KION GROUP AG

FY 2015 Update Call

Conference Call Transcript

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Speakers: Gordon Riske (CEO)
Thomas Toepfer (CFO)

Gordon Riske

Yes, thank you and welcome everyone to our update call for the full year 2015. We would like to use the full year presentation for this call. It's available at kiongroup.com under investor relations > presentations, that is what we will be using as we go through the call. As usual, we will be presenting in four parts during today's call, and then at the end of the formal presentation, we will open it up to questions. I will begin with the financial, strategic highlights for the full year, followed by an update on the markets, and then Thomas Toepfer will give you the financial update, and we will then conclude with an outlook for the full year 2016.

So, let's start on page three with the key milestones for the full year 2015 at a glance. 2015 was a very strong year for us. We hit new highs and we had a very strong finish in the fourth quarter. For the first time we achieved revenues above €5 billion. We achieved guidance across all of our KPIs in 2015. It was also an important year for the implementation of our initiatives regarding the KION Strategy 2020 because our mode is execution, and I think we showed very clearly our execution capability in the year 2015.

In August 2015, we acquired Egemin Automation, so we now have a full line of automation offerings from automated guided vehicles to fully automated warehouse systems and solutions. So we are well prepared to benefit from the trend of intralogistics 4.0 or the internet of things in material handling. The beginning of this year, 2016, we added to this strategic development by acquiring Retrotech in the US.

During the course of 2015, we also worked hard on our manufacturing strategy. We built a new plant in Stříbro, Czech Republic, which took up production in January 2016. In addition, we continue to work on our seven year investment programme into the core plants in Aschaffenburg and Hamburg, making them much more competitive, and during the year we also had a large implementation programme, the KION wide cross brand R&D function. In August, Dr Eike Böhm joined KION as our new Chief Technology Officer. He has now set up the CTO organisation which includes globally the entire R&D organisation, module and platform development, purchasing and quality. In October, we launched 11 new platform products at the CEMAT industry fair in Shanghai, and this shows that we are really stringently executing our strategy.

In November, we announced the next step in organising the company structure, and during the course of this year, so this year 2016, we will set up four Operating Units with a regional focus, so being closer to the customer, giving the regions more authority and power to get the job done.

And finally, during the course of 2015, we also prepared our new financing, which we announced in February of this year. We established a new €1.5 billion credit facility with investment-grade-style features, and thereby redeemed our last pre-IPO bond, thereby significantly reducing our interest expense.

On page four we have summarised a few of the financial highlights for the full year 2015. Overall, we achieved our guidance for the full year. We had a very strong finish in the fourth quarter despite, I must say that, despite a weakening global market. We saw a strong order intake growth for the full year at 9.3% to €5.2 billion, mainly driven by our outperformance of the market in Western Europe. This leads now to a very healthy order book of €864 million, which is a strong basis for a good start, which we expect in the first quarter of 2016.

Similarly we saw strong revenue growth for the full year, so 9% up to €5.1 billion in revenues, and our adjusted EBIT of €483 million also grew strongly, and represents a margin of 9.5%. So, profitability remains at the very high level of the previous year, and we remain thereby the most profitable company in our industry, with some more upside to come.

Regarding our net income for the full year, we also here saw a substantial increase relating mainly to our operating performance, and free cash flow, which was exceptionally well last year, up 8.8% to €333 million, and at our general meeting we will propose a dividend per share of €0.77, so that is also an increase of 40% versus previous year, and that represents a pay-out of 35%.

So, moving onto the capital market highlights on page five for 2015, a very strong performance year for the KION stock in a highly volatile market. Nevertheless, we were able to finish 2015 with a share price of €46.02, so it increased by 45% over the year, and clearly outperformed MDAX and DAX, and in March 2015, as you know, our free float also increased to more than 60% following the exit of the former sponsors, Goldman Sachs and KKR. At the end of the year, 11 of 17 analysts do still recommend a buy for KION, which is a good idea by the way.

On page six, let me update a little bit, an update of our Strategy 2020. You know two years ago we presented our strategic initiatives moving up to the year 2020, and as you all know, with the purpose of closing the gap towards a global market leadership as the most profitable player with a resilient and capital efficient business model. We will achieve this of course only with a more stronger focus on customers, innovation and efficiency.

