

KION GROUP AG

Q2 2016 Update Call

Conference Call Transcript

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Dr Thomas Toepfer (CFO)

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Gordon Riske

Welcome this afternoon, ladies and gentlemen, to our Update Call for Q2 2016. One month ago we announced the acquisition of Dematic in our last update call and last week we published our preliminary numbers on a very strong Q2 for KION and today we would like to provide you with further details on the last quarter. The Q2 update presentation for this call is available on kiongroup.com under investor relations in the presentation section. As usual we will be presenting in four parts during today's call and then we will open it up to your questions.

We will begin with the financial and strategic highlights of the past quarter followed by regional update for the market and KION and then I will hand over to Thomas Toepfer, our CFO, for the financial update and finally we will then conclude with the full confirmation for the outlook for the full year 2016. So let us get started here on page three where we have kind of presented the highlights here for Q2 2016.

We had a very strong performance and continued firmly on our profitable growth path. We saw an order intake for the quarter up at 8.3% to €1.4 billion and this led to a very strong order book of €1 billion so we have a strong basis for the current quarter. And we also saw a revenue growth for that quarter of 7%, so up to €1.3 billion and with that revenue then our adjusted EBIT of €144 million in Q2 is a margin of 10.5%. This is, by the way, the highest margin that KION has ever achieved in a second quarter and I believe underlines very well the progress that we are making towards our goal of being a double digit EBIT company.

So profitability is significantly above the previous-year level and shows through the profit progress we are driving our margins higher. Regarding the net income we also saw an increase to €65 million despite the expenses relating to the acquisition of Dematic. Numbers for the first half year are also impacted by the expenses of our refinancing activities in February 2016 our free cash flow of -€10 million for the first half of the year is driven by the acquisition of Retrotech in March 2016 and somewhat higher tax prepayments. Overall we, of course, fully confirm our guidance for the full year of 2016 across all KPIs. Our guidance does not consider any effects from the pending acquisition of Dematic which is expected to close in Q4 of this year.

Moving onto page 4 we'd like to highlight a little bit the Dematic acquisition as a very, very important recent strategic milestone. Let me revisit the highlights of the transaction. The acquisition of Dematic really establishes KION Group as a unique global leader in Intralogistics 4.0. It positions KION to take advantage of the attractive double digit growth of the automation market and, as we have announced, Dematic is valued at an enterprise value of US\$3.25 billion and in a medium term we expect an initial 1% to 2% run-rate cost-synergies related to the sales revenue of Dematic.

Some key facts on Dematic. Dematic is an absolute leading global supplier for advanced, integrated automation technology, software and services to optimise supply chains and to meet the material handling automation needs of its customers. It is globally the number three player based on its number one

position in the US and its top three position in Europe. The company, which has been growing annually by more than 12% since 2013, generated revenue of about US\$1.8 billion and an adjusted EBIT margin of 9.2% in 2015. So the picture on this page four, in the middle of this page, shows the seamless total offering across the entire enlarged KION Group as we will be able to propose it our customers. The purchase of Dematic complements KION's full range of forklift trucks, warehouse equipment and related services and KION will now provide a unique and the most complete material handling solutions offering ranging from manually operated industrial trucks to complete, fully automated warehouses. Creating this fully integrated company with a unique one-stop material handling solutions offering not only transforms KION but also the entire industry and moving further to the right you can see the regional complementarity of both businesses. As you can see in the graph on the right side of this page, both companies contribute highly complementary positions of market leadership and geographical footprint as an opportunity for revenue growth.

KION will also be able to establish a critical presence in the US market which will leverage our forklift business and Dematic can leverage KION's sales and service network and brand reputation in key markets like Europe, China and Brazil. And after closing the transaction Dematic will be forming a new operating unit so Dematic will be KION's fifth operating unit within the group, so besides Linde EMEA, STILL EMEA, KION Americas and KION Asia Pacific, we will have the fifth operating unit called Dematic. And this operating unit will also comprise the businesses which we recently acquired that is Egemin Automation and its subsidiary Retrotech. As you know, reporting

in our future operating unit organisation, this new segmentation will start with our financials 2016.

We have outlined a clear path to closing and our solid financing strategy. Closing of the transaction is expected in Q4 of 2016 and is subject to the customary closing conditions and regulatory approvals. We are making great progress on this with all the closing conditions. The transaction will be initially funded by a bridge loan of €3 billion and in a first step this loan has been reduced by the 10% capital increase which was successfully completed very quickly on 18th July 2016.

The gross proceeds of the capital increase amount to approximately €459.3 million. Weichai Power, our anchor shareholder, acquired 60% of the new shares, increasing its stake in the company to 40%. And going forward we would ask for the approval of the shareholders to create another authorised capital of about 10%, this is a typical situation of all DAX and MDAX companies, so nothing unusual here. This authorised capital would be used in future, should we believe it to be prudent to do so at that time.

In addition the acquisition will be refinanced permanently by long-term capital market and bank debt and we continue, of course, to pursue our conservative financial policy of maintaining a strong cross-over credit profile with reliable access to debt capital markets. In summary, as the title of this chart clearly states, we are preparing for the future not only of KION but of this industry.

Now let me turn to the market, on page 6, the global market development by region. Western Europe showed a very strong

growth of 11.3% in the second quarter driven by continued strong momentum in the warehouse segment. And North America saw a slight decline in Q2 although overall, on a volume basis, it is still a very high level. Moving to the emerging markets, Eastern Europe showed again a very positive development with a growth of 28.6% largely benefiting from the continued recovery in Russia and good development in other Eastern European markets. China is stabilising, however, the market posted a slight decline of minus 1.2% in Q2 after the positive effects of new emissions regulations in the first quarter.

