KION GROUP AG

Q2 2015 Update Call

Conference Call Transcript

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Thomas Toepfer (CFO)

Gordon Riske

Thank you and welcome, ladies and gentlemen, to our Q2 Update Call for the year 2015. We're very happy that you joined the call today. I hope all of you have the presentation that's available on the Internet. As usual, we will be presenting in four parts in today's call: first of all, a few financial and strategic highlights; followed up by the update on the market and how KION performed in our market; then I'll hand over to our CFO, Thomas Toepfer, for the financial update; and we'll conclude then with an outlook for the full year. And after that, of course, entertain any questions you may have.

So let's get started on page three of our presentation. In a nutshell, our Q2 was very successful. We are very happy with the results of Q2, and I think that sets our course pretty clearly for the full year 2015. We did see significant order intake in the quarter, so the quarter was up 9.3% to €1.3 billion, mainly driven by our performance in the markets in Western Europe and in China, and so that leaves us now with an order book well over €900 million, which is a good basis for the coming quarters in terms of getting our revenues out.

Similarly strong, we saw revenue growth at 9.8%, so almost 10%, to €1.3 billion, and our adjusted EBIT of €116 million in the quarter represents a margin of 9.3%, so our profitability indeed remains at a high level. It is slightly below the margin of the previous year, 9.6%. We must add that we did have an operational margin improvement in the quarter. However, we did have an offset by expenses in a court ruling by a former dealer in France; perhaps there'll be a question on that later on.

At the end, our net income increased substantially, by more than 50%, also reflecting some of the refinancing activities that we undertook in Q2 2014. Our free cash flow is slightly less than the previous year. As we have explained and guided before, we have our business growth and higher working capital and rental capex, but I can say overall we can and will confirm our total 2015 guidance.

Turning to the next page, on page four, to some of the strategic highlights that we've had in the last couple of months, presentations, you know, we always give you an update on some selective initiatives. These are not all initiatives, but some selected initiatives that have happened in the past quarter. In Q2, we continued to increase our focus on automated solutions. You know we announced the acquisition of Egemin Automation in early May and we are now in the final preparations of closing. We expect to be closed by the end of this month and then Egemin will become the seventh brand of the KION Group, and so we can extend certainly our automation and project management software competence in this very important growing field.

Also, Linde as a brand is introducing new automated products, so-called Linde-Matic series, and STILL also has been awarded Forklift Truck of the Year for intralogistic solutions, so this entire topic of automation and software solutions is becoming a greater effort for us as a company.

Under the umbrella of our global platform and module strategy, we have strengthened the executive board, as we announced some time ago, with Dr Eike Böhm, who is assuming his position of chief technology officer this week, so at the beginning of August he is now in office, and we believe with his extensive automation and automotive experience, truck industry international experience, we will stronger be able to realise some of our deep synergies across the brands and in the regions.

Our R&D team is currently working very heavily in preparation for the CeMAT industry fair which happens in October in Shanghai. This is the CeMAT Asia. We will present over ten new products developed for our global platform, and these products will hit the market beginning 2016, so also there we do expect some growth and new products to help us in this very, very important market.

Some of the growth strategies: we have made good progress in China. Linde China has been awarded as leading equipment supplier for e-commerce with its reliable E- and warehouse products, strong service networks we have had, as you'll see in the numbers in just a minute, a strong performance in China, and we have also upgraded a little bit of our leasing activities.

With that, I'd like to come to the next section on page six of the presentation to talk a little bit about the market, the market development globally, and how KION performed. The global markets continue to grow. We've reached 290,000 units in Q2. The growth has slowed down a little bit, with 2.8% growth compared to the previous year but still very strong in Europe. The reason for the slight decrease has been some of the weaker activity in the bigger emerging markets.

That is, of course, China, you know, with formerly 26% of the global market, and Eastern Europe, mainly driven by a 50% decline in the Russian market, but particularly in China the IC market has continued to decline; however, at a global level, electric trucks, warehouse trucks were the main driver of growth and KION is very strongly positioned in these markets and these technologies, and that's why we were able to outperform in these markets.

On page seven, breaking down as we always do every quarter the regions; the mature markets, that's, kind of, the headline: the mature markets stay strong and emerging markets are slightly struggling. We have not seen any data for July - I know that question will come - but nonetheless the markets in Europe are still growing very well, Western Europe with 8.6% in Q2; that is a more normalised growth comparing to Q1 where we had 16.9%. We talked about that in the last call, where there were some big investments into the rental fleets, and there were seasonal spikes, and that has moderated now, so 8.6%, very strong in Western Europe.

North America also grew strongly. As you know, we are a small representation in that market, and in the emerging markets they continue to struggle. Eastern Europe, Russia is about 50% down compared to the previous year, but other markets like the Czech Republic, Poland, and Hungary have continued to develop nicely and so our numbers performed very well.