Our Strategy 2020 involves all parts of our company, whether it’s the Western European home market or the global growth markets, and it impacts all the brands, our sales team, service, R&D, production. I will show you on the following pages that the implementation of our strategy is well under way and is also now going to be facilitated by the new company structure.

So, let’s move along onto page seven. It highlights one of the areas of innovation competence with the acquisition of Egemin Automation that puts us really into the market for warehouse solutions and automation systems, which is an attractive marketplace, especially in the medium term.

We target here also to be a leading player in this space. In August 2015 we acquired Egemin Automation and this really expands our capabilities, not only in automated logistics, but in warehouse systems, project management, and in software. At the same time, Egemin can certainly grow, based on KION's sales network, which is the best in all of Western Europe, so a lot of contacts available, customer contacts for Egemin. And as part of the on-going integration process, Egemin is further intensifying its partnership with the other KION brands to offer a complete portfolio of automated series trucks and automated solutions.

Onto page eight, you know we recently acquired Retrotech to further strengthen our US warehouse system expertise. The deal will also add an additional route into the US market, where a strengthened presence in system solutions can also drive our new truck business. Retrotech is an established US systems integrator of warehouse and distribution systems. It has a 30 year old business, very strong track record, excellent reputation, and industry leading experience.

It's a perfect complement to the automated solutions based on automatic guided vehicles supplied by the brand Egemin in the US market, so it's very complimentary, and Retrotech serves a high profile customer base, as we show you on this chart, in the US, covering a wide range of industries from food and beverages, consumer goods, pharmaceutical, automotive, as well as e-commerce and retail. From an operational and legal perspective, Retrotech is now part of the Egemin Group Inc., and we closed the transaction officially on March 1st 2016.

Moving onto the next page, on page nine, we continue also to implement our margin drivers. We have a strong track record, and you all know the margin targets and margin improvement targets that we have, whether it's the manufacturing setup, the global platform and module strategy, and the continuous improvement across all of the support functions.

Looking at the manufacturing setup, we did build the new factory in Stříbro 2015, and started production on time, as planned, in January in 2016, and we are now starting the intensive re-design of our factories and efficiency efforts in our core plants, Aschaffenburg and Hamburg, and we will also improve the setup of the other sites, for example in Châtellerault, our French site for warehouse equipment.

On an on-going basis we are reviewing our vertical integration. As one example we are now preparing to outsource a part of our cylinder production, which was formerly produced, and still is partly produced in Hamburg. Our platform and module strategy now under the leadership of the new KION CTO, Eike Böhm, who has a longstanding experience in implementing these platforms and modules at Daimler Trucks. In 2015 we worked to develop a new platform of trucks and common modules with several new introductions, including as I said previously, the 11 launches in Shanghai, and we will see some new achievements in 2016.

Regarding support functions, we are continuously implementing further smaller support function improvements. One of the examples was an agreement on the new sales and service setup for STILL in Germany, which we announced in July 2015, where we among others are streamlining back-office functions to improve our competitiveness in the German market. Another example is the new setup for cross brand parts logistics operations in selected countries. For example, during 2015 we started, or the next country that came online was Italy.

Regarding our organisational structure, we made a decision last year to closely tie the organisation more to the markets, and we announced this in November 2015, and we will implement this throughout the financial year 2016. That means implementing a regional setup with four Operating Units. Linde EMEA, STILL EMEA, addressing the European Middle East Africa markets, KION America, so now North and South, and the Asia Pacific region, KION APAC. We are thereby sharpening our focus on very specific customer and market requirement. In addition, we will continue to step up our collaboration, especially in the Americas, across all brands and regions, which will benefit our customers and partners, and of course our employees.

These operating units, they will oversee marketing, sales, service and local production in their regions, and will have individual P&L responsibility. The operating units will be supported by group functions, including our group wide CTO organisation, with R&D, module development procurement and quality as stated. And the objective of this is to better positioned, to better achieve our goals for 2020.

Now I'd like to turn the page a little bit, going to page 12, talk a little bit about the market, the market development on page 12. You see here, the global market declined 0.7% to 272,000 units in Q4, so we end up with a full year 2015 at about 1% growth for the full year. We did see a strong finish in the European markets, whereas some of the bigger emerging markets, whether it’s China, Brazil and Russia, continued to struggle, which hampered the global growth.

