KION GROUP AG

Q1 2016 Update Call

Conference Call Transcript

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Dr Thomas Toepfer (CFO)

Gordon Riske

Yes, thank you. I'd like to welcome everyone to our Update Call Q1 2016. We will use our Q1 presentation that you can find at kiongroup.com under Investor Relations and that's the document that we will follow in this presentation. As usual, we will be doing this in four parts, as we have done in the past, with financial and strategic highlights of last quarter followed by an update on the market. And Thomas Toepfer will present the financial update and then we'll conclude with an unchanged outlook for the year 2016, so the full year guidance.

So I'll start on page three where we summarise some of the financial highlights for the first quarter. We had another good start this year. We say it every year, it seems, past years. Another good start and continued on the previous year's growth path. Our order intake for the quarter 3.9% increased to €1.3 billion which upped our order book to over €900 million, €921 million, so really a strong basis for production and for the factories in the current quarter.

We saw revenue growth increase in the quarter 4.8% to €1.2 billion and our adjusted EBIT of €99 million represents an EBIT margin of 8.1%. So we are profitable. Profitability is absolute above the previous year levels, fully knowing that Q1 is generally a little bit weaker quarter in terms of profitability.

The net income for the first quarter, we saw a decrease to €33 million. However, we must consider that €26 million of expenses were done in February 2, 2016 for refinancing – for our refinancing activities. Thomas will give you more detail on that in his presentation.

Cash flow was minus €20 million, remained at previous year level even though – and that's the astounding thing, we did have a very good cash flow out of normal operations – even though that we paid for the Retrotech acquisition in March 2016. So overall, we can confirm our guidance that we gave a few months ago for the full year 2016 across all of our KPIs.

So turning to page four, a couple of strategic milestones in the first quarter. In February, as you know, we acquired Retrotech and this acquisition complements the already standing Egemin offerings in the US with automated guided vehicles and automated warehouse systems and solutions. And so with that, we are continuing to build up our expertise and so we are very well prepared to benefit from the trend in Intralogistics 4.0 or the Internet of Things in material handling.

In February, we also officially opened our new factory in Stříbro, Czech Republic. The plant took up the production of Linde's reach truck in January. Of course, we will see a few ramp-up costs still in the first half of the year of 2016. And during the course of the year, we are implementing our new company structure that we already informed you about.

We have set up the four operating units, Linde EMEA, STILL EMEA, KION Americas, KION Asia-Pacific. And in April, officially, Henry Puhl joined us from the agriculture equipment manufacturer, CLAAS, to head up the operating unit, STILL EMEA, a very important operating unit. And this, kind of, completes our management set up so that all of the operating unit heads are now in place to work in their organisation and in KION as a company in total forward.

And finally, we reviewed or renewed our financing in February 2016. We established a new 1.5 billion credit facility with investment-grade-style features which allowed us to redeem our last pre-IPO bond, thereby significantly reducing our interest expenses. Moody’s also upgraded our rating and today, this morning, S&P raised their outlook to positive from stable, so also the rating agencies have seen our progress in our continued performance improvement.

Going to page five, the Intralogistics 4.0 and some of the recent additions, what does it mean for KION, this is a key element of our 2020 Strategy and we are continuously expanding our expertise and full range offering from intelligent software equipped trucks to fully automated systems solutions. Many of the new additions were introduced at the LogiMAT Material Handling fair in Stuttgart which was in March 2016.

For our intelligent trucks, we introduced a new driver assistant system called SpeedAssist that automatically limits the speed of these trucks indoors. For our fleet solutions, we introduced a new feature called Connect fleet data management system where drivers perform pre-shift checks on their mobile phone before they can start the truck.

And for our automated truck range, we extended that in both brands; the expansion of our Linde Robotics range of trucks under the Linde-MATIC series and the award-winning iGo neo from STILL, the autonomous order picker. The iGo neo CX 20 follows the operator at all times during the working cycle, and follows the operator during this cycle and the operator is able to walk in front and autonomously this vehicle maintains a safe distance from the driver going to the correct rack or pallet position. And because of this autonomous assistance, it takes control of the driving and steering and the operator is able to fully concentrate on the task at hand. This is a very unique revolution in the industry and we will see increased performance by customers using this new product.