China continues to decline, particularly in the market for economy IC-trucks. Our industry as well is impacted by the macro environment in China, not to be kidding about that, but really, you know, we have performed very well in China, but certainly over the longer period, you know, we have to be careful on what happens in China and how the macroeconomic development continues in the second half of the year in 2016.

Latin America is also a split market: somewhat declined in Brazil; good development in Mexico, Argentina, and Chile. So all in all, as I said, we have a very good, stable market globally, especially the mature markets driving the growth.

Coming a little bit closer to home on page eight, if you look at the development of the main Western European markets, very good momentum in Germany, UK, and France, and the two previous crisis countries, Italy and Spain, over the past quarters have continued to develop very strongly in the last quarters and that is helping us drive the growth.

And that’s why when you look at the summary of the KION development on page nine with 7.6%, outperformed the growth of 2.8% in the market, and that resulted in 43,800 trucks. That was the second-highest order level we have seen so far, so for us really a very, very good second quarter, benefitting continually from the heavy demand and healthy demand of the European home markets and our very strong position in E- and warehouse trucks, and IC-trucks also performed fairly well.

On page ten, then looking at the first half-year, and then specifically Q2 in Western Europe, KION grew above the market in Q2, so very good performance for us in the second quarter. In Eastern Europe, we also performed better than the weak market driven by our market share in regions outside of China... sorry, outside of Russia, and when it comes to China, again, an astounding number, in my view: 11.3% compared to a market that was down in 7.7%.

That was driven in our case by a strong support in a development project that we did last year for smaller warehouse trucks. The warehouse business is up quite significantly in China and that was mainly driven by lower-cost small units, so, as I say, we have to look at that cautiously. All in all, we're happy with our performance in China, but we do expect some challenges up ahead, and I think we're very well positioned as the largest foreign player in that market to meet those challenges.

So overall we stayed on the growth path in Q2 for 2015, and with that, I'd like to turn it over to the section three here of the financial update to Thomas Toepfer.

Dr Thomas Toepfer

Well, thank you very much, and also a very warm welcome from my side. I'm on page 12, where you have the overview of our financial numbers, and, as you can see, we had very good and continued momentum in the first half of the year. Let me start off with the left-hand side of that page. You see the order intake grew by 8.2% to €2.565 billion, and that does include a positive FX effect of €78 million; however, if you take that out, you see that also organically we grew with roughly 5%, which is a good performance, and that order intake then brought our order book up by 21% relative to the end of last year to €928 million, which gives us a good position for the second half of 2015.

If you look similarly at the revenues, growth of 8.4% to €2.421 billion, also here positive FX effect of €73 million included, but again taking those out, you still will see a good organic growth of 5%. And with that, I would come to the adjusted EBIT, the third item on that page, you see we have achieved €210 million, up 6.6% on the previous year, and the margin of 8.7%, which is just slightly below the 8.8% which we achieved in 2014; however, as Gordon Riske already mentioned, that contains a €6.5 million expense which we had to face through a court ruling, and that ruling related to a former dealer in France who sued us some six years ago in 2009, and now the appeals court has ordered this payment.

However, what I would like to make clear is we have not adjusted for this. However, it is not a typical case; we usually have very close and good relationships with our dealers, but if you were to exclude the €6.5 million, you would see that operationally we have reached a margin level of 8.9% so a clear operational improvement above the previous year, and that then gives us the strong confidence that we are fully on track with respect to our EBIT guidance.

If you look to the very right-hand side of the page, you see our net income is up 55.7% to €94 million, obviously driven by the operational improvement but also by the good result of our refinancing activities which we did in the second quarter of 2014, which now fully comes through, and that improved financing result obviously then helps the net income as well.

If you turn the page to number 13, you have the same set of numbers for the second quarter, and you can see that the good momentum has even accelerated in Q2 with the order intake up 9.3% to a little over €1.3 billion, the revenues grew even a little stronger with 9.8% to €1.256 billion, again with a positive FX effect of €41 million; however, the book-to-bill ratio also in Q2 remained above one, and the EBIT is up 6.3% to €116 million, the margin obviously slightly down to 9.3% relative to the 9.6% in the previous year.

Again, I would like to reiterate that does contain the €6.5 million from the court ruling, and if you were to adjust for that number that would give you a margin of 9.8%, so a clear operating improvement in Q2. And the same trend as in the first half, you can also see with respect to the net income, up 60% to €52 million from both the operating improvement but also our refinancing activities.

If we dive a little bit deeper into the numbers, please go to page 14. You see some more detail on our revenue development. On the left-hand side you have the first half, on the right-hand side the second quarter, and if you look to the left you will recognise the 8.4% total growth. You can see that both businesses, the new truck business and the services business, have contributed to that number, with the new truck business up 10.5%, so very healthy growth, and the services growing 5.9%, and that has, with respect to the new truck business, even accelerated in the second quarter - you can see that the growth was 13.2%. And the services continued to grow with almost 6% in that quarter as well, so a very good and stable development from that perspective.