Particularly in China, the IC-market continued to decline, while on a global level, electric trucks and warehouse trucks continued to drive the growth.

I think it’s very clearly shown on page 13 in the graphic here, you see Western Europe, very strong finish with 13% in Q4, so an overall gain throughout the year of double digit, which is a great gain. North America, good growth of 7.1% over the year, but a slight dip in Q4 based on strong comparables. As you know, KION is still fairly small in the US.

In the emerging markets, Eastern Europe is a two speed region. The Russian market is still very difficult, minus 40% in 2015, while other markets like the Czech Republic, Poland and Hungary developed very well. China has continued to decline, even though at a slightly lower pace, particularly in the lower end of the market of IC-trucks, with our industry of course being impacted by the macro economic environment in China. Latin America, also two different patterns, very difficult the market situation in Brazil, but in Argentina and Chile, there was some growth.

If we focus a little bit more closely on Western Europe on page 14, our major markets, very solid growth in the larger countries, in Germany, UK, and France, a very steady growth throughout the last quarters. And the pent-up demand showing strong growth in Italy and Spain. So, as a result, Q4 very strong in Western Europe.

Now, if you compare that a little bit to KION on page 15, we clearly outperformed the global markets in Q4 with a growth rate of 9.4% versus a declining market of -0.7%, an outstanding performance.

This resulted in 43,500 trucks in Q4, a new all-time high for us, with 165,800 trucks for the full year 2015. We benefited clearly from the strong, healthy demand in the European home market, but I think just as much since we are in the leading position in electric trucks and warehouse trucks, this helped us along.

If we do a little bit of the comparisons for the full year in the fourth quarter on page 16, Western Europe, there you see our comparable numbers, a strong growth in the final quarter, Eastern Europe very solid performance driven by the markets outside of Russia.

China also visibly ahead of the market in Q4 supported by the strong development in smaller warehouse trucks, but as I said, we cannot isolate our entire business, especially looking at the development of E-trucks, of IC-trucks, and as I stated before, our brands are well positioned in China with our warehouse offering a very, very strong service setup, and nevertheless, China is the largest forklift market in the world. I think it's an important medium term growth driver. It will become more normalised as time goes on.

Latin America driven by Brazil which was down more than 50%. Overall, we can say we were significantly better than the global market in Q4 and also for the full year, despite some strong head winds from China, Brazil and Russia. So, that's a short update on some of the highlights and the market development in 2015. With this I'd like to turn it over to Thomas Toepfer.

Dr Thomas Toepfer

Okay, thank you very much, and also a very warm welcome from my side to our update call. If you please turn to page 18, where you see the key KPIs for the full year 2015. We have seen continued good momentum in order intake and revenue over the past year. If you look at the order intake columns, you see that we had growth of 9.3% to €5.216 billion, including a positive FX effect of €114 million, and if you look at the order backlog, that number grew to €864 million, so up 13% relative to the year-end number 2014, and that obviously gives us a very good position for the first quarter of the year 2016.

If you look at the revenues, similarly we had good growth of 9% to €5.1 billion, also including a positive FX effect of €109 million. If you look at the third set of numbers, the adjusted EBIT, that also grew by 9% to €483 million, with a margin of 9.5%. So that is on the record level of the year 2014, and fully in line with what we had guided for. Finally, net income grew significantly by 24% to €221 million, mainly driven by the very good operating performance in 2015, and obviously all KPIs reached levels above the previous year.

If you then turn to page 19, you have the same set of numbers for the fourth quarter of 2015. Again, that shows a very strong performance across the board. So the order intake grew by 8.8% to €1.397 billion with a somewhat smaller FX effect at €15 million. If you look at the revenues, we had growth even by 10.3% to €1.441 billion, also with a rather small FX effect of €17 billion. Book to bill is just slightly below one, but I think that wouldn't make me too nervous. It’s a normal pattern that by the end of the year there is a big push on revenue, and I think you will see a reversal of that trend as we move into 2016.

