KION GROUP AG

Q3 2016 Update Call

Conference Call Transcript

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Dr Thomas Toepfer (CFO)

Gordon Riske

Thank you and welcome everyone to our Update Call for Q3 2016. We would like to use our Q3 presentation for this call, which is available to all of you 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 for discussion on the questions that you may have. I will begin with the financial and strategic highlights of the past quarter followed by a regional update for the market and KION and then I will hand over to our CFO, Thomas Toepfer, for the financial update. And finally, we will conclude with the confirmation of the outlook for the full year 2016.

So I am on page three of the document where we have summarised some of the financial highlights for Q3 2016. So, after a very solid Q3, KION is fully on track for a strong year with profitable growth. We saw order intake growth for the past quarter of 5.8% up to €1.3 billion. This lead to a strong order book of more than €1 billion so we have a strong base for revenue in the fourth quarter of this year. We saw revenue growth for the quarter of 3.8% up to €1.3 billion and our adjusted EBIT of €127 million in Q3 represents a margin of 9.9%. So slightly above the previous year level and this year to date, EBIT margin improvement of 40 basis points tracks very well with the full year improvement of 30 to 50 basis points, which is implied in our guidance. So we feel fully on track here in this third quarter on the way to yet another successful year 2016. Regarding our net income for the quarter, we saw an increase of €67 million driven by better operating performance. Also, due to better operating performance our free cash flow of

€65 million for the first nine months. Overall, we fully confirm our guidance for the year 2016 across all of the KPI's.

Of course, as a note, our guidance does not consider any effects from the pending acquisition of Dematic, which is expected to close during the fourth quarter.

Moving onto page four, we have made very good progress and we are on track for closing and the integration of the Dematic acquisition. Let me revisit a few of the highlights of the transaction. The acquisition of Dematic establishes absolutely the KION Group as a unique global market leader in Intralogistics 4.0. It positions KION to take advantage of the attractive double-digit growth in the supply chain automation market. Dematic is a leading global supplier of advanced integrated automation technology, software and services to optimise the supply chains of its customers. Globally, Dematic is number three player based on its number one position in the US and number three position in Europe. And this picture in the middle of this page shows the seamless total offering across the entire, now enlarged, KION Group when we closed the transaction, and the purchase of Dematic completes KION's full range, or complements KION's full range of forklift trucks, warehouse equipment, and related services. KION will now provide a very unique and most complete material handling solutions offering ranging from manually operated industrial trucks to completely fully automated warehouses.

And creating this fully integrated company with this unique one stop material handling solutions offering not only transforms KION but certainly will have an impact on the entire industry.

And moving further to the right, we have commented that the integration preparations are ongoing. We started with our integration work immediately after the signing in June with joint teams of KION and Dematic. We have worked now for day one readiness formal integration planning processes so that all departments and functions, as well as synergy plannings, are fully ready to go when this happens. We once again reiterate our medium-term target for cross synergies, savings of 1 to 2% of Dematic sales from combined purchasing and also from G&A cost savings.

And on the revenue side, we believe that KION's strong sales and service network, together with Dematic's sizeable installed base, as well as combined product offering, will provide us the basis for unlocking further growth potential. Closing preparations are on track and are now expected for early November. The formal closing requirements are currently in the process of being completed. All of the regulatory approvals have now been received, even this week the last CFIUS approval has now been granted, so that after the closing, we will be inviting you to join us for our capital markets day on November 30th, and this event will focus mainly on Dematic and the offering that we will have going forward. We have outlined in the previous presentation our solid financing strategy. Just let me reiterate: the transaction will be initially funded with a bridge loan of €3 billion. In a first step, this loan has already been reduced by the 10% capital increase that was successfully completed in July. And we continue to pursue our conservative financial policy of maintaining a strong cross-over credit profile with a reliable access to debt capital markets.

Now let me get into some of the market developments. I am on page six here. Overall, the global market grew significantly at 13.2%, mainly driven by demand for electric and, in particular, warehouse trucks. Western Europe showed a strong growth of 14% in Q3 driven by continued strong momentum in the warehouse segment. North America also picked up and grew by 11.8% in Q3 after a slow first half of 2016. And in the emerging markets, Eastern Europe showed again a very positive development with good growth of 20.9% benefiting from a continued recovery in Russia and a good development in other markets. China is stabilising as the market posted a strong growth of 22.4% driven by a surge in the economy IC-truck demand in South and Central America that is the only one that continues to be a challenge.