If you turn the page to number 15, you can see our adjusted EBIT and adjusted EBITDA. As I said, in the first half, we had an adjusted EBIT of €210 million and a margin of 8.7%, the EBITDA is €388 million with a margin of 16%, and I would simply like to make the comment that our gross margin has continued to increase, driven by good business growth in the new truck business, a good product mix, good price assertion, and to some extent also lower commodity prices. On the other hand, we were faced with some fixed cost increases driven by wage inflation, foreign exchange, and some costs for the implementation of the Strategy 2020, which are reflected in this number.

If you turn the page to number 16, you have the full reconciliation, all the way from the adjusted EBIT down to the net income. I would just like to highlight a couple of items here. Obviously, the net financial result benefitted from the sustainable interest rate reduction after we called the two pre-IPO bonds last year, with a total amount of €525 million, and you can see that our net financial expenses were at the lower end of our guidance. We had said that we expected between €25 million and €28 million per quarter, and you can see that €43 million for the half year and €23 million for the quarter is clearly at the lower end of that range.

In terms of taxes, the amount was €44 million for the first half. That is obviously up in absolute terms relative to last year, but our tax rate and therefore relatively speaking of 31.7% is fully in line with our guidance and with the net income of €94 million in the first half of the year. The earnings per share increased to €0.94 per share and therefore significantly up relative to our 2014 number.

Coming to the cash flow statement on page 17, as usual I will start with the last line item of that page. You can see the free cash flow amounted to €9 million relative to €20 million last year, so in absolute terms a small decrease, fully in line with our guidance, where we said that in 2015 we will be slightly below the record cash flow that we had achieved in 2014.

Let me just take again a couple of highlights. The trade working capital has increased, mainly however driven by receivables, as you can see in our balance sheet, and that is simply due to the fact that we had a very strong month of June, and the sales that we generated obviously have not fully materialised in terms of cash but rather have been recorded here as receivables, so in that sense we see it as a good driver of our positive business development which is here to some extent burdening our cash flow statement.

The other line item that you can see has significantly increased to a positive €41 million, that is driven by a number of factors. I would just like to mention three of them: last year we still had some restructuring payments from our factory closures, which obviously have not reoccurred this year; remember, secondly, we had talked about some cash in transit at the end of 2014, which now obviously has hit our books and has come in; and, thirdly, that line item also includes the liability from the court ruling, which at the end of the first half had not yet become cash effective, so those are three main items that are driving the significant improvement of that line item.

The leasing cash flow is close to zero; that simply reflects the flow-through character of that item. The operating capex is on track slightly ahead of last year, fully in line with our guidance, and the net rental capex is up relative to last year, but again I would say this is a positive development because it simply reflects our good growth in that business area which we support with the expansion of our rental fleet.

If you turn the page to number 18, you can see our financing structure. The key message is it is unchanged since our refinancing in April 2014. I would just like to highlight that we had positive rating actions in April of this year with Standard & Poor's now rating KION as a BB+ with a stable outlook, up from a BB with a positive outlook before, and Moody's now rates us with a Ba2 with a positive outlook, up from a Ba stable before.

Looking ahead, I think very obviously we still have the €450 million pre-IPO bond outstanding with a coupon of 6.75%, and I think we have said that the first call date is in February 2016. As well, we cannot yet say today what we will do; I can reassure you that this date is marked very clearly in our calendar and will be reviewed carefully once the time has come.

So on page 19 you have our net debt. On the left-hand side, net financial debt has increased by €30 million to €876 million; however, the leverage has remained unchanged at 1.1. If you go to the middle coloured column, you see our industrial net operating debt, up some €55 million to €1.236 billion. Again, that is seasonal movement, and the leverage is also unchanged at 1.7. And the last column on that page gives you our industrial net debt including our pensions. That item is down by €134 million to €1.974 billion, driven by a sharp decrease in our net pension liabilities and the explanation for that is on the next page.

So if you turn to page 20, you can see there's a direct inverse relationship between our pension liabilities and the discount rate, and this discount rate has increased in the second quarter to 2.5% in Germany, driving down our liabilities on the balance sheet by €188 million. I would like to remind you at this point that the cash-out, as I have stated several times, remains fairly stable for our pensions at roughly €20 million per year, so that does not change; however, for those of you who have taken the pension liabilities fully into account for your valuation models, I would just like to remind you: please update your model before you go into vacation. And with that little reminder, I would like to hand over to Gordon Riske for the outlook of the year.

Gordon Riske

Thank you, Thomas. I'm on page 22 now with our outlook statement, and we can simply say that based on a very positive first half-year, especially the second quarter, we fully confirm our outlook for the full year 2015. For the market, we do expect further moderate increase in the worldwide market volume in 2015, and for KION we also expect slightly higher order intake, revenue and adjusted EBIT whereby you know we define slight as the lower half of the single-digit range. We also expect a stable adjusted EBIT margin, a definite increase in net income, and slightly lower free cash flow, and a further reduction of our net debt.