As stated in our outlook, we do expect the Chinese market to stabilise throughout the year but we do remain cautious about the next months ahead of us. South and Central America continues to decline minus 5.1% based on the ongoing decline and the political situation in Brazil. So overall the global market grew only slightly by 1.8%, mainly driven by the demand for electric and particularly for warehouse trucks.

On page 7 you have an overview of the development of the major markets in Western Europe. We saw continued strong growth in Q2, that is the 11.3% in Western Europe. This demand was heavily driven by Germany and France and both these countries remain strong. Italy and Spain also making good progress. Demand in the UK was impacted, slightly negative, I would say, by the hesitation to invest in advance of the Brexit vote. And, as I said, Italy and Spain we still see the pent up demand continuing.

On page 8, if we compare then our performance versus the market in Western Europe we continue to grow on high levels in the second quarter and, as you know in many conversations

that we've had, our focus is in the warehouse equipment business, the segment which currently has the highest growth rate, our focus is on more sustainable and profitable growth from higher value equipment than on high volume products with little or no value added. So we are not going after volume for the sake of volume, but long-term profitable growth.

In Eastern Europe KION group was below the strong market dynamics because we do have a very high comparable to the Q2 of the previous years where we did get a number of large orders. And in China KION continued to show a positive development and we did, again, outperform the market. This was a very good performance again in China. The market has normalised again, as I said, after the pre-buying effects of Q1 due to the new engine emissions regulations.

In Latin America we saw a positive mix effect driven by the growth outside of Brazil. Overall, we were better than the global market in total in Q2 with a growth rate of 3.9% and a total order intake for KION in terms of units of 45,600 units. And concluding this update I would now like to hand over to our CFO Thomas Toepfer.

Thomas Toepfer

Well thank you very much and from my side a very warm welcome to our Q2 Update Call. I will talk you through the financial update and if you please turn to page 10 you see the set of KPIs for the first half of the year. Let us start on the left hand side with the order intake which grew by 6.2% to €2.7 billion and that includes, on the positive side, €80 million contribution from our Egemin acquisition and on the negative side an FX-effect of €75 million. In terms of the order backlog that number stands at a little over €1 billion up 16.8% compared

to the level as of the end of 2015 and therefore provides us with a very strong position for the third quarter. If you look at the revenue that number grew by 5.9% to €2.6 billion also including €47 million positive contribution from Egemin and a negative FX-effect of €53 million. And if you compare the revenue, or the intake numbers you will see that the book-to-bill ratio stands at 1.06x and therefore remains above the one point times level.

In terms of profitability if you look at the adjusted EBIT that number grew by 14.1% to €239 million and we achieved a margin of 9.3%, that is clearly above the previous year level and, from my perspective, also very clearly shows that we are on track with respect to our margin expansion.

In terms of net income, on the right hand side, you see that number stands at €97 million, up 2.9% above the previous year and that is despite the negative €26 million expenses related to our refinancing activities which we did in February of this year. So overall those numbers show a continued momentum across the board and a very good performance for the first half year and if you now turn to page 11 you see the same set of numbers for the second quarter.

So the order intake in that period grew by 8.3% to €1.4 billion including €44 million from Egemin and a negative FX-effect of €35 million. In terms of the revenue that number is up 7% to €1.3 billion, also on the positive side €27 million from Egemin and on the negative side FX-effects of €32 million. And now please look at the adjusted EBIT that is, from my perspective, a particularly pleasing development with a growth rate of 20.9% to €141 million at a margin of 10.5% for the second quarter. And

that shows very clearly our strong operating performance from the volume growth but also from our margin uplift initiatives.

However, to put it a little more to perspective, please remember that in our Q2 number of 2015 that margin of 9.3% was impacted by expenses from a court ruling relating to a former dealer in France of €6.5 million and if you adjust for that effect the prior-year margin would have been 9.8% just to be very transparent on the uplift relative to the last year.

The net income stands at €64 million and that is up 21.9% above the previous year also driven by the strong operating performance in our quarter. And with that, let's turn to page 12 where you have some more details on the revenue side and on the components of our revenue development.

So, on the left-hand side you will recognise the 5.9% revenue growth for the first half, and you have the breakdown. As you can see, all businesses contributed to your growth. The new truck sales improved by 4.1% with significant growth from the E-trucks. And the service segment grew by 8.2%, especially driven by growth in the after-sales, rental and used truck businesses, as well as the inclusion of Egemin and Retrotech.

And on the right-hand side you will find again the 7.0% revenue growth for the second quarter. Again, new business growing at 5.3% and the growth rate for the service business has accelerated to 9.1%, driven by the Egemin consolidation and also the used truck business, which was very positive.

If you turn the page to number 13 you have the reconciliation, all the way from the adjusted EBITDA to the net income, and I

would just like to highlight some selected items. As you can see, the EBITDA increase is driven by our profitable growth and a very good operating performance during the quarter.

In terms of the non-recurring items, you will see that those are above the prior year level and that is due to expenses relating to the acquisition of Dematic. And you can see, especially in Q2, the number is up and, as I said, exclusively driven by the cost that we incurred due to the M&A activities.

In terms of net financial expenses, they include the €26 million expenses relating to our refinancing activities in February 2016. And in terms of the taxes, you see that for the first half of the year those numbers amount to €45 million, which corresponds to an effective tax rate of 31.9%.