At the CeMAT, which will happen in Hannover in May 2016, Egemin will also be introducing its new range of automated counterbalance trucks. And in terms of our systems competence, as stated earlier, we acquired Retrotech in February 2016 to complement already existing Egemin's US offering. Egemin, by the way, ran a nice project from Nestlé, to automate its baby food plant in Bavaria earlier this year, and shows that we are continuing to strengthen our offering and our technology in this important area of Intralogistics.

Let me turn now to page seven and talk a little bit about the market development by the various regions. If you look at this page, and you'll see four quarters in a row. Western Europe showed a very strong quarter with 12.5%. Although this first quarter is driven as usual by some investments into OEM's short-term rental fleets, we see this every year so let's see what happens in the first half altogether.

North America saw a slight decline in Q1. Some of the emerging markets, Eastern Europe again showed a positive development with 8.5% with a stabilising Russian market which was down only minus 1.4%. Now China showed a very strong plus of 6.8% and I must say that is mainly driven by pre-buy effects because of the stricter emissions regulations for IC-trucks and these regulations came into play 1st April 2016. And I stated in our outlook, we do expect the Chinese market to stabilise throughout the year but we remain cautious about the months immediately ahead of us.

Latin America continues to show two different growth patterns with ongoing decline in Brazil, whereas the Argentinian market showed a growth overall. So that means overall, the global truck market, driven mainly by Europe, increased by 3.7%. And the main drivers here was the dynamic demand for electric trucks, particularly the warehouse segment.

We look at page eight, some of our core Western European markets also continue on a growth path. We saw continued growth in all of the core markets in the first quarter of 2016, Germany and France remaining at healthy levels. UK was solid with 4.3%. And Italy and Spain, this increasing pent-up demand that continued. And if you look at Italy, it's not so much away anymore from previous peak levels of 2007.

Now page nine shows you a breakdown of the market again and how our performance was in the various regions. Again, this is only for volumes, this is not euros. In Western Europe, continued its high levels in the first quarter. Eastern Europe again performed better than the market in China. We showed a very positive development in China

– below the market but we must know that 80% of all trucks in China are engine-driven trucks and certainly had an effect from the pre-buys for complying with the new China Stage III emissions, which as I said started April 2016, and this had an obvious positive impact on the domestic market for the economy IC-trucks.

Latin America – a very negative mix effect due to our strong exposure to Brazil. But I said, Latin America, kind of, has two faces, one in Argentina and one in Brazil. Overall, with our strong performance in the first quarter of this year, we were better than the global market with 4.9% with an order intake total of 43,600 units. So that was a very good start in the first quarter. And now we'll go into the financial update with Thomas Toepfer.

Thomas Toepfer

Yes, thank you very much and also a very warm welcome from my side to this call. If you please turn to page 11 of the document, you'll see the overview of our financial KPIs for the first quarter of the year. Starting on the left hand side, you see the order intake grew by 3.9% to €1.3 billion and that includes a positive contribution from Egemin of €35 million and a negative FX-effect of roughly €22 million, so that the order backlog at the end of the quarter stands at €921 million, and that's up 6.6% relative to the level which we had at the end of last year, which we find very satisfying, and therefore it also gives us a very good position for the second quarter in terms of realising this order intake.

In terms of revenue, the number grew by 4.8% to €1.2 billion and that also includes a positive effect of roughly €20 million from Egemin and a negative FX-effect of €21 million. So if you multiply this out with the order intake, you will find that the book-to-bill ratio stands at 1.06 times and thereby slightly above the 1.0 times.

Adjusted EBIT is up 5.6% to €99 million and we achieved a margin of 8.1% which is above the previous year level. And last but not least, on the right hand side you can see the net income achieved, €33 million, which is 21% below the previous year. But please remember that includes €26 million of expenses related to our refinancing activities in February of this year, €15 million of that being the early redemption charge, and €11 million being the capitalised borrowing costs which then add up to the €26 million I was just mentioning. So overall, I think those numbers confirm that we had a very good start into the year 2016.