As stated earlier, in the first half of the year, this year our order intake, our revenue, and adjusted EBIT have grown above our outlook rates for the full year, but, as we've discussed many times, when you adjust it by the FX effects, all of our main KPIs are within the range, maybe the upper range, of our guidance, so confirming, based on an outstanding first half-year and especially outstanding second quarter with a good order backlog, a continued dynamic market, especially in Western Europe, we confirm all of our numbers for the year 2015.

And with that, we'd like to close this part of the formal presentation. On the next page, just a reminder for you, the next call will be on 5th November for the Q3 numbers, but before that we'd like to entertain any questions that you may have to the presentation we gave and to the Q2 report. Thank you for participating.

Moderator

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 * followed by 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * followed by 2. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press * followed by 1 at this time.

And our first question today comes from the line of Felicitas von Bismarck of Deutsche Bank. Please go ahead.

Felicitas von Bismarck

Yes, thank you very much. I have three questions, please. The first one: could you give an indication of how much ramp-up costs for your long-term investment intentions you had in this quarter?

The second question is related to that. So in your guidance, you're, kind of, too well on track for orders and sales. I understand that the base is getting harder and that everything is, kind of, volatile, but given these legal issues which you are discounting now but you're not changing your margin guidance, does that mean or can we see from that that you are operationally a little bit better on track in terms of margin than you thought in the beginning?

And the last question would be on the investments in your rental fleet. Is that as high, because they seem to be quite high, so is that as expected and how do you see this developing through the year? Thanks.

Gordon Riske | Should we start with the first one?

Dr Thomas Toepfer | Yes, let me start with the first one: indication on our long-term ramp-up costs. We look at it from the following perspective. I think I stated in an earlier call, if you take our drop-through rate of 20%, which we usually use for incremental EBIT, and apply that to our revenue guidance, you're probably missing roughly some €20 million if you take the guidance for our revenue relative to the EBIT that we have guided for the year. And those €20 million is pretty much what we see as the number that we are investing this year in terms of our Strategy 2020, and essentially the largest part of it is the strategy investment and, to a smaller extent, those €20 million are driven by additional pension payments that are occurring this year.

Now, I think this is pretty evenly distributed, so we have never given any precise numbers per quarter, but I think it's fair to assume that there's no big fluctuation of that number over the year, but it's pretty straight-line distributed over 2015.

Gordon Riske | Yes, the second question, too well on track, I don't know if you can ever be too well on track, so nice question, but we're very happy with how the second quarter worked, this is true, and you can say, you know, we feel a little bit better about the second quarter and about the perspectives to the year maybe than six or eight weeks ago, but it is a volatile world and we have a great order backlog, and I think the European recovery continues. And yes, we are a conservative company, and that's why we say we will maintain our guidance for the full year 2015, but correct, we are well on track.

The third question, investment in the rental fleet, I mean, we have to be flexible for our customers. We have an uptick in the market right now in the first half-year in Western Europe, but, you know, overall, our expectation is that for the full year we will be at about the level of the previous year, not to be much higher.

Felicitas von Bismarck — Right, thank you. Can I ask one more question, please, on China? I think you mentioned that you said you were, kind of, concerned. Is that because of Baoli or is there any reason to believe you're not going to continue your outperformance?

Gordon Riske — Yes, I mean, you know, the first half of the year is -10%, we're +10%. The second quarter is -7%, we're +13%. Somewhere, you know, we all work in the market and it doesn't matter which segment, whether it's IC-trucks, you know, that's down the most, and we're down only slightly; warehouse trucks, we're growing twice as fast as the market; electric trucks we're keeping on track. So as far as KION's position, we've done the right things, we have the right products, we have a great organisation, and so I think, you know, we are extremely well positioned, better than anyone in the entire forklift market.

Having said that, you just have to look at what's happening in other businesses and industries, whether it's, you know, on-highway trucks, construction equipment, there's a negative sentiment right now, and we have to be careful with that. Our team is doing an excellent, excellent job, and, you know, right now we see no reason that it's going to cave in but we're cautious.

Felicitas von Bismarck — Great, thank you very much.

Moderator — Our next question comes from the line of Gerhard Orgonas of Exane BNP Paribas. Please go ahead.

Gerhard Orgonas — Good afternoon. Could you please quantify the tailwind that you've enjoyed from the lower commodity prices in H1 and in Q2?