And with that, please turn to the next page, number 14, the cash flow statement. As always, I would like to start with the last line item of that page, which is the free cash flow. We have achieved a €10 million negative free cash flow for the first half year, and that compares to €9 million positive for the first half year of 2015. Let me just highlight the key drivers.

First of all, on the positive side, the EBITDA increase is driven by our operating performance during the quarter. We also had a very good trade working capital performance, which supported our operating cash flow. But then on the negative side, the acquisitions include mainly the acquisition of Retrotech, with a net cash effect and outflow of €23 million in the first quarter. And also note that on the taxes side, we did have higher tax prepayments, which are up to €56 million, compared to €28

million for the first half of last year, and that effect will normalise in the course of 2016.

If you turn the page to 15 you see our financing structure. So, our debt financing structure has not changed since the refinancing in February of this year. On 18th July, as Gordon Riske mentioned, we have successfully completed a 10% capital increase. The gross proceed of that capital increase amount approximately €459 million, and they will be used to partly refinance the acquisition of Dematic.

And also I stated earlier, Weichai Power as our anchor shareholder, has acquired 60% of those new shares, and thereby increased its share in the company to approximately 40%. And the remaining shares were offered to institutional investors as part of the accelerated bookbuilding offering, which we concluded, as it said, on 18th July.

In terms of the rating agencies following the announcement of the Dematic acquisition, the agencies have maintained their credit ratings for KION as of June 2016. Moody's maintained KION at a BA1 level, but added a review for a downgrade. S&P confirmed its BB+ rating, however, changed the outlook to negative. Overall however, we do think that those ratings provide us with a strong basis for the Dematic acquisition, and also the long term refinancing of the acquisition.

Let's look at the net debt structure on page 16. The net financial debt has increased by €74 million to €721 million compared to March 2016, as I said, an increase of €74 million. The leverage remains unchanged at 0.8x. Similarly, also the industrial net

operating debt increased to €1.1 billion and its respective leverage is 1.4x.

I think the most notable item is the development of the pension liabilities, which increased by €133 million to €994 million. That is exclusively driven by a decline in interest rates from 2.0% in March to 1.6% in June for the German interest rate, and I will provide you some further details on the next page.

Overall, I would like to state again that the KION Group has a conservative financial policy of maintaining a strong cross-over credit profile, with reliable access to debt capital markets, and we will continue this conservative policy in the future.

Just as a reminder for the end customer financing activities of the financial services segment, the assets and the corresponding sale and lease-back liabilities grew in line. It is a flow through nature type of business, and that has also not changed in the last quarter.

Page 17, as I just mentioned, some further detail on the development of the discount rate. You can see that there's an inverse relationship between the discount rate at the net pension liabilities. Just as a background, our pension liabilities consist mostly of the typical German pay-as-you-go pension plans. The discount rate, as I said, decreased in the second quarter to 1.6%, and as a result the net pension liabilities increased to €994 million, and that is an increase of €133 million compared to the first quarter.

Let me remind you to think, first of all, despite the higher liabilities, the cash payments for the pensions remain at around

€20 million to €25 million or the full year. So the change in the balance sheet does not have an effect for the cash flow of the group. And a second reminder, the UK plans that we have are fully funded, and remain fully funded, so no change on that front.

And with that, I would like to turn it back to Gordon Riske who will talk about the outlook for the full year.

Gordon Riske

Thank you, Thomas. Moving to page 19. The headline of this chart: We fully confirm our outlook for the financial year 2016. For the market we expect lower rate of global market. So slower growth rate for the market overall this year. Longer-term though, we see the positive perspective for our market, as many of you know about the trends, long term trends in our market.

For KION, we expect in 2016 an order intake between €5.35 billion and €5.5 billion, representing a growth between 2.6% and 5.5%. On the revenue side, between €5.2 billion and €5.35 billion representing growth between 2.0% and 4.9%. The adjusted EBIT between €510 million and €535 million, representing growth between 5.6% and 10.8%. And as a result, we expect our adjusted EBIT margin to increase to a range of 9.8% to 10%, compared to the previous-year level of 9.5%.

On the free cash flow, we expect to reach a value between €280 million and €320 million. Our free cash flow will be used to further reduce our net debt. And the return on capital employed, as our fifth new KPI, is expected to be slightly above the previous year, where our return on capital employed was 11.9%.

So, based on our strong results for Q2 2016, we hereby clearly confirm our outlook for the full year 2016. At the same time, we reiterate our 12% margin target by 2018 for KION standalone.

So, from this call there are basically three things to remember. The one is that we fully confirm our outlook for 2016. The second one, with an excellent second quarter, was a great step towards the direction of our targets, as KION standalone, at 12% 2018. And thirdly, with the acquisition of Dematic, a very strong signal on how KION is preparing for the future.

Finally, on page 20, I'd like you to look at your financial calendar coming up. We will present Q3 2016 results on 27th October 2016. And during the course of September we will be attending numerous conferences and roadshows, and if you are interested, and I can only advise you to participate in some of these to understand the changes in our industry, reach out to our IR team to arrange for a personal meeting.

With this last slide I'd like to close the formal part of this update call and turn it back to the operator so that we can take your questions. Thank you very much.

Operator

Ladies and gentlemen, at this time we will begin the question and answer section.

The first question is from Markus Almerud of Kepler Cheuvreux. Please, go ahead.

Markus Almerud

Markus Almerud here. I'd like to start to talk about the UK. If we can just say, you said you saw some hesitation going into the Brexit. What have you seen since, if anything? My second

question is if you could talk a little bit about price. Do you have any price increases which are in the, I mean, which you have planned, which we should expect? And thirdly, if I can just, just if you could talk a little bit about the sales-synergies on Dematic, and also, have you started integration etc.? So, if you can elaborate a little bit on that. Thank you.

