being the internal rental fleet funding, through our financial services segment, which is at €474 million, slightly up to our previous quarter number.

And we have net pension liabilities of €700 million, that is, in fact, quite a significant increase relative from the €628 million we were looking at three months ago, due to the interest rate reductions in Germany and the UK of some 40 and 25 basis points respectively. So that is mainly driving this line item.



And to round it up in terms of end customer leasing, on the lower right hand side, you can see that the assets for end customer leasing have increased by €25 million, but so has the funding through our sale and leaseback financing. So these two items are fully in line, as we have always indicated that these are completely in line with each other.

And with that, I would like to hand it back to Gordon Riske for the outlook.

Gordon Riske:

Thank you. I'd like to turn you to page 23, at this point. And after a very solid third quarter, which we've presented to you in the past couple of charts, we are very happy to be able to confirm our outlook, which basically consists of four major items that we have said throughout the year, that is a slight increase in order intake and consolidated revenue, compared to 2013. The second one is significant year on year rise in the adjusted EBIT, reflecting the top line growth. The third one, the strong net income from a higher EBIT. And, of course, as Thomas explained, the reduced financial expenses. And number four, free cash flow to be considerably higher than a year ago.

Now, I know a lot of companies in the industry and in other industries around the world have had to adjust their outlooks for the remainder of the year downwards. Some of our investors, analysts have, you know, said after a great third quarter, maybe you should adjust it upwards. What we can say, based on the visibility that we have today, based on the order activity, at the moment we feel good about being able to confirm our outlook for 2014, to be able to continue to unlock the full potential of the Western European markets that are still stable, at this point, and the emerging markets in this year.

On page 24, just a reminder of our financial calendar. The KION Capital Markets Day will be held in Mainz, near Frankfurt, on December 2<sup>nd</sup>. We will publish the results, the preliminary results, February 12<sup>th</sup>, and then make the public statement on March 19<sup>th</sup>. The general meeting will be on May 12<sup>th</sup>, but I'd like to make sure that everyone takes, if they can, a chance to come to the Capital Markets Day. We have a big event; we will be able to present some things. And for those of you that are new with the company, I think it's a good chance to get to know KION. I know you all have a lot of invitations and events, but I think is one of those that you should not miss.

With that, we'd like to turn you to page 25, the investment highlights, again, confirmed by a very solid third quarter, with a confirmation of our outlook. We are an attractive market, it is growing above GDP, we are global leader with a very, very strong home base, and this year, with a very strong Western European market to back that up. Technology, we've continued to invest heavily into the new technology for the years to come, especially electric trucks, lithium ion, fuel cells. Our integrated business model with the high service business has continued to expand. We've made bolt-on acquisitions in the service business, as you know, and with the 9.8% in the third quarter, a very solid performance, and we feel very comfortable being able to confirm the outlook for 2014.

With that, we'd like to close with part of the conference call that is the presentation. Turn it back over to the operator to be able to, then, take your questions and answer those the best way we can.

Operator:

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, on their touchtone 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 selection. Anyone who has a question may press star, followed by one, at this time. And the first question is from the line of Juergen Siebrecht of HSBC. Please go ahead.

Juergen Siebrecht:

With regard to Western Europe, the market showed ongoing high growth in Q3. 14% highest growing region globally, despite a weaker macro environment, or relatively weak macro environment. What are the drivers behind that relative good performance that you see? Is it just the base effect? Do we have a replacement demand already biting in, or other structural factors? That would be the first question. And then, secondly, on Q4, how has demand developed here in October? Would you see the full year outlook for the Western European market at maybe 10% or more unit wise? And what would it imply for next year? I think your annual growth guidance is around 4%. Would it mean that we don't see growth next year or could there still be growth, despite the high base? And then lastly, on China,

you were growing nicely there, 9%, the market has slowed down a bit to 7%. Is there any concern regarding this market? Thanks.