Dr Thomas Toepfer — Well, there's no big... I mean, I said there is to some extent, but it's a rather small number because we're hedging our commodity prices

	well in advance, so relative to the previous year, it is a low single-digit number that is playing into the margin here.
Gerhard Orgonas	Mainly in Q2 or in both quarters?
Dr Thomas Toepfer	No, that is evenly distributed across the year.
Gerhard Orgonas	Okay, thank you.
Moderator	Our next question comes from the line of Jürgen Siebrecht of HSBC. Please go ahead.
Jürgen Siebrecht	Yes, good afternoon. Coming to your EBIT number, if I adjust here the dealer issue, I come to €123 million; that's the number I think you mentioned. Is it then fair to assume that one can add €5 million or so out of these implementation costs and then, yes, really underlying we had €128 million and at the 10% margin in Q2, and we would have increased by €35 million EBIT-wise. Oh, no, hold on. No, that's 25. Okay, so there's a number, €128 million and 10% margin, which, you know, would be the underlying margin. Then maybe on the market, the question, we have been at 80,000 units in Western Europe in Q2. Is there a reason to believe that we will see, yes, a major lower number in the next quarters? I mean, the market is up 13% as of H1, so yes, can you elaborate a bit on the outlook here? A July trading update would be helpful maybe if you have it. And then on China, how long do you think you can decouple here in that market? I mean, it looks quite surprising that there's such a high divergence. And then, lastly, maybe housekeeping-wise, what is your guidance for the financial result and the tax for the full year?

Gordon Riske

Okay, while we're calculating the other, number one and four, on number two, current trading, you know, we have always maintained a policy not to comment too in detail on each month as market goes up and down, and, you know, half of Europe is either, you know, on the beach or wherever in August, and part of July. All I can say is we see no reason for anything to cave in. July, we don't have the full numbers in yet, but it was a very solid month, so absolutely no indication that, you know, things are going the wrong way; the opposite is the case.

On question number three, China decoupling, I know that's also for us a continued issue because, you know, we have an important position in China. All I can say is, you know, we have the right products, we have the right team. We have a huge R&D programme that we started two years ago. We're launching 11 new products. You'll see all those for those of you who want to come to CeMAT in Shanghai in October. And I think we've done all the right things, but nonetheless if a market continues to go down, I think in absolute terms it could affect us, but right now, as I say, we have all the right strategies and the right products in place. It's just getting a little bit tougher because more people are fighting for the order.

Dr Thomas Toepfer

Well, and then with respect to your questions on the EBIT, I think what you did is absolutely fair to add the €6.5 million to the €116 million, because we were slightly surprised by this court ruling as well, and therefore if you want to derive a more operational performance for the quarter, I think that step is very fair to take. With respect to the €20 million, I can only reiterate that this is the number for the year. It's fairly evenly distributed over the year, but I think then to cut that into quarters would take it a little bit too far from my perspective, and therefore I think I would not fully follow that calculation.

With respect to the guidance for the year, our net financial result, our guidance was €25 million to €28 million per quarter. I would stick to that; however, if the overall interest environment stays as low where it is, I would expect that we will continue to move at the lower end of that guidance and also our tax guidance is unchanged, so we're expecting a tax rate between 30% and 35% for the entire year. And you can see that we're fully on track after six months, so I can fully confirm that as well.

Moderator: Hello, Mr Siebrecht, did that answer all of your questions?

Jürgen Siebrecht: Oh, please one follow-up, if I may: on the drivers for the increase of the EBIT year-on-year, operating leverage, we had as an issue. Mix doesn't look to be a driver here, at least if we look at the pure numbers. Equipment is growing much faster than service. Can you elaborate, yes, on what happened in terms of mix and what are the other drivers behind the improvement of the margins if we look at the very underlying level?

Dr Thomas Toepfer: Yes, I mean, I would say mix is in fact not such a big issue. I mean, if you look at our - let me start with the revenue line. It's mainly driven by the FX effect, I've elaborated on that, and the rest is really volume increase, and therefore also on the EBIT, the mix effect is rather limited that we see.

Jürgen Siebrecht: Okay, thank you.

Moderator: And our next question comes from the line of Sebastian Growe of Commerzbank. Please go ahead.

Sebastian Growe: Yes, good afternoon, gentlemen, Sebastian Growe from Commerzbank. Three questions from my side, the first one on the new truck business. Mr Riske, you just said that the pricing in China is getting a bit tougher because more people are fighting for the order. Can you just elaborate on this point and also what you see price-wise also in Europe and especially in the IC-truck segment?

Then on services and here on the rental business, you had a cash outflow for the rental assets of about €100 million in the first half.

There was €40 million in Q1, so there is an acceleration here. Can you share with us, A, how many trucks you do have in the rental fleet currently; B, what you do budget in terms of investments for the full year; and, C, that you give us an indication eventually regarding the ROCEs in that business?

And then, finally, on M&A and the potential pipeline of targets, can you just share with us if there are many more Egemin-like targets in the market and what is the situation around the dealers that you might look at and in which regions are you especially interested in expanding your business? Thank you.

Gordon Riske

Okay, I don't believe I said in China price tough, I said the competition is tougher, but you're right: at the end of the day, it is the price. Let me start. In China, with more people attacking orders, it just requires a little bit more work. We've been very able to hold our line on pricing. I think we've done a good job. Our earnings are okay in China, but, as I say, you have to do some more work.

In Europe, we actually have a positive price assertion so far within our budget, so within our guidance nothing extraordinary, so that's been okay. You know, we sell premium, we sell technology, we sell solutions, so we try, you know, to stay away from the pure fight of price as much as possible.