Now let's look a little bit more into the details and please turn to the next page. On page 12 you see the split of our revenue development. And first of all, you will recognise the 4.8% growth that I just mentioned on the previous page, and you will also see that all businesses contributed to this growth rate, new truck sales being up by 2.7% and the service business being up by 7.2%, which is driven by growth in the ad-hoc service and Rental as well as the Egemin automation which is under Used and Other in this specific chart.

If you turn the page to number 13, you have the reconciliation all the way from the adjusted EBITDA down to the net income. And I would just like to highlight some selected items. The EBITDA in the first line item increased, mainly driven by our operating performance during the quarter. The net financial expense, minus €40 million, are driven by the €26 million of expenses relating to our refinancing activities which I just mentioned.

And the tax line for the quarter amounted to €16 million which corresponds to an effective tax rate of 31.9%, so fully in line also with what we expect for the entire year.

If you turn the page to the free cash flow statement on page 14, I will as usual start with the last line item of that page which is the free cash flow for the quarter. You see a negative €20 million, on the same level as it was last year, so just two statements with respect to this. First of all, you know the negative cash flow is the normal seasonal pattern that we see in the first quarter. And secondly, keep in mind that 2016, as Gordon Riske said, includes the cash outflow for the Retrotech acquisition. So bearing this in mind, you see that we deem this a very good performance in the first quarter.

If we go into some selected items again, the EBITDA, at the top of the page, increase is driven by our operating performance during the quarter. We think that the change in trade working capital shows a good performance relative to the last year. And if you go to the Acquisitions line item, the minus €27 million mainly reflects the acquisition of Retrotech with a net cash outflow of €23 million. So again, if you take this into consideration, you see that the performance was, on comparable terms, better than last year.

If you turn to page 15 please, you see our financing structure, I think, on the left hand side of the page, there's not so much new. You are aware that on February 15, we repaid early and in full the last pre-IPO bond which was still outstanding, and carried a fixed rate six and three quarters coupon and a volume of €450 million with the expenses of €27 million I was just referring to. And this bond as well as the remaining pre-IPO credit facility have been refinanced with a 1.5 billion credit facility reflecting investment-grade-style features. So it is unsecured, has no upstream guarantees and a very, very light package of covenants and undertakings.

So first of all, this new structure will obviously reduce our interest expense and I think the guidance that we have given is: Had that new structure been in place already in 2015, we would have saved interest of approximately €30 million and I think it is fair to assume that this number is what you also could expect now with this new structure in 2016. And secondly, the new structure also gives us some better flexibility in order to pursue our profitable growth path.

If you look at the right hand side, there's a little bit of news there. Moody's gave us an upgrade to Ba1 with a stable outlook, up from

Ba2 with a positive outlook. As you may have seen, or hopefully have seen, Standard & Poor's also gave us a positive outlook on their BB+ rating.

So to conclude the financial part of the presentation, on page 16 you see the net debt of our business. Not much change again on the left hand side. The net financial debt increased by €73 million to €647 compared to December, which was driven by the seasonal pattern.

And similarly, the industrial net operating debt increased to about one billion so that the leverage is constant at 1.3 times. I think the only change is the pension liabilities increasing by €93 million to €861, driven by a decline in interest rates from 2.4% in December to 2.0 in March. And, as I always tend to say, keep in mind that the cash outflow for the pension payments is very constant despite that increase on our balance sheet.

On the right hand side, to round it up, you can see that for our end-customer financing the assets and corresponding sale and leaseback liabilities grew in line so that simply reflects the flow-through nature of that business which is obviously unchanged. And with that, I would like to turn it back to Gordon Riske who will talk about the outlook for the full year 2016

Gordon Riske

Yes, I'm on page 18 and our outlook. On the left side, you see the market, and the right, KION's expectations. For the market, we do see a slower rate of growth in the global market this year, although the regional trends will remain broadly unchanged. That means sustained growth in Europe and North America, and most likely, further declines in Russia and Brazil. And in the big Chinese market, to stabilise later this year. That's a little bit difficult to call so it's still a bit challenging.