Gordon Riske:

Okay, I'll go right into the answers of the questions. European market, 14%. Why? I think that's a very important question to understand. A lot of people look at industrial production, and some markets have gone down. We've got to remember that in our industry, replacement demand is structural in nature, and, kind of, the net additions are, more or less, tied to the general economic development. And in Western Europe, 80-85% of the total market is replacements. And as we see in Spain and some other countries, the reason for our very robust market at the moment is some of these things have to be replaced, and I think that's what's driving it.

Second question. Q4, yes, we have October, but we don't have October consolidated yet. It's a little bit too early to say, you know, to just say it's going to grow again by double-digit. It could be, I don't know, it's just too early to say. We don't see, at the moment, in the order books, any reason to be negative about the remainder three months or two months of the year. Things are going okay. Certainly, there's a little bit of uncertainty in the market and some projects take a little bit longer to come to fruition, but you can't forget, we are being driven by replacements and those things have to be done.

The implication for 2015, yes, we've always said guided towards 4% or 5% growth. We should be able to do that. We don't see any big clouds on the horizon at this moment, but also, don't forget our visibility is, you know, four to six months out. We're not in the systems business, so we do have a short visibility.

Regarding China, yes, just as China is sometimes overstated when the news is positive, so positively overstated, so is it also when it's negative, like at the moment. Whether it's industrial production or property rates and those things. GDP in China for Q3 was 7.3%; Q4 might be slightly less than that. But the Chinese market for forklifts is being heavily driven by increased labour costs and moving into warehouse equipment, electric forklifts. Also the drive in some cities to get rid of the high pollution, engine driven trucks.

And all of those three things, warehouse technology, electric trucks – we are number one electric trucks –and higher emissions type of engine driven trucks, those are all three strengths that fit very well into KION strategy.

Juergen Siebrecht

Thank you. And maybe one short follow-up on your growth in Western Europe. You had 12% unit wise in Q3, the market was growing at a higher rate, 14%. Could you just elaborate quickly, are you losing market share? Is it consciously that you lose it because of the margin targets you have? Or is it a mix issue?

Gordon Riske:

We're that close to the market growth, that's actually a good performance. In our view, when markets grow in Europe double-digit, we normally do not grow quite at the market rate, so it's very nice if we do. And the reason for that is twofold. Number one, when you have 36%, 37% of the market and the market grows quickly, you don't naturally grow as quickly as maybe some of the others, because of the high market share. And number two, being the absolute premium in the market, we have a very fine line between gaining market share and price assertion. Price assertion has been a very heavy priority this year, and it pays off in the bottom line.

Operator:

The next question is from the line of Sven Weier of UBS.

Sven Weier:

Good afternoon. One question from my side, just coming back to your order intake guidance. I understand you're guiding for a slight increase here, same as with revenues, and, I guess, the upper end of slight is plus 5%. But if I do, kind of, the back of the envelope calculation, what that implies for Q4 is it would be a minus of 4% year on year for Q4 on the orders. And following your statements that you have been having a very strong September, October appears to be looking good. Why didn't you upgrade that one notch to a significant increase? Thank you.

Thomas Toepfer:

Let me, maybe, take this question. I think, first of all, the maths that you did is right. However, one or two things to be kept in mind. First, the comparable numbers of Q4 2013 were quite strong; the markets were increasing. But I

think it's fair to say that we, potentially, are a little bit conservative in terms of the order intake guidance for Q4, so we do have some potential here. However, please keep in mind, this will not change the financial result of the year, because it will not have an impact on the sales line, and therefore, obviously, no impact on the profitability. So, yes, I think it's fair to assume that maybe we're a little bit conservative here, with respect to Q4.

Sven Weier: Understood. Thank you.

Operator: The next question is from the line of Sebastian Growe, Commerzbank. Please go ahead.