Adjusted EBIT grew by 13.2% to €152 million, and with that we achieved a very good margin of 10.5%, which is above the previous year level, and actually the best margin that we have ever achieved in a single quarter, and also net income with €77 million, 29.5% above the previous year, driven by the improved operating performance.

If you turn the page to page 20 you have some more details on the revenue development. On the left hand side, you recognise the 9% growth which we had for the full year, and you can see that all businesses have contributed to that growth. New truck sales were up 9.7%, while the services grew by 8.1%. And on the right hand side again you see that for the fourth quarter of 2015 with the new truck business growing at 9.4%, and the growth rate for the service business has even accelerated to 11.6%, also driven by the full first quarter consolidation of our Egemin business in Q4.

Please turn the page to number 21. In terms of the profitability, you see the EBIT and EBITDA numbers. As I said, we have closed the full year with an adjusted EBIT of €483 million at a margin of 9.5, and the EBITDA stands at €850 million with a margin of 16.7%, both at the record level of the previous year. I think what is notable is that we were again able to expand our gross margins for the full year, supported by favourable product mix, somewhat lower commodity prices, and also some FX benefits. So we are, as we had guided, continuously improving in this regard.

If you then turn to page 22, you will see the entire reconciliation all the way from the adjusted EBIT to the net income line. I would just like to highlight a couple of numbers here. If you look at the non-recurring items in 2015, this includes a €19 million one-off effect relating to efficiency programmes in the context of our 2020 Strategy. One example is, and Gordon Riske already briefly mentioned it, is the new sales and service setup for the STILL brand in Germany, which was announced in July of last year, and includes among others a significant streamlining of the back-office functions across its German subsidiaries and branches.

The financial result, if you look at the numbers, that benefits from a sustainable interest reduction after we refinanced two pre IPO bonds worth €525 million in April 2014. However, you have to compare the €93 million in 2015 with an adjusted number in 2014, which would be €109 million because the €89 million contains a €20 million positive effect from one-offs, and that is related mainly to the LHY option effect and some refinancing costs which we incurred in 2014.

Taxes for the full year ’15 are €109 million, so that corresponds to an effective tax rate of 33%, and the net income is driven by our operating performance, and reaches €221 million for the full year. That corresponds to earning per share of €2.20 up €0.41 or 23% relative to the previous year. On that basis, as we have already said, we are proposing a dividend of €0.77 per share, that is up 40% compared to 2014, and represents a pay-out ratio of 35%. Remember, we were standing at 31% last year, and obviously this is fully in line with our dividend policy where we had announced since the IPO that we would grow into a pay-out range between 25% and 35%.

Please turn to page 23 where you have the cash flow statement, and as usual I would like to start with the last line item of that page. You see the free cash flow of the firm is €330 million, so a very nice improvement of 8.8% versus the previous year, and that is also above our guidance, especially due to a strong finish in the fourth quarter. Let me just pick a couple of key items which are worth noting. The trade working capital increased, mainly driven by our business growth. If you look at the working capital days, or working capital in percentage of revenue, this remains almost unchanged.

Then if you look at the other line item in the operating cash flow, you see an increase by €79 million to €141. That is driven, as we had explained in previous calls, by restructuring payments which we were incurring in 2014 for the closure of our plants in France and the UK, and remember, we talked about it several times, we had some cash in transit, which positively impacted the 2015 numbers.

Leasing cash flow as usual is at or close to zero, and therefore this simply reflects the flow through nature of this business for KION. If you then turn to, or look at the operating CAPEX line you see €143 million, fully in line with our guidance, where we stated that it would be slightly higher than 2014, but it is obviously in terms of percentage of revenue at the same level as in 2014.

Net rental CAPEX, some increases here to €223 million. That is reflecting the additions to our rental fleet and the expansion in the rental business. And then in the acquisitions line items, you see that includes mainly the acquisition of Egemin Automation with €69 million out of the €85 million, and the other investing cash flow of €105 million contains the inflow of €77 million from the closing of the put option, which happened in December of 2015.

So, with that please turn to page 24 where you see the financing structure as of February 2016. On 15th of February we repaid early and in full the last pre-IPO bond which was still outstanding, and which carried a six and three quarter coupon, and a volume of €450 million. The one-off costs of that are €26 million, relating to the early redemption, and also to the release of some capitalised borrowing costs. So this bond and as well as the remaining pre-IPO credit line has been refinanced with a €1.5 billion credit facility, which has a complete investment-grade-style features.