Longer term of course, very positive perspective for our market. The annual average growth rate to remain above the GDP, and an ongoing shift to the areas where we are very strong – electric and warehouse and the whole topic of connectivity, automations, Industry 4.0 – will drive the business forward and the demand for services and systems solutions.

So in that market context, for the year 2016 for KION, we expect an order intake of €5.35 and €5.5 billion – so in that range. That represents a growth between 2.6 and 5.5%. On the revenue side, €5.2 to €5.35 billion. So also here, a revenue increase between 2.0 and 4.9%. And that means the adjusted EBIT comes out at €510 to €535 million, which is also a growth rate of between 5.6 and 10.8%. That means, if you're looking at the EBIT margin, an increase to a range of 9.8 to 10.0%. That compares to the previous year level of 9.5%.

On the free cash flow, we expect it to be between €280 and €320 million and we would use our free cash flow to further reduce our net debt. And the return on capital employed, our fifth KPI here, to be slightly above the previous year level where we were at 11.9%. So based on the results of the first quarter of this year, 2016, we hereby clearly confirm our outlook for the full year 2016.

And finally, on page 19, just to look ahead a few weeks and months on our financial calendar, our AGM takes place in a couple of weeks, so May 12th in Frankfurt. And we will present Q2 numbers 2016 on the 27th of July 2016. And with this, I'd like to close the formal part of this update call, turn it back to the operator so that we can take questions from you.

Operator

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star followed by one at this time. And one moment for the first question, please. First question comes from the line of Felicitas von Bismarck of Deutsche Bank. Please go ahead.

Felicitas von Bismarck

Yes, thank you very much. A couple of questions from me, please. The first one would be regarding the Western European market. You are pointing towards rental investment in the market. So when I look at your rental capex, it also looks like you have invested more than last year. I was just wondering, are you suggesting that some other players are investing overproportionally, even in Q2? Sorry, in Q1. And why is this, and who is this? If you could give any indication there, that would be very helpful.

The second question I have is, could you give an indication of how much ramp-up costs you had in Q1 burdening your EBIT and how you see this developing. So is this over now or should there be more to come in the next quarters, or do we actually see a big margin expansion in Q2 already? The next question I would have is how did you perform in the US, so the North American market, versus the market growth? And lastly, with Russia, the market being flat, and North America being down, do you stick to your market assessment for the full year? Thank you.

Gordon Riske

Okay. On Western Europe, yes of course we did slightly increase our rental fleet. You know, the first quarter is always the time when you do look at what's the utilisation and to move things into newer machines. However, I would estimate – and there aren't so many competitors, everybody can guess who the competitors are in the market – were somewhat more aggressive. To me, there's a couple of reasons for that.

One is certainly one of the competitors augmented their sales structure with a new dealer, Zeppelin. So I think, you know, part of the fleets had to be filled on the one side. Another one that has its home in the Far East has a quarter end or the year end, let's say, happening in March so there's always some activities. I wouldn't get, you know, too bogged down with the first quarter, Western Europe. I wouldn't overestimate its performance. It's a short-term rental fleet, I think. You know, we are fine there. Second question, the ramp-up.

Thomas Toepfer

Well, second one, Felicitas, I think the way I would look at this is, we always said, yes, there will be some ramp-up costs and this is the reason for the fact that our margin increase will be, kind of, step-wise in the year 2016. Gordon Riske mentioned that we are targeting between 9.8 and 10.0%, so that's a step-up between 30 and 50. You've seen ten in the first quarter. The ramp-up costs will slightly go away and so I would expect this also to be reflected in the margin step-up, and then in the second half, those costs shouldn't play any role anymore.

But I think this gives you somewhat the order of magnitude which we are facing.

Felicitas von Bismarck

Okay.