Sebastian Growe: Good afternoon, gentlemen. The first one is on the orders, basically, follow-ups to the previous two questions. The first one on sequential development within Q3, that would be interesting to hear. So how really July, August and September played out. If you could just index it by 100 for July, for example, and give us an idea. And also in that regard, how really October compares to that sequential trend in the third quarter of 2014. And if I may come back to the question on the Q4 order intake guidance. You say there's a little bit of conservatism in it. It would be interesting to hear your thoughts on the comparison with the quarter four 2013, i.e., do you think that, potentially, if there's some strength in the pocket, so to speak, for the order intake in Q4, is it just better than Q3 or is it even as good as potentially Q4 2013?

And then the third question, just on the Q3 headwinds. Dr Toepfer, you said on slide number 18 that you face some headwinds from the side of wage inflation, trade fair costs, etc. Maybe you could put a number behind it. And, in that respect, also give us an idea on the cost headwind coming from the, I guess, underutilised plant in Brazil. And the very last question on 2015: I guess, for 2014 it's fair to say that you have enjoyed quite some tailwinds from the footprint measures that is, obviously, coming to an end. So, for me, it would be interesting what we can expect for 2015 in terms of potential tailwinds that you do see. Is it just product related or what is really, basically, then, your optimism based on for further margin increase in the year 2015 over 14, if potentially, the macro side is slowing down? Thank you.

Gordon Riske:

Maybe to question two and four, and Thomas take the other ones, the quarter four order intake. Thomas said we're conservative, and yes, the maths is all correct. But at this point, where you don't have all the consolidated numbers for October, and always the chance that short-term what can happen. We'd like to stick with our guidance for the full year. Let's see what happens when October numbers are in and we get through November, you know. If we have to make an adjustment, of course, we would, but at this point, I think we're going to stick on the conservative side.

2015, the tailwinds out of footprint and so forth. Those are all driven in, that's right. You know, Merthyr Tydfil, the last things have happened. But, as you know, in our continuous improvement, areas of margin increase, as we continue our product development, implementing the platform concepts with new product introductions next year, that will be able to help us. Number two is, of course, our continued productivity improvement in the area of purchasing and in our own internal organisation, using the global platform. That will also help us. A little bit longer term, I think most of you heard the announcement that we are starting a new operation in Eastern Europe that will not be online yet in 2015. But alone, the thought and the groundbreaking activity, which happens this year, and the fact that we are able, fairly quickly, to ramp the plant up longer term, that will have effects on the profitability and the cost of our company.

Thomas Toepfer:

Then maybe from my side, in terms of the headwinds you were addressing. I mean, first, a general comment. I think what usually holds true is that we're able to compensate the headwinds from the tariff side through our price increases and through our material cost optimisations. And therefore, I mean, that is always our target and I think we feel in a good position that we will continue along that path to always balance these two things out. If you look specifically at the line items as of Q3, it is true that we had some headwinds and some cost increases, specifically in the administrative expenses. But that, I would fully attribute to the fact that we had some specific follow up costs to the IPO with things like an annual general meeting, etc.

And we have acquired the dealer Willenbrock, so we also did acquire some fixed cost blocks, together with the service business that we bought. And I think that explains, to a large extent, the somewhat higher increase in administrative expenses that you can observe in the first nine months of the year. But as a general guidance, I would say that we will be able to balance these increases out by our price increase and material cost optimisations going forward.

Sebastian Growe:

Okay. Any word on the impact from Brazil and the potentially underutilised plant?

Thomas Toepfer:

I mean, two comments on this, first of all, yes, Brazil is decreasing. However, the order intake in the first nine months of this year is still the second highest in our history of Brazil. So yes, we're below 2013, but we are still above 2012 by quite a bit. So I think you have to put that into relation. Secondly, we have a lot of flexibility built in in Brazil, with respect, first of all, to our labour force. Much more flexibility than we would have in Western Europe, obviously. And secondly, it's an assembly plant, so that we have some very low vertical integration and we can, kind of, shift most of the burden back to the suppliers. So it's not a huge drain, I would say, in the overall picture for the Group.