For example, this new credit facility is completely unsecured and has no upstream guarantees with a very light package of covenants and undertakings, and by that we are also able to reduce significantly our interest expenses. Just to give you some round numbers, had the refinancing happened in 2015 it would have resulted in a full year effect of €30 million of interest savings in that year, and that gives you the order of magnitude of the improvement.

Just to round it up, two rating agencies published corporate credit ratings for KION in 2015. Standard & Poor's now rates the KION Group with a BB+ and a stable outlook up from a BB flat with a positive outlook, and Moody's rates KION as a Ba2 with a positive outlook, up from a Ba2 with a stable outlook.

On page 25 you have the net debt overview. You know very well the structure of that chart. I would say the numbers have changed to the positive, so on the very left hand side the net financial debt has been reduced significantly by €237 million to €573 million. Remember, the number was €811 million a year ago, and the net financial leverage is now at 0.7x. Similarly in the middle of the page you see the industrial net operating debt decreased quite significantly to €955 million compared to December 2014. Pension liabilities remained quite stable in the year, and therefore the industrial net debt stands at €1.7 billion of a very good reduction.

Just to mention, on the right hand side you see end customer financing. The total assets for the end customer financing have increased, but so did the corresponding funding via sale and lease back, and that simply underlines the flow-through nature of that business for KION.

With that I would like to hand it back to Gordon for the outlook for the year 2016.

Gordon Riske	Yes, thank you, I'm on page 27. Our outlook for 2015 will be followed by a review of what happened in 2015. At the start of the year we had said that we would have a slightly higher order intake revenue and adjusted EBIT. If you look at the numbers, we did achieve that, a stable adjusted EBIT margin, slightly lower cash flow, and if you look at the chart, we achieved our guidance for all of the key performance indicators, and the adjusted EBIT margin. What we're just trying to show here is we are very satisfied that the whole company was able, with all of the efforts and the market the way it worked, to deliver on our promises and really continue to build a consistent track record in the capital markets, and that's really our goal, to continue quarter by quarter, year by year, to be very consistent in what we are doing. If we now go to page 28 and look at what is our outlook for the full year 2016, that is driven by the progress that we are making in the Strategy 2020. From the market we do think that we will have a slower rate of global market growth this year compared to last year. It's not saying we're not going to grow, but the fact is we do believe it will grow somewhat slower, and that the regional trends that we experienced all of last year will remain broadly unchanged, and that means concretely: robust, good growth in Europe and North America, further declines probably in Russia and in Brazil, and the Chinese market to stabilise later in the year. I don't see that happening in the first half of year at all. It is still a challenging market, but maybe towards the end of 2016. Longer term of course this market and the perspective of our market is a growth market, with the annual growth expected to remain above a GDP growth. The shift to technology will continue. That means electric trucks, powered either by batteries or lithium-ion technology will increase,

versus IC-trucks. Warehouse equipment, connectivity, automation solutions, the drive to be more efficient, new services will dominate the trends of the industry in the years to come.

So for KION on the backdrop of this scenario, our guidance is as follows, and I think this is the first time we are doing it, giving you quantitative ranges, so I think it's easier, much more transparent to follow what is happening.

On order intake we are seeing €5.35 billion to €5.5 billion. That means 2.6% to 5.5% order intake improvement. On the revenue side, €5.2 billion to €5.350 billion, that would represent a growth of between 2.0% and 4.9%. The adjusted EBIT would move up between €510 million and €535 million, and that would be a growth between 5.6% and 10.8%. As a result, we expect our EBIT margin to increase, compared to the previous good year level of 9.5%, to be very concrete, this means that we expect an EBIT margin between 9.8% and 10.0% for the year 2016.

Free cash flow would be between €280 million and €320 million. As a reminder, I said it earlier, we acquired and closed the transaction of Retrotech on the 1st of March. So that is already included in this guidance for the free cash flow for the year 2016. We will use our cash flow to further reduce our net debt, and we have added also a new indicator, the return on capital employed as the fifth KPI, and expect this to be slightly above the previous year where it was 11.9%.