Gordon Riske

So in the North America or US market, you know, the market was flat in the first quarter. Now everybody has to understand, we are on a small base. So if I say, yes, we had a great first quarter, more than 25% – I'd say probably quite a bit more than 25% versus last year – please don't take that number and multiply it out for the following quarters when you have a small base. We are making great progress, I'm very happy with the guys, with the team. We've introduced, you know, the Baoli brand, all those things. So, you know, we're upwards of a very solid double-digit but that's not… Again, it's, kind of, like the warehouse stuff in the first quarter here that's not to be taken out of context, just to put that clearly into the heads of everyone on the call.

Felicitas von Bismarck — Okay. And your market outlook for Russia and the US?

Gordon Riske — As I say, I think US, may be a slight increase. We do see US and Europe driving the force, and Russia was minus 1.4%. Tough to call. I think it will not go down so much anymore. But we'll have to see how politically things pan out. I think we've seen the worst but it's pretty tough to call right now.

Felicitas von Bismarck — Perfect. Thank you so much.

Operator — The next question comes from the line of Sebastian Growe of Commerzbank. Please go ahead.

Sebastian Growe — Yes, good afternoon gentlemen. Three questions overall from my side. The first one is on the expected savings in 2016. I was a bit surprised to hear that the Pilsen ramp-up is way into the tune of 10 basis points on the margin in Q1 2016. I thought we should expect an overall 20 million – not talking absolute terms obviously – 20 million tailwind on the back of having utilisation of the plant, blah, blah, blah, over the course of the year.

Maybe you can just share with us really how we should, yes, pencil that in for the course of the year, i.e. how much really of a tailwind there might have been already in comparison with Q1 2015, the first quarter, and how this is going to play out going forward. Related to this, you were alluding to the new corporate structure. I think you haven't been really talking openly about it, what you expect in terms of potential savings, etc. or whatever save synergies one might think of. If you could share some thoughts behind this one with us, it would be most appreciated.

The second question then is more on the integration, Egemin and Retrotech, if you should map the integration process overall on a scale of between one and five, if you could just give us an idea where you stand currently.

And then the third and last question is on M&A. Obviously with the Hannover fair currently going on and other automation companies talking about disruptive changes going forward, the question for me is – and as it seems that the whole value chain is getting more and more aligned – how do you want to safeguard to really get your fair share? So I was alluding in question two to Egemin and Retrotech. Is this it or would you see much, much more in terms of M&A or eventually vertical cooperations that you simply have to undertake to really, really, benefit from this Industry 4.0 trend? Thank you very much.

Gordon Riske

Okay. Again, I'll start from the fourth question, Hannover fair. And you'll see more talk about it at the CeMAT and you'll see, for those that come to the World of Material Handling, the Linde show, we expect also 5,000, 6,000 customers, very correctly relates to your third question, Egemin and Retrotech, is that it? No, that's not it. We are continuing to search for M&A activities on the one side.

But if you see some of the examples, like our Connect next fleet, intelligent trucks, next generation of trucks being able to seamlessly communicate with each other, this whole impact of how the value chain works, what talks to each other, you know, I'd say we're just, kind of, getting started in it. I think the advantage from everything you've seen at the Hannover fair on our side is that we already have 50% of our 24,000 people that are already out there with customers.

So many of these companies that are automation companies don't really have the type of service backbone that we have, and we have 1.2 million trucks in the field – a lot of data out there, a lot of information that we can work with. So to clearly answer the question, that is not it; we will continue and are continuing both organically and inorganically to shore up our position.

In terms of integration, scale of one to five, pretty difficult to say. I mean, Egemin has the lead here. Retrotech will be carved into Egemin. I would say, you know, we took over the company in March; we have some work to do. Maybe we can revert that to the next call after Q2. As I say, we're just getting started there.

Interesting question on corporate structure. You know, there are two main things there. The one is the so-called CTO organisation where we've put together all of the engineering community, so R&D, globally. Secondly, the entire purchasing community. And third, the quality set-up.

Quality is still the number one task of a premium company and that's why we've put it into Dr Böhm who had the quality responsibility for Mercedes Benz car – he knows what he's doing. And what we expect in the CTO organisation is to more leverage synergies going forward. Also this whole aspect of data and IT expertise coming into the trucks – we can't do that across each brand so that's really the focus, is some synergies.