Sebastian Growe:

Thank you. And if I may just come back to the initial question on the sequential order intake trend. Without really getting into too much of the detail in terms of really hard numbers or so, but just qualitatively. Is the October month, although not consolidated fully yet, etc, on par with September? Is it basically what you see, Mr Riske?

Gordon Riske:

September was an outstanding month. The biggest September, as I said, we've had, I think, in four or five years now. I don't have everything in for October, but it could be slightly below September, but let's see when that's in. Normally, as everyone knows, we have a pretty solid fourth quarter.

Sebastian Growe:

All right. Thank you.

Operator:

And the next question is from the line of Felicitas von Bismarck of Deutsche Bank. Please go ahead.

Felicitas von Bismarck:

Yes, thank you very much. I think I have two questions left. Your order to revenue conversion over the last quarters is not fantastic. You had a run rate of around €1.2 billion in orders in Q1 and Q2, but sales were below that, and also didn't really pick up as much in Q3. So do you expect a significant pickup in Q4, above the normal seasonality or is there something else? So do you see any cancellations, any delays or something like that? And the other question would be on your currency impact. Could you give a rough indication of how much effect you had on the EBIT line in the first nine months, and if your guidance of ten to 15 million for the full year is still standing, or if there has been any change. Thanks.

Thomas Toepfer:

Thank you for that question. First of all, to make that very clear, we did not have any significant cancellations in Q3. And I think, in general, we do have very, very low cancellations because all the trucks are built to order and it is absolutely rare that any trucks get cancelled. The effect that you're referring to is correct, that not the full order intake was transferred into revenue. What is driving this is mostly sales aids and bonuses that, kind of, get due at certain points in time, and which we then book directly against the revenue. So it is really a net revenue line that we communicate here, and that is the effect behind that. There's no, let's say, operational effect or cancellations behind this. And in terms of Q4, I do expect that we will have a further uplift in sales, relative to previous years, so I think we're absolutely on track in terms of our guidance.

Your second question with respect to foreign exchange. You said it, we've given the guidance that we will have €10 to €15 million negative FX effect in terms of EBIT, and that consists of translation and transaction effect. And from what we can see we will be fully in that range, rather at the upper end of that range, for the full year, and we are fully on a, let's say, equally distributed run rate, with respect to Q3.



Felicitas von Bismarck: Great. Thank you very much.

Operator: If you would like to ask a question, please press star, followed by one. And the next question is from the line of Luca Orsini of One Investments.

Luca Orsini: Hi. Because you mentioned that some of the growth of the service business is a consequence of having acquired some or a few dealers, are you capable of telling us the organic growth in the service business, both for the nine months and for the quarter?

Thomas Toepfer: Yes. I would say, over 50% of the services growth is fully organic. So yes, we did acquire some dealers, specifically Willenbrock, but more than 50% is organic.

Luca Orsini: When did you make that acquisition, so that we understand when we can annualise the growth?

Thomas Toepfer: We acquired Willenbrock at the end of 2013, so it's starting to be included into our numbers in 2014.

Luca Orsini: So we will have the positive effect of the acquisition for next quarter, and then 2015 will be clean?

Thomas Toepfer: Absolutely.

Operator: The next question is from the line of Sven Weier of UBS. Please go ahead.

Sven Weier: One more follow-up question, please, on the backlog development. Sequentially, I think it was going down roughly €30 million. You already mentioned there were no cancellations. I think currency didn't have much more of an impact, and your orders have been three million higher than revenues. So I was just wondering where was that decline basically coming from?

Thomas Toepfer: Again, I think the two keywords are the same as I mentioned to the question of Felicitas von Bismarck, which is sales aids, which at certain points in time, become due and which we, then, book against the revenue, and bonuses. And also for our dealers, which become due at certain points in time. And those are in between the order intake and the net revenue line.