Gordon Riske

Okay. Starting with the UK question, we have about 9% of revenues. That was 2015 numbers, you know, and we do have a translation exposure but, you know, since we have no long production in the UK. We have a strict hedging policy and, you know, overall I think everyone in the market is, right now, seeing some hesitancy. We don't see any extreme situations. Right now I think everybody's kind of in the mode, let's see what happens and continue with the business moving forward.

In terms of price increase, every year around December we normally go into the market with a 1%, 2%, maybe sometimes a little higher price increase, the so-called list price and then we are able to assert, so actually net price increase about half of that. And at the moment we are well under way and the things that we have planned in terms of price assertion, especially in Western Europe with the growing market the way it is, and our progress in becoming more profitable. So, you know that surely shows that we are able to maintain our prices.

On the synergies, on the whole topic of synergies with Dematic. First statement is, it's only for weeks since we signed the deal, and we have not closed the deal. So there are certain legal restrictions of what we can and cannot do as these two companies, Dematic is run by its current owners and the management that is running the thing.

Nonetheless, of course we have conversations and plans, and as I said, the 1% to 2% synergies related to Dematic sales, may be a conservative number at this point but please understand we are not able to dig into all the details at this time. I think when we have our upcoming conference calls and some of the meetings, investor meetings, towards the end of the year, we can give a bit more colour around this topic.

Let me just say that with the strong set-up in North America and our ability to leverage a huge sales force and customer installed base in North America that Dematic has, we do believe for the KION core forklift business, a huge opportunity for us in the North American market. And the other way around, with our very strong, over 20 year established sales service and production and R&D system, in China we are able to offer a unique proposition for the Dematic organisation to grow rapidly in this market.

Markus Almerud

Okay. And so the integration will... Will you start to integrate when the deal closes? And also, I assume you haven't got a full access to the books until you close a well, so all of the details will come further along on that.

Gordon Riske

As I said, we have closing in the fourth quarter, that's the plan. We have no unusual things in this time period. In terms of books, we've got the typical books and information that is typical of a deal this size in the due diligence process.

Markus Almerud

And then finally on that topic, and then I'll get back in line, so the new platform trucks which you released last year which are now more defined to different regions, when will they be done for the

US market? Will they be done next year, so ready for market launch, or are they ready?

Gordon Riske

As we stated in one of the previous calls, we have a number of launches in 2016, '17 and '18. It depends a little bit on the type of product. We have launched the Baoli product line, the so-called entry product line, in November of last year. We are introducing a number of IC-trucks this year. On the warehouse side, the warehouse technology in the North American market has a different product scope than what you typically see in Western Europe. That's more for '17, '18 launch, so it's a staged launch.

Markus Almerud

Perfect. I'll get back in line, thank you very much.

Operator

Next question is from the line of Felicitas von Bismarck. Please go ahead.

Felicitas von Bismarck

Yes, thank you very much. I have three questions please. First of all, how did the internal combustion engine market develop in Europe in H1 or in Q2, whatever is easier for you. The second question would be your non-recurring items, they have spiked up again and I understand that that's related to the Dematic acquisition but could you give a guidance for the non-recurring items and PPA for the full year? And the third question would be could you comment on the market, how it's developing, has been developing in June. You probably haven't seen July yet. Thanks.

Thomas Toepfer

Let me maybe start with the non-recurring items and give you some more colour. I mean, we had said that without the Dematic acquisition, we wanted to be clearly below the level of

2015 and I think we were absolutely well on track because just to give you some kind of quantitative points, 70% of the non-recurring items for the first half year, more or less, is linked to Dematic. So you can see that definitely that is the key driver. And therefore, for the full year, we would expect the NRIs to be slightly above the previous-year level, however just slightly so no significant peak, but of course the Dematic acquisition does have some impact in terms of specific costs related to that.

Gordon Riske

And on IC-trucks, engine-driven trucks in Western Europe are flat, so Q2 about 1%, Q1 and Q2 together, about 1.5%, so this market is in Western Europe somewhat flat. That's why the electric trucks and warehouse trucks are going much faster.

Felicitas von Bismarck

And are you outperforming on the IC-truck side?

Gordon Riske

We're holding our own with the IC-trucks, we're outperforming in E-trucks, in warehouse we are also doing very well, except for some of the smaller, so-called class three, so these are very low cost, low margin/impact products where we typically with our aspiration and our profitability increase, with volume strategy, it's always for us the most important to have profitable growth and not volume for volume's sake.

Felicitas von Bismarck

Can I ask if the market is flat and has been, I think, shrinking in a couple of parts this... globally, do you see there's pricing pressure in this market or is it okay?

Gordon Riske

We're okay. I mean, for IC-trucks, and that's why our performance is fairly good, KION in Western Europe with its brands, Linde and STILL, has the best sales and service structure for customers with employees from 5 to 500 people.

That is the core Mittelstand of Germany and many other regions in Western Europe and that is really the core strength of these brands, especially Linde on the IC-side. Some of these big, big offerings going, the Intermarchés of the world and Carrefours and so forth that buy thousands of little tiny warehouse trucks, that's certainly where we are much more careful about making too much concession on pricing.

Felicitas von Bismarck

And the market in June?

Gordon Riske

So far it's good. June was a very, very good month.

Felicitas von Bismarck

Very good, thank you very much.

Operator:

Next question is from the line of Sebastian Growe of Commerzbank. Please go ahead.