So, finally on page 29, here is our financial calendar. We will present Q1 2016 on April 27th, so not today, but on April 27th, and our quarterly results will be published a week earlier than that in the past. We have a fast close project, so we are now able to bring the numbers faster. Our AGM will take place in Frankfurt on May 12th, so that's coming up.

As I said, we had a solid year in 2015, and we are fairly confident, or we are very confident about the year 2016 that the patterns of the market will remain broadly as we have seen in 2015 with a slightly lower growth, and clearly given you now our guidance in a clear form for the year 2016. With this we would like to close the formal part of this update, and now turn it back to the operator so that we can take your questions.

Telephone 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 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.

The first question today comes from Sebastian Growe from Commerzbank. Sebastian, please go ahead.

Sebastian Growe

A couple of questions from my side. The first one on Egemin and Retrotech. So, can you just walk us through the contribution of Egemin in 2015 regarding sales and adjusted EBIT? I assume it's somewhere say about €35 million or so on the sales side of things. Anything that you could give us in terms of quantification would be very much appreciated. Secondly on Retrotech, can you just briefly give us an idea where the current profitability as it is, and then also what is your target going forward, how much you have maybe built into regarding synergies etc.

Then secondly on the guidance, I am still trying to understand it a bit better on the topline. So, if we look at the lower end, then this implies flat organic on my numbers, so if we include Retrotech here for example, and then also the spillover from Egemin, then it seems that we have nothing at the lower end of the guidance, which would come from organic growth here, and at the same time you are expecting

Europe to provide significant stimulus. So, quite frankly, I don't really get the two pieces rightly aligned as it seems. So the question then is, is this all just being conservative, or is there anything else that we should have in mind here when it comes to 2016?

The same for adjusted EBIT then, the guidance is, to my understanding, only pencilling in the operating leverage that you have talked about on previous calls, so it means the 20% contribution margin on the first €100 million, and then say somewhere, 10% or 15% on the second lot so to speak. So the question is why haven't you built in anything in terms of tailwinds that we should expect, I believe, from the non-recurring head winds related to Pilsen, then also tail winds from the launch of new products, etc. So, if you could just give us some more reasoning behind what I understand is a very conservative guidance, that would be very, very much appreciated. Thank you.

Gordon Riske

Okay, maybe just starting with the last question, and Thomas will help me out here, but if I go back just a couple of pages when we talked about 2015, I think a very important statement, we really are trying to be consistent in what we say and in what we deliver. 2016, yes, the lower end of our guidance you could say alright, you bought these companies and basically organic is more or less flat. That might be true, but at the upper end is not true, and we have to think about a market that last year, 2015, grew globally by 1%, and we think that the market globally may not grow that quickly.

We said it will grow slower, yes, Europe is strong, and North America may offer some opportunities, and so within that context and the uncertainties in the market, we still want to be able to outperform our guidance where we can. So yes, you can call it conservative, I just call it maybe consistency, because we have a lot of things that we have to compensate for, whether it’s China, whether it’s Brazil going down and the ongoing things that we are doing to improve our business.

So, in total we have nothing to hide, there are no secrets about it. On the lower end, yes, it's somewhat conservative, but it's I think very consistent in what we have done quarter after quarter, year after year.

Dr Thomas Toepfer

So then let me give you some inputs for your financial models in terms of the size of Egemin etc. So, I think we told you last year that Egemin had a yearly turnover of roughly €76 million. In order to get an idea of how much is in our 2015 statement, I think a very good approximation is to multiply by 5 and divide by 12. I think this will get you pretty close to the correct number. We said at the time that the profitability of Egemin is slightly below the KION profitability, and that through the synergies we will lift it up.That obviously also was true for 2015. Again, if you multiply that out with the revenue, you will see that the contribution of Egemin to the EBIT of KION in 2015 was almost negligible in terms of absolute contribution.

Then with respect to Retrotech, their profitability is slightly below the Egemin profitability simply because they have a lot of flow-through material, and we expect some good synergies in the US market where Retrotech has access to customers that our team so far was not able to address. So I think there will be some good synergies from that angle. But I think that helps a little bit to model the order of magnitude of those two businesses and the impact that we see from them.