Operator: The next question is from the line of Stefan Augustin of Kepler Chevreux. Please go ahead.

Stefan Augustin: Hello, gentlemen. Thanks a lot. I have a couple of questions. First, can you give us an idea of, let's say, how these bonuses and sales aids will develop in Q4. Will they, again, shave off some of the order intake versus the sales? Or will we have, in Q4, let's say, what we would normally expect, that sales are higher than order intake, as you should work some of the backlog off? The next one is Hyster-Yale has commented on pricing, expecting a weakness in the pricing for the US and Europe. Do you have an idea where that should come from? Do you see this as well? And, in this respect, how is, currently, competition acting? What kind of initiatives do you see there? You had a very good development in Eastern Europe, is this, let's say, on Baoli trucks selling into Eastern Europe? And my last question would be on the cash flow. As the improvement in Q3 comes from, let's say, the other lines. What is behind that one?

Gordon Riske: Okay, I will take two, three and four. Hyster-Yale price weakness, I read that in their report. Maybe more US. In Europe, I mean, there's always toughness, pricing pressure in the market. I must say, especially Linde, has been able to do a great job in the last quarter of price assertion, so actually,

our price assertion has been well in line with our expectations. And that has to do with the product, but also the strong service support. So we do not see any reason to make a comment that price competitiveness has changed significantly that we would have to report it. That may be the case with high street yield, but that is not the case here.

On competitive actions. Any unusual actions at this moment, although there is nothing spectacularly unusual since the last call we've had. The last call, I think everyone knows that a couple of competitors have also introduced hydrostatic trucks to try to compete with Linde. On the other side, we can say that Linde has not really lost any market share on that type of applications. That means heavy duty applications or fuel efficiency is the major factor. So I think, technologically, competitors are trying the approach that very narrow field, where Linde is extremely strong in. But we have not seen any negative impacts.

On Eastern Europe, yes, we have sold some Baoli, but the main growth has been our premium brands, Linde and STILL. Especially Linde has been able to gain new customers and that has mainly been for both the Linde and STILL brands, not so much Baoli. They have grown with the market, but Linde and STILL have outperformed the market.

Thomas Toepfer:

And with respect to your financial question, I can say yes, to a small extent, we will also have this in Q4. It's a normal item that we deal with. And your second question was with respect to our cash flow. If you look again on page 20 of the presentation, you are right, the other line item turns positive. What is driving this? The key effect is the €32 million, non-cash impairment, which, kind of, burdens our EBITDA, and therefore, it is below previous year. But because it's obviously not cash effective, it is reversed in the other line item. And secondly, another item would be roughly ten million of rental refinancing, which you have to see in connection with the line item, rental Capex. Which, then, proves that most of the rental Capex we're able to refinance, and therefore, it is cash neutral. So these are the two biggest effects that actually drive this and why it's turning positive.

Stefan Augustin: Okay. Q4 bonuses on sales aids will be less than in the quarters we have seen? Did I understand that correctly?

Thomas Toepfer: We don't plan that number specifically because it is driven by our dealer business and the dealers. And as we don't know how the order intake and the dealers will develop, this is difficult to plan. What I'm saying is it will have, as in previous quarters, have a minor impact on the overall group.

Stefan Augustin: Thank you very much.

Operator: The next question is from the line of Peter Rothenaicher of Baader Bank. Please go ahead.

Peter Rothenaicher: Hello, gentlemen. Regarding pricing, so have you made already any decision if you will increase your list prices in 2015 again? Then second question regarding China. How is the split in your performance with the Linde brand or Baoli? Did you have stronger growth with Baoli? And the last question regarding the US? How strongly are you progressing here in getting a better market share, and with your new products, how are they being received by the customers?

Gordon Riske: Good, pricing. Of course, we made a decision to have a price adjustment in 2015. We have made no announcement and, at this point, we won't say any numbers because the first ones, of course, will be the customers and that happens normally somewhere in December, end of December. So there are still a few weeks ahead, but there will be an adjustment for the year 2015.