Sebastian Growe

Yes, good afternoon, gentlemen. Three questions from my side, would prefer having them one by one, if I may. So the first one is on the market and related to Dematic. You don't disclose really in the market section what the overall growth dynamic I think was in particular for KION in North America, well knowing that it's a smaller business. However, given that the market is down about 1% in the first half and Dematic has about two thirds of its sales exposed to North America, can you just comment on how the business has been doing there in the very first half?

Gordon Riske

I think for KION's standalone North America and I think I had it in a call or a roadshow, I named some numbers and everybody said oh wow, this strategy of KION is tremendous and double-digit growth and so forth, you have to remember, we have exactly a 2%, 2.2% market share in North America and when

we're growing at plus 20+% in some of the segments, that's simply the rule of small numbers and us introducing new products and the brand of Baoli, so that it really has to be seen relative. We're very happy with the progress we've made and it's always nice to have double digit growth. But it shouldn't lead to the expectation that now we're going to move to a 10% market share overnight. That's not going to happen.

Sebastian Growe

That's not what I would've been expecting. The question was more related to Dematic. If you could comment on their performance in the first half then.

Gordon Riske

No, exactly. Dematic, until we have the deal closed, we do not own the company. We have a purchase agreement, we have a binding contract and we're doing everything that's necessary in terms of preparing for this day, but we cannot, at this point, comment on Dematic-specific numbers.

Sebastian Growe

Okay, fair enough and a fair point. On M&A, then, one quick question, also here knowing that it's not a big, big business, but nevertheless, given that you had really, really strong book-to-bill ratios for Egemin and Retrotech, I was just wondering if that has been sort of one of some really, really big project that you were able to win in the first half of the year or if this is simply the run rate, that you are growing the business at 50%, which would be amazing, obviously.

Gordon Riske

No. We do see at Egemin a little stronger growth versus last year. At this time, I must be specific, we had if I look back to the first half of 2015 for Egemin we were behind our plan somewhat in terms of order intake. They made all of that up in the fourth quarter. This year, it's a little bit different. We have a stronger

order intake in the first half of the year, especially for Egemin and on some of the systems, and however and I think we will have some guidance on this towards next year, the systems business, the type of businesses that we are addressing here, and the same applies to Dematic, has different cycles. Sometimes the project work takes almost a year to get in order and then sometimes some things break loose right away and others take a lot of time. And so we will distinctly differentiate between the core business of forklifts and the systems business going forward to help everybody understand. I mean, we've been delivering results and quarterly numbers like a Swiss watch, basically always meeting our targets. We have to understand there's a difference in these two businesses.

Sebastian Growe

Okay, thank you for this one, and lastly just on the guidance, if I may just dive into it, and I just play around with the numbers. So for the full year, even the upper end of the guidance does not look at more than 8% growth for the clean EBITA or adjusted EBIT as you call it. Whereas you have been up 10% in the first half when adjusting for this €6.5 million headwind that you had in the second quarter '15. However, on the contrary, you still should see better utilisation of Pilsen, you have very, very good growth in the business overall, as reflected in the 1.06x book-to-bill ratio and as you stressed it you are sort of selective on orders. So am I getting something wrong? Is there anything that you could, I don't know, pinpoint when it comes to the order backlog or so that you are a little bit cautious on what you have there or is it just an overall conservative guidance and how should we read simply?

Thomas Toepfer

No, I think you're getting all the points in the absolutely right way. Nothing that I would contradict to that, and this is why,

while in Q1 we confirmed our guidance, now in Q2 we fully confirmed our guidance as we are highly confident that we will achieve it.

Sebastian Growe

Fully understood then, okay, thank you.

Operator

Next question is from the line of Sven Weier of UBS, please go ahead.

Sven Weier

Good afternoon, three questions from my side, as well. First one is just coming back on the UK, you said 9% of your revenues overall. But I guess it's probably fair to assume that probably half of that is after market and those revenues would be naturally hedged with local cost, I would assume. The second question is just coming back on the market growth in Western Europe in the first half, which I think as you also mentioned in previous occasions, a lot of your peers are ramping up their rental fleet quite heavily, but on the other hand, you have raised your rental capex by 14% in the first half as well, so how does that square up. How are you growing your rental fleet then? And then the third question is on Dematic in terms of strategic question here, once you close the deal, I mean, we all know that these guys have a very strong brand reputation in the US already, very strong market position, while in Europe I think they are not as strong. They are good, but not as strong. So is it fair to assume that after the closing, there would be sort of a, I don't know, marketing initiative, branding initiative, potentially co-branding also with KION, what's your initial plan on that? Thank you.

Gordon Riske

Maybe starting from the back. Dematic also has a good brand name in Europe historically. 1805 I think the company was

founded as part of Mannesmann and was part of the Demag Group and Mannesmann Dematic and then Siemens and so forth, so the name in the industry, that is for me the most important, that's the customers that buy these things, is very well known. There have been some restructurings in the past years, this is true. But they have refocused quite heavily with a bigger focus on moving to high-growth markets like E-commerce, consumer business, tied to consumer fashion and so forth and somewhat less to the slower growth markets of manufacturing. And when closing occurs, we will undertake, I think, heavily to make the entire business model prospective to our customers, especially in Europe and China, there we see a huge opportunity of growth. And so yes, you will see from a marketing effort some more information coming out.

In terms of UK, yes, thank you for that information. The split of revenues where we have 45% or so, 46% of total revenues for the KION Group being after the sale of the forklift, that's no different in the UK. We probably even have a stronger rental market in the UK and that's a very typical market for those types of business models, so yes, that's absolutely clear and that is labour and local parts and so forth, so that is somewhat more naturally hedged.