Sebastian Growe

Yes, that's very helpful. If I just may ask two quick follow up questions. The one is on the regional outlook, and here I'm not really talking about the markets as such but really your expectation on your KION specific performance in given markets such as Europe and China. So obviously you did say in the press release that you would expect quite some stimulus from Europe, so could you quantify that in terms of growth for KION, and the same for China. You said it's going to eventually stabilise over the course of 2016. Obviously you decoupled quite nicely in 2015 from a very, very weak Chinese market, if you could share your expectation regarding your performance in China in 2016.

Then lastly, and back to adjusted EBIT, is there anything really that we should have in mind in terms of any sort of special items? So, last year we had obviously about €20 million operating headwind from Pilsen, is there anything relating to, I don't know, the 2020 Strategy, the realignment of the corporate structure etc., which we should be prepared for and which could work as a headwind, or again, are we just talking about conservatively guiding the market?

Dr Thomas Toepfer

Let me maybe start with the last point. Again as we have consistently said, yes, there were some headwinds in 2015, and I think this materialised completely in the order of magnitude as we had guided. For 2016 there is nothing that we would specifically see, and therefore yes, this should help us in terms of achieving our guidance. Obviously headwinds, tailwinds, there will always be some smaller movements throughout the year, but I think in terms of big movements, there is nothing specific that we would currently see.

Gordon Riske

The first question, to quantify this is a little difficult. All I can say is that in both our core markets where we have leading positions, we have managed to outperform the market in general, and we expect to be able to do that also in Europe, but also in China where albeit it’s somewhat difficult the macro situation. However last year we launched, as I said in China, 11 new products. We have a whole new generation of electric trucks, we have a whole new set of warehouse products. We have a very, very strong sales and service infrastructure there, so we do expect again to be able to outperform the market in China, whether it’s that much outperformance as it was the case in 2015, let’s see. But I do believe it will be significant again.

Sebastian Growe — Okay, thank you very much for this.

Telephone Operator — The next question today comes from Felicitas von Bismarck from Deutsche Bank. Felicitas, please go ahead.

Felicitas von Bismarck — Yes, thank you very much. I have a couple of questions left. First again on your adjusted EBIT margin, can you give us a very rough indication on your mid-point growth and your mid-point EBIT, a very rough indication how you see the split between normal volume leverage, pricing and so forth and self-help measures. So, is that 50/50, the improvement? That would be great, and the second question would be do you see this to back end loaded again, so more towards the second half of the year, the improvement in margins? The third one is how much adjustment, so non-recurrent adjustments are you factoring for this year? The last question would be from my side, how do you see product mix this year? Do you see it as a drag, or do you see it as a supportive factor? Thank you.

Dr Thomas Toepfer — Yes, let me maybe start with the first set of question that you asked. In terms of EBIT, the EBIT margin improvement, I think we were very clear that the improvement will accelerate throughout the year 2016 simply due to the fact that in the first quarter we have still some ramp-down costs in our Aschaffenburg facility, where we transferred the product to Stribro. So Stribro is fully up and running, but it will take a little time to ramp down the costs, therefore yes, over time the margin improvement will materialise.

In terms of the adjustment, as we have continuously said, you will see a decrease in non-recurring items quite significantly in 2016, so this will again go down. With respect to your first question, I think this is very difficult to quantify, so I think I would have to know specific guidance as to how much exactly is the self-help measures and what is the operating leverage…

Felicitas von Bismarck — But I'm not asking for exactly. I'm just trying to, because it looks like you don't have a lot of leverage in your business anymore for some reason, and we are trying, I am trying to reconcile what is happening, what is the drag here, right, and if you say you have self-help measures, not last year because it was a transition year, but this year, it would be great to get a feeling of how much self-help you are actually expecting this year. Just a very rough number would be fantastic

Dr Thomas Toepfer — Really Felicitas, I cannot give you even a rough number, but what I can say, I think there is still some good operating leverage in the company, and you see that with the additional revenue that we have generated, we are fully in line with the additional 20% of flow through EBIT on the first hundred million, and then a little less on the maybe next 200. So I think that is fully intact, but I am happy to talk you through offline what we see here in terms of leverage performance of the company going forward.

Felicitas von Bismarck — Okay, thank you.