The third question, before we get into the rental fleet, M&A pipeline. It would be a nice list to publish outside, but of course we don't publish that list. We have a philosophy that's as old as the company: regions where we want to be and technology that we need, and both effects are a continuous effort for us in the regions. Everyone knows where we continue to look is how do we strengthen our capability in the North Americas, and that's where we are continually searching for opportunities.

And the other one is certainly the trend of Industry 4.0, the Internet of Everything, and the customer requirement to have automated solutions, and we will continue to look in that field to extend our efforts there both internally with the type of people and projects that we do, and externally in our M&A pipeline, but I can't, of course, give you any specific details on what and when.

Dr Thomas Toepfer

Well, then to finish up on the rental capex, we're operating roughly 60,000 rental trucks worldwide across both brands. You're right that our rental capex has accelerated in the second quarter and it's up some 21% relative to the first six months of the last year; however, as Gordon Riske said earlier, for the entire year we're expecting that this will moderate to some extent, and that we will be close to last year's number, maybe slightly higher, but I think there's no systematic increase in rental capex investments that we have foreseen.

Obviously we're following the market demand here and we're seeing good demand currently, but again what we're expecting is a number which is not too far away from last year's amount.

Sebastian Growe

On the ROCE, if you would like to share that and then two quick follow-ups, so the first one on rental, it seems really that everybody is going after the rental business, so the question that I really have is if there is a structural shift towards rental on behalf of your customers, so that people are really accepting, so to speak, a higher rental rate rather than having the assets sitting on their balance sheets, and maybe you can just share your view with us.

And then back to M&A, certainly it's clear that you won't share any potential targets with us, but in any case, just one other question related to this and in more general terms: can you remind us of the financial firepower that you would see for your company or that you would feel comfortable with when you're going for an acquisition?

Dr Thomas Toepfer: Maybe I'll start with the financial firepower, because this is the easiest to answer. I think we have a very strong balance sheet and therefore we don't see financial firing power as a limiting factor for our M&A strategy, and therefore I don't think this is the major issue. With respect to your question of the rental business, we don't see any systematic shift here, so it is not that customers are going for more short-term contracts, but I think this is pretty stable and we don't see any systematic changes.

Sebastian Growe: And, finally, on the ROCE?

Dr Thomas Toepfer: What was exactly your question on the ROCE? I maybe didn't fully get that.

Sebastian Growe: I just want to get an idea, so you are spending obviously quite a lot of money on expanding the rental fleet so it's on your balance sheet, and the question is simply - and I guess you won't disclose really the margin behind it, but at least qualitatively - you might be willing to share with us what the ROCE is on the rental business compared to the new truck business.

Dr Thomas Toepfer: I can say - yes, I mean, we're closely monitoring that, obviously, and we're making sure that it is not ROCE-dilutive for the business.

Sebastian Growe: Well answered; thank you.

Moderator: Our next question comes from the line of Peter Rothenaicher of Baader Bank. Please go ahead.

Peter Rothenaicher: Yes, hello, gentlemen. Some specific questions on the P&L: you show €8 million profit from equity-accounted investments. Could you give us here an explanation?

Then I would be interested in some details about the non-recurring items, so I was surprised about the magnitude of around €10 million in the second quarter.

And, last but not least, you have executed your put option for the Linde Hydraulics business in July, a 20%. What impact do we have to expect? I don't think it will be a book gain but at least in terms of liquidity.

Yes, and one further question regarding Egemin: I think that the acquisition is now being closed in the third quarter. What are your expectations for this business, let's say, on a two-year horizon? If I hear the targets of your competitor, of Jungheinrich in the logistics systems business, this is very optimistic and they have huge targets, so what sales targets perhaps do you have for the next two or three years?

Gordon Riske

Let's start with the fourth question. Egemin, it's a business for about €75 million in sales; that's, you know, a number that's not including all the things that we're doing anyways, and as we have not closed the company, let's give us a chance to integrate all of that business together. We won't make, you know, a specific target in the next two years; all I can say is that it's a growth business, that's not only a growth business but a business necessary also to keep your current customers tied to you, and so there are some special effects.

I think we can update that sometime next year when we have integrated, when we have created a combined business plan and some of the other strategic actions that we're working on right now, but nonetheless we see this as a very interesting growth part of our business and an opportunity to extend what Egemin has done in Europe on a global basis because we have such a large sales and service force around the world.

Dr Thomas Toepfer	And then with respect to your other questions, yes, the put option, you're absolutely right: that will not create a book gain but it will be a cash effect that we will see, but that's obviously not yet in our Q2 result; it's going to come in the second half of the year. You asked about the €8 million from equity-accounted investments. There are several businesses which we are accounting at equity. Among others, until the end of the first half, also, the Linde Hydraulics business. The number is somewhat fluctuating over the year because it is dependent on when those businesses finish their financial accounts and when the dividends are paid, so I think it's a little bit difficult to project that number into the rest of the year. And with respect to the NRIs, yes, it's slightly higher than last year, there are some strategy items and some consulting items in here, but I think overall our guidance was always that NRIs would go down over time and that is what I would still be expecting also for 2015 relative to the previous year.
Peter Rothenaicher	Could you give perhaps some more details about the cash effect of the put option?
Dr Thomas Toepfer	Well, obviously, there's a - I mean, let me put it this way: there's obviously a face value of the option. I think you can see that from our financial accounts. You will also be aware that there are some taxes to be deducted from that and that gives you the order of magnitude of what we're expecting here.
Peter Rothenaicher	Okay, thank you.
Moderator	Our next question comes from the line of Stefan Maichl of LBBW. Please go ahead.