Thomas Toepfer

Regarding our increase in the rental fleet, I mean, we are operating the biggest rental fleet in Western Europe of any competitor, roughly 60,000 trucks that we rent out on a short-term basis. And I think definitely we have set up very sophisticated models. On the one hand, yes, we're growing that fleet, but on the other hand, we pay very close attention that also the utilisation rate is at satisfactory levels and satisfactory for us is above 70%, which it is, so I think we're managing this

business very carefully and successfully so that I think we're making good progress here also in terms of our profitability from that business.

Sven Weier

So you're growing the rental fleet, but not as strongly as some of your peers, is that fair to say?

Thomas Toepfer

I think we're looking at it very let's say diligently and intelligently, in the sense that it doesn't always make sense to put new trucks into the rental fleet. It also can make sense to put used trucks into this. That doesn't help your order intake because those units don't appear then if you take used trucks. But in terms of profitability and capital efficiency and that is for us key, this is the more effective way to deal with that business.

Gordon Riske

Rental fleet is always in two things. You have renewal and you have additions. For us it's a lot of it is renewal of fleets that are already existing, because as Thomas said, we do have the biggest fleet. KION is the pioneer of the rental business in the forklift market, started very heavily with the Fenwick brand in France many, many years ago and is really one of the leading, let's say, developing this business model, short-term rental, in the market. And so it's natural that we would have the biggest fleet in Europe, so we don't have the same type of growth rates as some others that are let's say more at the beginning or in the mid-cycle of their development of the rental. And the customers have changed somewhat, too.

Sven Weier

So, is it fair to assume that your utilisation rate in the rental fleet is also at a, kind of, call it an all-time high given that the new market is back to the last peak almost. Does that also hold true for the rental fleet utilisation?

- Gordon Riske An all-time high, I don't have the exact number right now, all-time high - it is a good utilisation rate. You know there's always the fine balance of utilisation rates and having enough products available for the customer to be able to pick and choose exactly what he wants. And so that's always the balance of, you know, capital cost versus profitability.
- Sven Weier Thank you.
- Operator The next question is from the line of Sebastian Ubert of Societe Generale, please go ahead.
- Sebastian Ubert Yes, good afternoon gentlemen, thanks for taking my questions. One is on Eastern Europe, maybe you can give us some colour whether you think to catch up with the market as you have been better than the market in Q1 but you seem to have lost ground during the second quarter. And the second question is again on your EBIT margin target. If I've got it right you have given indication during the Dematic acquisition conference call that you also assume that Dematic business to run in line with your own targets. So, assuming 12% by 2018. Today I had the feeling you just confirmed for KION on a standalone basis the 12% EBIT margin target. If that's true what is then your target really for the Dematic business in the medium term and by 2018 in particular? Thank you.
- Gordon Riske Again, with Dematic we don't own the company yet so, you know, we can't give any predictions. When we made the original call, stating one of the attractiveness of Dematic as a company is not only the double digit growth that they're showing in this industry. But similar targets that we have and, you know,

performing , kind of, in a double digit scope. And many of the questions that came from investors and analysts are: Are you trying to mix Dematic and KION numbers? And there was a high desire of the markets and analysts to have a clear statement from us that 12% target still remains in place 2018 for KION without Dematic and that's the reason why I made that particular comment.

To Eastern Europe, in the past five years we have phenomenally outperformed the market. What we have right now is some catch up of Russia and some bigger orders. And so, okay, let's see how it pans out. I'm very confident, you know, our leading position and we have the biggest market share there that won't change.

Sebastian Ubert

Okay, thank you.

Operator

Next question is from the line of Omid Vaziri of Jefferies, please go ahead.

Omid Vaziri

Good afternoon gentlemen I have three quick questions hopefully. First of all you provide revenue by end customer which I find extremely helpful and you've done it for Dematic as well. I was wondering whether management holds statistics or is aware of what proportion of those revenues or new order intake if you like relates to orders for warehouse facilities of clients or customers?

My second question relates to the revenue by region where you state 22% of sales of Dematic coming from EMEA. Would we be too far off if we assumed that the vast majority of that related to Europe or the European market, safe to assume maybe 90%

to 100% comes from Europe? And my third question is a confirmatory one where you mentioned 12% annual revenue growth since 2013 for Dematic could you please confirm that that relates to organic growth, thanks.

Gordon Riske

On the third question that's organic growth there hasn't been huge acquisitions in the past years. There have been some technology acquisitions. They just purchased Reddwerks, which is a software company, have invested heavily in software by purchasing some of the departments of BlackBerry, you know, which don't make so many smartphones but have great software people these days, so, that's mainly been organic growth. In terms of reaching the 22% EMEA of course that's mainly Europe. And so those are the traditional European customers and the first question I'm not sure I quite understood revenue and new orders warehouse?

Omid Vaziri

So, you state revenue by customer, you state the proportion of sales each year comes from each customer category for example, you know, wholesale or E-commerce or..

I don't know if you know what proportion of, you know, the order intake comes from, you know, or its for warehouse facilities of those customers.

Gordon Riske Okay, that's really tough to say. I mean if I look at the charts we released and look at a typical company food and beverage which is 13%. That's based on 2015 numbers. The food and beverage automation is generally in a warehouse. So, you know, that's the business proposition of Dematic is primarily automating or upgrading warehouses in these different business segments.