The other one is how we set up the operating units, STILL EMEA, Linde EMEA, KION Asia-Pacific and KION Americas. That is a twofold effort. One is to give more autonomy and decision-making power in the regions outside of Europe. So especially Americas and Asia – those are growing markets and local teams there, and local managers to make decisions.

EMEA, that's our big market. I always talk about our home turf, our castle to be defended. And by concentrating STILL and Linde on EMEA, it gives the current organisations a little bit more focus on market share, on earnings growth in these two very, very important regions for us. So those are, kind of, the backdrop of why we did this corporate structure change last year.

Thomas Toepfer

Well, and then maybe to continue with your first question in terms of the tailwinds, and I think here I would have to put a little bit into perspective what you said or even correct your perception, I would think. I think what we always said is that Pilsen is one of the key building blocks in 2016 also for the margin uplift and it is a prime example of the measures that we're taking. And we're absolutely pleased how this project came in, both in terms of time but also in terms of budget and it's fully in line with our expectations.

However, I think this 20 million that you were mentioning, that's not a number that came from us. What I can say though is I think it seems logic that as Pilsen only went online on January 1st, the full effect will not play out in the first quarter and even in the second quarter we still have some ramp-up costs which will then fully go away in the second half of the year. Again, it's fully in line with our expectation and it is simply a question of time until Pilsen is fully effective.

Sebastian Growe

Okay. If I may just have the opportunity to ask then obviously what the right number is on Pilsen, as a tailwind, that would be quite helpful. And then secondly on the synergies, Mr Riske, are these part of your 2016 guidance already from this new organisation? And maybe also when it comes to the 12% margin, if you have pencilled anything in way before you really officially announce that organisational setup, that this has been part of the 12%.

And finally, on M&A, when you say that you are prepared to do more here, can you just remind us of the budget? So when I think back, yes, to this potential deal in Japan, then obviously you were not really shy of saying that you could bring up to one billion to the table. If you could just give us some sort of an idea what you think, in this Industry 4.0 automation theme, you would really budget, that would be quite helpful. Thank you.

Gordon Riske

Yes, to put the exact numbers here in a public form, you know, would be, kind of, a difficult situation. Last year we had an opportunity; you know, there's never been any official comments of how much and how full but, you know, we are strong enough, our balance sheet is strong enough also to stand a larger deal.

Although I say, you know, this company KION, as a group, has evolved over the years on small deals, medium deals and some also big deals and we are able to handle them all. In terms of the CTO organisation, everything that's happening this year is already in our budget so we have no additional tailwind planned into our budget as a result of the CTO organisation. In the outward years, certainly I do expect some savings, mainly in efficiencies, the bottom-line effect. We'll see, that's nothing special to take us from our target of 12% to suddenly 14%, that's not the case.

What we do believe though is by gaining some of the internal synergies we will be better able to address, number one, the type of products and the number of products we have available in the market. More and more niche products, just like what you see in the automotive industry, can only be offered by putting things on platforms. And the other one is, you know, the big effort coming in IT structures all centred around this concept of Industry 4.0 and all devices speaking with each other. We have to find ways to not increase overall our R&D budget and still address these issues. And

	that's what's behind some of the savings efforts in the CTO organisation.
Sebastian Growe	Okay, thank you very much.
Operator	As a reminder, if you would like to ask a question, please press star followed by one. The next question comes from the line of Omid Vaziri of Jefferies. Please go ahead.
Omid Vaziri	Good afternoon, everybody. Most of my questions have been answered. So I just have one quick follow-up question on the Western European market. Excluding the impact from the short-term rental fleet investments in this market, what else is driving KION's underperformance of the wider market?
Gordon Riske	Yes. I wouldn't say underperformance as, again, I wouldn't look too much as this first quarter being a big issue. Don't forget, over the years we have gained market share in Europe in our core products and that is electric trucks and IC-trucks and heavier trucks. But there is a segment of the market – low cost, small warehouse equipment – there we have not been as aggressive as maybe some of the other players that may have other targets in terms of EBIT targets and in terms of cash generation. You know, we see that the balance has to be maintained between volume growth and price assertion, and against that backdrop we see a very good quarter. As I said, the smaller warehouse trucks have made some progress in the past years and that has been driving a good part of the growth in Western Europe.