On China development, or, let's say, greater Asia: If we look at the brand difference, I think, in total, we've grown about, or will grow this year, in China, between 10% and 15%. Baoli, itself, will grow between 30% and 35%. So there is a slight difference there for Baoli, but you've got to remember Baoli starting at a smaller number. So when they went from 3,000 to 4,000 or 5,000 to 6,000 and to 7,000, you're talking about a lower base rate. So when

they grow, the percentage wise is a little bit higher. And the third question, I didn't quite understand. New product?

Peter Rothenaicher: Yes, you're working on new products for the US. I think you have already presented some of the new products. How well are they received? And have you been successful in already increasing your sales and market share there?

Gordon Riske: US, we have done some things. We are in development. We will have an event later this year, in November, opening KION North America, introducing a second brand and so forth. We will see, in the year 2014, no effect, so no major effect in units. We have planned a slight increase in 2015, but most of that is 16 or 17 when we will see larger impacts.

Peter Rothenaicher: Okay, thank you.

Operator: The next question is from the line of Juergen Siebrecht of HSBC. Please go ahead.

Juergen Siebrecht: Also from my side, a follow-up, or two follow-up questions. On FX, you mentioned the headwind of €10 to €15 million this year. Can you remind us which currencies it is mainly related to and is there any valid scenario for next year where you could see tailwind from FX? That's the first one. And then secondly, maybe also on the US. It's not such a major market for you yet, but anyhow, I'm curious why the market is growing relatively slowly, compared to other regions, over the recent quarters. Thanks.

Thomas Toepfer: With respect to the currencies, the major currencies that are driving this are the Australian dollar, the Brazilian real, and also, to some extent, the Chinese renminbi. So these are the things that are driving it. With respect to tailwinds, at this point, we don't see any big tailwinds for 2015. Also due to the fact that we have a hedging policy and are locked in, to some extent

already, for the next year. So nothing specifically that we would already foresee, at this point in time.

Gordon Riske: What's the second question again?

Juergen Siebrecht: US market, relatively slowly growing, in terms of units, if I look at the statistics over the last few quarters. Is there any reason for that? Do you have an idea?

Gordon Riske: Do you mean for the markets, then, or from our side?

Juergen Siebrecht: No, from the market side. I just said, it's not such a relevant market for you yet, but it could be in the future. And I was just curious why this market has shown relatively low growth rates, according to the statistics over the recent quarters.

Gordon Riske: We've had, in Q3, about 1%, and the Q before that, 2.3%, and last year double-digit. I mean, they had a huge increase in 2013, first part of 2014. I would say it's a little bit levelling off, but you know, we don't see any downside that the market is starting to shrink. I mean, they came back from 2012, 2013, which were very low years, so we have, I think, a statistical effect there.

Juergen Siebrecht: Thanks.

Operator: And the last question is from the line of Luca Orsini, One Investments. Please go ahead.

Luca Orsini: You had a very good third quarter in Eastern Europe, despite all the political turbulence in the area. Can you elaborate how current business is and, you know, or why you were, kind of, just immune from this issue?

Gordon Riske: Well, I don't think we're immune to anything. You know, if Russia and Ukraine are fighting each other, it's 2% of the global market and reflects that in our markets, although we did win some orders in those regions. The issue is that we've had are very outstanding performance in Poland and the Czech Republic. We have two solid companies with Linde and STILL, that have managed, really, to increase their business, specifically automotive suppliers, the old logistics part of it. We've had some good orders and, you know, I think we've simply outperformed with our product offering and our service base, compared to some of the competitors.

Luca Orsini: Thank you. Well done.

Operator: There are no further questions.

Gordon Riske: Okay, if there are no further questions, then thank you for participating in our Q3 Update Call, and we look forward to either seeing you at the Capital Markets Day on December 2<sup>nd</sup> or at the next call, when we update on the full year 2014.