Omid Vaziri

And I suspect a similar case might be true for, you know, the wholesale or the E-commerce segment. I mean is it somewhere near, sort of, to 60% to 70% would you say, is it as high as that or...?

Gordon Riske

Yes, I would say give us a chance to integrate the company and to integrate the numbers and then as I said in an earlier statement that I think it's up to us. So, thank you for the good questions it's not that we're not trying to answer them. But thank you for the questions it's up to us to make the segmentation between the typical forklift business that we've had in the last 100 years and the Dematic business understandable for analysts and for investors and that's a homework assignment for us to do but please bear with us until we've, you know, got this phase of working and getting closing done.

Omid Vaziri

I understand and the same question for KION. So, for KION you also provide that segmentation I don't know if you know what percentage relates to warehouse?

Gordon Riske

There we have at the moment IC-trucks, you know, we divide our sales into IC-trucks which are engine driven trucks, electric trucks and warehouse trucks. And if I take it just in volume that is units not Euros, not Dollars, not Pounds but units. 56% of our unit output is warehouse trucks, 19, one nine % is IC-trucks and 25%, two five, is electric trucks.

Omid Vaziri

Yes but correct me if I'm wrong but you also sell electric and IC-trucks for warehouses don't you?

Gordon Riske

Of course, yes, but I can't, you know, that we don't have broken

down at least not readily available in a warehouse because a truck goes into a warehouse and then is unloaded and then takes the parts to some place in the factory so you're always dealing with the warehouse in one form or another.

Omid Vaziri

Yes, thank you.

Operator

Next question is from the line of Gordon Schönell of Bankhaus Lampe, please go ahead.

Gordon Schönell

Hi there I've two questions, the first question is on your growth on after sales so without rental and the used business, after sales only grew by 1.5% in H1. So, the growth momentum has come down significantly versus 2014/15. Can you explain the reason for that somewhat sluggish development and maybe you can share a midterm forecast for that business unit.

And then my second question is on your financial result in Q2 which was virtually unchanged year over year. I had expected an improvement due to the refinancing. So, can you explain why there was no impact visible in that number and maybe you can give us a guidance for the financial result in 2016.

Thomas Toepfer

Yes, let me start with the first one. So, the after sales business is the 1.5% growth or 1.8% if you take the second quarter that is heavily impacted by negative FX-effects so if you were to take this out I'd say it is absolutely in line with the new business. So that is the main driver by a first sight it looks a little bit sluggish relative to the overall growth rate. And then in terms of the net financial expenses I would say we're fully on track with respect to the reduction of our net financial expenses due to the refinancing. We said that this would reduce our interest cost by

€30 million a year and that's fully on track. But there's a counter effect which is due to higher P&L charges of FX accounting effect from the hedging which is related to the Dematic transaction, that's a completely noncash and pure P&L effect. So, that, kind of, from the optics balances out the positive effect that we had from the refinancing. But as I said, its non-cash and a purely accounting driven effect due to the hedging that we did with respect to the purchase price.

Gordon Schönell

Okay, thank you.

Operator

Next question is from the line of Alexander Hauenstein of DZ Bank. Please go ahead.

Alexander Hauenstein

Hello, good afternoon. Alexander Hauenstein, I have a few questions first of all with the regards to the financing of the deal. Now, can you actually rule out any equity linked instruments here like a convertible and when do you intend to stretch the financing? Is this something that you want to do more or less in one round or is that something you intend to do step wise, meaning going well into 2017?

And the second question with regard to a smaller add-on acquisitions in the short run, would you rule them out completely at the moment or would you say if there is anything interesting around, we also would like to go for these kind of opportunities?

And third question, with regard to your push into the US and the Dematic acquisition, is this limited to the US only or is this North America-focused in general, meaning that you sooner or later might also go for Canada as a target market or maybe even Mexico or middle America, and maybe even later on going into

the South American market, apart from the existing activities in Brazil? I just want to understand here the strategic direction you're going into.

And the last question, maybe you could provide some colour on the quarterly EBIT development going forward for Q3 and Q4 after the very strong Q2. How should we think here, especially with regard to historically having a very significant higher Q4 due to normal seasonality? How should we take this into consideration for this year? Thank you.

Gordon Riske

Okay, I'll start with question two and three and Thomas one and four. Smaller add-ons, that's always a case that's, you know, we always look at things that come up, especially in terms of boosting our service capabilities. You know, we've purchased dealers sometimes in other regions to be able to service our customers better. So we would not rule that out but I think it's, you know, logical that anything big at this moment is out of the question.

The US push, thank you for clarifying that, this is not just a US push. US happens to be the largest market in North and South America, so that's, you know, for us the biggest opportunity on the forklift side. However, Dematic has an excellent position in NAFTA itself with a good sales and service organisation in Canada, in Mexico more importantly. We have a very large factory in Monterrey, Mexico, serving the entire North America and we are looking at ways to leverage the KION sales and service structure in South America, which is very, very strong and with new offerings for customers working with Dematic, at this point, it does not have large sales numbers. So yes, it's not just North America, it's not just the US market, it's in NAFTA

and moving to South America also, including Brazil and the rest of South America.

Thomas Toepfer

Well and then in terms of the financing, I mean, you have seen that we have just used the 10% authorised capital that we had for a straight capital increase and I think as we said, the next step is that we will ask the general meeting again for a reload of another 10% authorised capital and we will then, in the future, have a close look whether or not it makes sense to use this additional 10% authorised capital. But first of all, I think that has to be created before any kind of instrument can be used and I would say in terms of what are we thinking of, I'd say a convertible is clearly not at the top of the list.