Omid Vaziri	Thank you. And are you still experiencing quite an up-rise in competition from the Asian players within this smaller truck segment, the smaller warehousing equipment, specifically perhaps the Class III as classified by WITS?
Gordon Riske	Not so much from Asian players. Certainly we will see some things maybe in this year because of the pressure in the China market. But first of all, most of the Asian players are not at home. Asia, if I leave Japan out, certainly BT/Toyota is at home in this market so I would put them in a different category. But the typical Chinese player does not have that much warehouse competence. And as always with warehouse, larger warehouses, it always depends on your system competence. It's not a matter of delivering a product. Normally these products go into a system and that has to be supported by a very strong service organisation which most of the Asian players do not have.
Omid Vaziri	Thank you very much, gentlemen.
Operator	Next question comes from the line of Markus Almerud of Kepler Cheuvreux. Please go ahead.
Markus Almerud	Hi, Markus Almerud, Kepler Cheuvreux here. A couple of questions. First of all, can you talk a little bit about pricing trends, what is happening to pricing in Europe? And I'm also curious about what happened to pricing in China. Secondly, can you also talk a little bit about market shares in your core segments in China, especially because of the new joint venture that one of your peers has recently gone into? And thirdly, I'm just a bit curious about different European markets. It's only a small bit but maybe you can talk a little bit about

the UK, if you see any signs at all of any hesitation when it comes to Brexit, etc. Or is that a little blip that we see on the curve, it's just a blip? Thank you.

Gordon Riske

Okay. In China, don't forget 80% of the market is engine-driven IC-trucks. And so with our market share, about 8% or so, we are in an extremely solid position and making good gains in electric truck and in warehouse technology. And we produced last year in our factory alone in China, I think over 15,000, 16,000 trucks. If I compare it with some of the competitors, yes, they have to do something. You know, we have 800, 900 people in our sales and service structure, we are in every province in China, we have in all major cities sales and service branches, and most or all of the European and even some of the Japanese competitors do not have this structure.

So the move to a joint venture for rental, I think is a necessity, otherwise the big factory that one of the competitors has over there won't be able to be filled with volumes. So I think it's, kind of, one feeds the other. So we feel very comfortable in China. Yes, there is a current price pressure, especially on IC-trucks. That doesn't affect us that much because our primary offering is warehouse and electric trucks.

Regarding UK, no, we don't see any hesitation by customers at this moment. Brexit, it's, you know, a few weeks away, June 23rd. We'll see what happens. But right now, no, we don't see any effect on that.

And pricing for Europe – it's always that way, a market that is growing that way in the warehouse technology, that's a very brutal market, pricing – we have been on the higher end trucks, electric trucks, IC-trucks. We're within our plans for price assertion so that has been okay in the first quarter overall in the group.

Markus Almerud	Okay. And just to come back to the price pressure in China, you mentioned the IC-truck as seeing quite severe price pressure. And did I read you right, that it's less, you see less price pressure on the electric in the warehouse trucks? Or do you see price pressure there as well, just that it's much smaller?
Gordon Riske	Yes, there is less in the warehouse and electric trucks, based on competence, based on the ability and the trust of the customer. The offering by some of the competitors is not as broad as what we can offer. And the IC-truck – everybody makes an IC-truck. You know, we'll always talk about Heli, Hangcha, the two big ones. There's probably 25 small companies, also making trucks. So there's always somebody willing to have a lower price.
Markus Almerud	Okay, perfect. Thank you very much.
Operator	Ladies and gentlemen, if there are any more questions, please press star followed by one at this time. We have no further questions. I would like to hand back to Mr Gordon Riske for closing remarks. Please go ahead, Sir.
Gordon Riske	Yes, thank you all again for participating, as always, in our quarterly update call. It's always a pleasure to have your questions. Again, summarising, we had a very good first quarter and we confirmed our full year guidance for 2016. And we look forward to the next quarterly call in Q2 on July 27th, 2016. Thank you very much.