Gordon Riske — On the last question, the product mix, I mean we had last year of the 165,800 trucks, 56% were warehouse, 19% were engine driven, so IC-trucks, and 25% of those were electric trucks. In 2016 that move towards even more electric trucks will continue. The warehouse business will also continue, so I wouldn't see it as a negative development for us. On the contrary, it’s probably a positive. I'd say the only maybe slight question to put in there, I don't want to get too technical here, I know these are analysts, but warehouse is not

	warehouse. There are number of classes. The biggest growing class of warehouse is so-called class three, so very small pieces of equipment that sell for less than €5,000 a piece. With the according profit, we are growing more on the larger equipment and not so much, or not as much on the smaller, less profitable equipment. So, I don't see a negative mix at all.
Felicitas von Bismarck	I was actually looking at after sales in your business, more than the product side. I'm sorry.
Gordon Riske	Okay, no, after sales, no business, no real structural change there at all.
Felicitas von Bismarck	Okay, thank you.
Telephone Operator	The next question today comes from Omid Vaziri from Jefferies. Omid, please go ahead.
Omid Vaziri	Yes, good afternoon gentlemen, thanks very much for that. I was wondering if you could, I don't know if you expect higher R&D costs for the year from the integration of the new plant in Czech Republic, given the greater emphasis on automation as well as the new battery, are the R&D costs expected to be slightly higher than what they have been in the previous years? My second question was one around competition, how has KION, the market share in the core market Western Europe specifically developed in 2015 against competition, and what pressure is the company expecting from competition in the region on both volume and pricing?

Dr Thomas Toepfer

Let me maybe start with the first one on the R&D costs. First of all, the new plant in the Czech Republic will not have an impact on R&D cost line. Lithium ion obviously is a big topic for us, and we are at the forefront of the development. However, I would say we do see this as a shift within our R&D costs, and I think our guidance has consistently been that through the new CTO structure, through the employment of platform and module strategies, we do rather see R&D costs to stay stable in terms of revenues or even decrease. So I would rather expect a positive effect in terms of R&D and not a burden to our results.

Gordon Riske

Yes, and on the market share development, we are very happy with our market share development, especially on the main products, engine driven trucks and electric trucks, where in almost all markets, we have either maintained or gained market share. This is also true of warehouse equipment that starts like upwards of €5,000 or €6,000. Where we have lost a slight market share in Germany to very, very heavy competition I must say, from a couple of other companies is on class three warehouse, that mainly addresses food retailers. There has been some really heavy pressure, but as I said, that is not such a profitable segment.

We are of course in there and we are a leader in that, but in total we are happy with the market share developments. On the main machines we have gained market share. Globally that is definitely the case, and some of the smaller warehouse equipment we have lost a little market share. You know our margin targets, our profitability targets are the major theme when we make these decisions.

Omid Vaziri

Thank you. Just a quick follow on question on that. So going forward, in which areas do you see competition most fierce, say in the next two years or so?

Gordon Riske	I would say in the small warehouse equipment, providing equipment and things like that to the classical food retailers, whether it's REWE, Intermarché, those types of customers.
Omid Vaziri	Thank you, no more questions from me.
Telephone Operator	As a reminder, to ask any further questions, please press *1 on your telephone keypad. We have a follow up question from Felicitas von Bismarck. Felicitas, please go ahead. Your line is open.
Felicitas von Bismarck	Sorry, I might have missed it on the call, but would you be able to comment on how January and February have started for you, in terms of orders especially?
Gordon Riske	Good. No, seriously
Dr Thomas Toepfer	I can confirm that.
Gordon Riske	No, seriously, the first two months, although I am a little bit disturbed we don't have the final statistics for February because one of the countries far away is kind of not doing their job, but that's another topic. No, January and February, we are very happy with it. I would say very robust start in Europe, no question. China not so bad. I mean, it's at a lower level, but China has some special effects and new emissions starts April 1st, so I'm sure some people will buy a few pieces of equipment ahead of time in the first quarter, so I wouldn't let myself get too thrilled about that. But no, start is okay. It's really very robust.

Felicitas von Bismarck	With kind of similar trends have we seen in Q4, in terms of momentum?
Gordon Riske	Q4 was extremely strong but yes, the first two months are pretty good.
Felicitas von Bismarck	Okay, great. Thank you so much.