Stefan Maichl	Stefan Maichl from LBBW. Good afternoon, gentlemen. Some questions from my side. The first one: are similar dealer one-offs likely in the future than we have seen in the second quarter? Have you seen any changes in the used truck market in terms of pricing demand in Europe so far? And maybe could you give us some more colour on the Chinese market client behaviour, state-owned client versus private client in light of the PMI disparity we have seen so far? Thanks.
Gordon Riske	I'm not sure that we understood the first question. The change in the used truck business I understood, but the first part of the question I didn't understand.
Stefan Maichl	Have you seen any changes in the pricing or demand in the used truck business in Europe?
Gordon Riske	No, that's basically similar, you know, and the market is growing very similar. On the China market, good question, state-owned and private-owned, I mean, you know, we have a long time ago formed partnerships with some very important e-commerce and logistic companies that years ago were small. Now they're some of the biggest ones, whether it's JD.com or Suning.com, so that part of the business is growing, which drives, of course, warehouse and electric trucks. State-owned companies, the bigger ones, are still investing, but, you know, that is more, I'd say, caution, on big state-owned companies at this time with all the government efforts to try to consolidate some of the state-owned companies that are in the big businesses of trucks and construction equipment. So there is definitely a difference in the private companies versus the state-owned companies and we are very well positioned, especially in the private business.

Stefan Maichl	And about the dealer one-offs?
Gordon Riske	The dealer one-offs? Oh, okay, now I get it. You're referring to the French dealer?
Dr Thomas Toepfer	You're referring to the €6.5 million?
Stefan Maichl	Yes.
Dr Thomas Toepfer	And what is your question on that?
Stefan Maichl	Are there similar cases out which could result in further similar burdens in the future?
Dr Thomas Toepfer	Well, I mean, as I said, we have a very good relationship with our dealers. This is absolutely the exception. Obviously from time to time we cancel a dealer contract, but that this leads to a court case is absolutely rare, so there's nothing that I would foresee in the same order of magnitude.
Stefan Maichl	Okay, thanks.
Moderator	Our next question comes from the line of Alok Katre of Société Générale. Please go ahead.
Alok Katre	Hi. Thanks for taking my questions; just a couple maybe. First and foremost, there's a lot of focus and discussions about Industry 4.0 and therefore, in that context, Logistics 4.0 as well. Maybe just could you perhaps elaborate a little bit on first and foremost what's the share of revenues that you see from these solutions today, and then, of course, in the context of Strategy 2020, how should we think about this avenue of growth and also, you know, the impact on margins, perhaps something like 2016 through '18, you know, sort of, timeframe? So that's the first one.

And then generally, I mean, in China as well, just trying to understand, obviously the divergence between KION's performance and the market performance has widened significantly both in Q1 and Q2. Just maybe trying to understand a little bit more how much of this has really got to do with the better, let's say the mix of KION's business in China perhaps being a little bit more E and warehouse, and then how much of that is the underlying, sort of, share gains including the IC, sort of, truck segment. So that was question number two.

And perhaps maybe if I could just have a couple of housekeeping follow-ups: on the free cash flow, the guidance that you have, does that include any inflow on the put option, because I guess Egemin outflow is, sort of, excluded from the guidance, but just on the put option, perhaps you could clarify.

And, lastly, just on pensions, just could you clarify what benchmark is used for the discount rate? Is it something like a AA, you know, bond yield in Germany or so on, just to help us track the developments there? Thank you.

Gordon Riske

Okay, maybe on the first question, Industry 4.0, Logistics 4.0. You know, if you take that broad field in the next five years, you can't say so easily it's a piece of X revenue. I would say it the other way: at least in the most industrialised countries in the world that have continued issues with increasing labour rates, lack of personnel to handle those types of jobs, and the flexibility required by the end customers, if you don't fully automate your equipment, that is the forklifts with the customer's interface and all of the software required for that, you probably won't be very competitive in Western Europe or in all of the mature markets.

So I wouldn't say it as just we're doing this because we want to add into our revenue. That certainly plays a key role, but we're also doing this because the market is driving that, and as KION with its brands Linde and STILL has always been a technology leader and innovation leader in this field, that we feel very strongly that this is an area that we need to go. Secondly, on China, the question, you know, is it just because we are strong in electric trucks and warehouse? We have a strong organisation. We've been there 20 years. We are in every major city and province with a direct sales and service organisation. We have 4,000 people on the ground. We have two brands covering the economy segment, covering the premium segment, and offer all the products.