And then in terms of the refinancing of the acquisition debts, I'd say let's get a little closer to the closing to get some more visibility here in terms of timing and then a bond might be certainly something that we would look at. Whether or not we refinance everything in one shot, yet to be seen.

And then the last question on the EBIT, of course the seasonality has not changed, so yes, you will also see some seasonality in the second half of the year. Q1 is usually a little weaker in terms of absolute margin and Q4 a little stronger, so that pattern remains totally unchanged. Also, our EBIT guidance for the year remains unchanged and I think if you bring both things together, you can triangulate what is the right expectation for the second half of the year.

Alexander Hauenstein

Okay, thanks for clarifying.

- Operator Next question is from the line of Philippe Lorrain of Berenberg. Please go ahead.
- Philippe Lorrain Thank you very much and thank you for taking my questions. Would have two actually. Let's start with number one. I was just wondering, you mentioned actually that raw materials have been going in the right direction, let's say during the course of H1. I was just wondering if you have had any particular tail wind on the margin from the raw materials evolution here in H1?
- Thomas Toepfer Well, it will be, it's a very small effect, a relatively small effect I should say, because we have hedged most of our raw material exposure from 12 to 18 months in advance with over 50% coverage. So yes, we there's a little tail wind but not a material driver in the overall picture.
- Philippe Lorrain Okay, thank you very much. And then I would have another question regarding the pricing trend. You mentioned that your pricing is actually pretty stable and that you manage to, let's say, to pass on some price increases to customers, usually at the end of the year. I was just wondering if some of your competitors are being, are becoming a bit more active in terms of price reductions and discounts, maybe due to the fact that they have to leverage the existing capacity and they try to gain market share quite aggressively?
- Gordon Riske Well, I think in any market, there's pockets of aggressive behaviour from all competitors, especially if you say, you know, I have a customer the last ten years and I don't want to lose the customer. We see some of that but there's no unusual behaviour that people are purposely buying markets. There's always the case of a particular customer in France or Italy or

wherever but not a general trend towards, you know, aggressive behaviour.

Philippe Lorrain

Okay, thank you very much. And then the last question, maybe regarding the US again, you mention on slide 19 in your presentation here that you expect the strong trends from 2015 to continue with a sustained rise in Europe and North America, so I understand that it also concerns the US market here. Could you just shed a bit of light on the development that you expect here, maybe for the different end markets, if you expect this sustained rise actually to happen more on the, let's say, logistics end markets more maybe than on the industry end markets?

Gordon Riske

Yes, now that's the general trend over the last years and again, I refer back to Dematic, why it's so interesting. Logistics, E-commerce driven business is growing much faster than manufacturing, although we're not giving up manufacturing by any means. That's where, you know, we have a very strong position, especially forklift, the typical forklift truck. And I do believe that trend will continue the next years. There will be more automation, there will be heavier use of E-commerce solutions in other industries and that's why we're positioning ourselves to do that.

North America, we have seen a long term recovery that started some years ago back in 2006/07, the American market was very down and has taken some time to get up but we've seen a consistent growth over the years. Right now it's flat but remember it's at all time high levels in terms of the absolute numbers.

- Philippe Lorrain Okay, so I understand you're not really speaking about growth rates but more about the general state of the market?
- Gordon Riske Yes.
- Philippe Lorrain Okay, thanks. And maybe the last one, really last one here. Regarding Weichai regarding the capital increase, so we've all noticed that Weichai has actually increased now it's shareholding in KION. I was just wondering if there are, let's say, official intentions that have been communicated by the company regarding the holding of the stake now or if we should expect maybe a placing to come in the next 12 to 24 months?
- Gordon Riske No, the only thing that's been communicated was in June of 2013 when we did the IPO that, you know, Weichai has committed to stay under the 49% for five years after IPO. That's the only thing. Other than that, no, it's no.
- Philippe Lorrain Okay, thank you very much.
- Operator: And the next question is from Richard Schramm of HSBC. Please go ahead.
- Richard Schramm Yes, good afternoon. I would like to have one clarification on the chart on page four where you show this seamless one- shop offering to understand how the industry works here. Is it really so that if a big customer like Amazon awards current key project to a company to build, for example, a new warehouse so that they really give you then a free hand to fill the equipment with whatever you like or would they try to keep up competition and negotiate, for example, different packages of that share contract, for example, the equipment of warehouse separately

to of course then try to make use of the competitive environment here? Thanks.

Gordon Riske

Yes, thanks. Well, both happens. I can't, you know, I'm not allowed to make a comment on a particular customer that we may have but we see both things happening. Some of the older traditional companies have departments within their house that are able to do the planning for a warehouse in terms of logistics and what type of equipment and they will typically look at suppliers by area, you know. So storage area, racks and so forth, maybe three or four different suppliers and then maybe even two or three different forklift companies to keep the competition.

What we see though is the trend towards having the better mousetrap that is people looking at the optimal supply chain solution with the least number of interfaces between the customer and the supplier. So they're looking at companies that have the broad depth of product offering, but more importantly, to run a project that actually starts on time and stops on time and then delivers the throughput that they've put into their business case. So we do see both but we definitely see a trend towards the wish of customers to have a seamless offering from a supplier.

Richard Schramm

Thank you.

Operator

We have no further questions. I hand back to Mr Gordon Riske for closing remarks. Please go ahead.

Gordon Riske

Yes, thank you all for the interesting discussion and questions. We will keep you posted. And as I said, it's up to us to clarify

how the systems business, automation business and the core forklift business, how the trends, and we look forward to doing that with you and look forward to talking to you on the next quarterly call. Thank you very much.