So I think it's a combination of all those things at the moment, coupled with the changes in the market. You know, the IC market is one thing, but also the Chinese government, you know, starting with very stringent city regulations in terms of emissions, also driving electric trucks, changing some of the requirements, and that all plays into things that, you know, are our natural strength. So it's not just one thing, that we're lucky that we have electric trucks and warehouse, but it's how our organisation is set up at the moment to take advantage of some of the structural changes that are happening in China in general.

Dr Thomas Toepfer: And then with respect to your last two questions, when we gave our free cash flow guidance in March of this year, obviously that did not include Egemin, but it also did not include the exercise of the put option, so both things would come on top to that guidance, and the reference that we take for the pensions is a ten-year AA-rated government bonds in general, so I mean, you asked for reference; I think this is what we would be looking at here.

Alok Katre: Thank you.

Moderator: Our next question comes from the line of Stefan Augustin. Please go ahead.

Stefan Augustin: Thank you very much. Maybe one coming back to China: can you comment a little bit on your own market share? Do you see that Baoli is gaining market share, and could you also, let's say, comment a little bit on your own perception of the IC-truck and the E-truck and the warehouse market share? That would be quite helpful.

And on Western Europe, can you, let's say, give a perception if you outperform the market clearly on the truck side, be it IC or warehouse, are we at the point in the cycle where we see a stronger demand for the truck side versus the warehouse side and that this is the main contributor to your outperformance of the Western European market this quarter? And those would be my questions, thank you.

Gordon Riske

Okay, let's start with the last question. Let's just concentrate on Western Europe. In Western Europe, if I, you know, divide our normal segments in Q2 and in the first half of the year, Western Europe in Q2, the market grew, you know, double digits, and so did we. IC was very strong and we grew stronger in the second quarter, than IC, where the market was up about 7%, 8%, and warehouse market was also up about 8%, and in both those cases we gained market share.

Electric trucks, we didn't gain market share, but you can't forget, we probably have in the big Western European countries between Linde and STILL between, I would say, 45% and 55% market share for electric trucks today in the big markets, so for us to make a big impact in market share gain is rather hard when you're, you know, at 45% to 55% on electric trucks.

In China, Baoli is gaining market share, they're growing quite significantly faster than the market, especially in IC-trucks. I think in total we are slightly below 9%, I think, market share total for the group, so we have made progress and I think that trend will continue as long as the bigger growth factor will happen in warehouse trucks and in electric trucks.

Stefan Augustin

Thank you, and do you have a feeling how strongly the market segment's premium value and economy have changed in China over the last year? Would you still say that, let's say, 80-85% is economy

	segment and you're actually with Linde more or less only addressing the 15% of the upper end of the market?
Gordon Riske	Yes, the biggest part of the market is - certainly 75% upwards - is the so-called economy market, that's why Baoli is performing well in that market. But, you know, with Linde, with some of the new products that we're introducing, torque converters and so forth, we are addressing, let's say, the upper end of the value market so we are increasing our market coverage, but we're not offering Linde in this absolute low-cost market, which is, as you correctly say, 75% and more of the market.
Stefan Augustin	So from a quick calculation, would it be roughly fair to say that you have at least a 45% market share with Linde in China in the segments you address?
Gordon Riske	That's a very good calculation.
Stefan Augustin	Thank you very much.
Moderator	And we have a follow-up question from the line of Jürgen Siebrecht of HSBC. Please go ahead.
Jürgen Siebrecht	Yes, thank you for taking my question. Can you remind us of the share that Germany has into Western Europe into the market and the share Germany has in your business? And then we talked about market shares. Are the Americans losing your market shares, at least Hyster-Yale were complaining about FX headwinds in Europe, and then maybe also with regards to Hyster-Yale, they seem to have acquired here a fuell-cell technology. Are they now on par with you technology-wise? I mean, you are clearly the market leader, but how would you see them now positioned in this area? Thank you.
Gordon Riske	So we're putting the numbers together right now.

Dr Thomas Toepfer	I mean, for Western Europe, the market share of Germany of the total Western European market is roughly 26%, 25%, and our share of Germany in our Western European order intake is slightly higher, so obviously in our home market we're even better positioned than in Western Europe as a whole.
Gordon Riske	Yes, those numbers that we said before, our share between 45%, 55% electric trucks in Germany, that goes for everything.
Jürgen Siebrecht	Okay, and you are quite indefinite also on the oil price. The demand can shift between E-trucks and diesel trucks. Is it fair to assume that you are quite relaxed in this regard?
Gordon Riske	Yes.
Dr Thomas Toepfer	Yes.
Jürgen Siebrecht	Thank you.
Moderator	There are no further questions registered. Please continue with any other points you wish to raise.
Gordon Riske	Well, thank you very much for the very active questions and for participating in the call today. As I said, we are very happy with Q2 and look forward to seeing you and hearing you on the next call in November for Q3.