On page seven, it gives you an overview of the development of the major markets in Western Europe. We saw a continued strong growth in Q3 that was the 14% in Western Europe: demand in Germany and France remained very healthy. UK was slightly impacted; I believe the hesitation in investments following the Brexit vote, although still moving on solid levels. Let us see how that works out. And in Italy and Spain we saw that pent-up demands continue.

Now let us look a little bit at page eight and the breakdown. I think it is important to understand a little bit more detail of this graphic showing KION's growth by regions. In Western Europe, KION continued its growth on high levels in the third quarter. In the third quarter, we actually outgrew the market for electric and IC-trucks, so higher-priced, high-value trucks. Our persisting gap to the market in Q3 still originates from the strong push in smaller warehouse trucks, although our focus is on more sustainable and profitable growth from higher value equipment. Probably if we did this graphic in value, we would have outperformed all of the markets. But all of these numbers, as you know, are units only and it does not matter if it is a unit for €1,000 or €50,000 – a unit is a unit.

In China, KION continued to show a positive development across products, stabilising market growth. A strong market growth in this particular quarter 22.4% is due, I do believe, to a little bit of special effects in the economy IC-truck growth and rental fleet additions and perhaps the moves of a particular Chinese manufacturer that is preparing for an IPO. I do expect a levelling out of the market going towards the year-end and that 22.4% in Q3 is certainly not a trend in our view for the full year. Latin America, KION declined due to higher comps, as we had booked a large order in August of last year. So overall, if I look at the entire situation globally, we followed a strong global market in Q3 with double-digit growth with certainly some special effects, but for KION a 10.3% and a total order intake of 40,700 units – an excellent quarter for us in terms of growth. And with this, I would like to hand over to our CFO, Thomas Toepfer, who will go into the financial update.

Thomas Toepfer

Well thank you very much. And from my side a very warm welcome to our Q3 Update Call. If you please turn to page ten you will have the overview of our 4 key KPI's for the first nine months of the year.

So let us start on the left hand side of that page where you have the order intake. The number grew by 6.1% to €4.1 billion and that number includes €107 million incremental contribution from

Egemin and on the other hand a negative FX effect of €83 million. As you can see, the order backlog is still at above €1.0 billion, up 20.4%, relative to the level, which we had in December 2015 and therefore, as Gordon Riske said, this provides us with a very strong position for the fourth quarter of this year.

Secondly, revenue grew by 5.2% to €3.8 billion. Again, that includes a positive incremental contribution of €62 million from Egemin and then on the other hand a negative FX effect of €79 million. Our book-to-bill ratio of 1.05 remains above 1.0 as you can see in the notes below the graph. Adjusted EBIT is up by 10.6% to €366 million and we achieved a margin of 9.5%. I would say this is clearly above the previous year level and it shows that we are on track with the margin expansion as implied in our guidance for the full year 2016.

Last but not least, on the right hand side, net income came in at €164 million up 14.3% above previous year. That is mainly driven by our operating performance. And actually, it also includes the negative effect of €26 million of expenses, which were related to the refinancing activities, which we concluded in February of this year when we redeemed the bond that was still outstanding. So overall I think those numbers do definitely show that we have strong and continued momentum across the board with respect to our key financials.

If you turn the page to page eleven you see the same set of numbers for the third quarter of the year. Again, on the left hand side the order intake grew by 5.8% to €1.3 billion. On the positive side, a €28 million incremental contribution from Egemin and against that a negative FX effect of €26 million.

Both numbers are included in the order intake of 2016. In terms of revenue, that number is up 3.8% to €1.3 billion, also €15 million incremental contribution from Egemin and a negative FX effect of €26 million. And the book-to-bill ratio, as you can see in the notes, stands at 1.03 times, so that corresponds to the further increase of the order backlog that I was mentioning on the previous page. The adjusted EBIT grew by 4.6% to €127 million. That is a margin of 9.9% so a slight uplift, which is exclusively driven by our operating performance in that quarter. And, last but not least, you can see the net income is up 36.1% to €67 million that is not only the operating performance but also supported by the improvement in our financial result driven by the optimisation in terms of financing, which we did earlier this year. So also, those numbers do confirm that we have good momentum in the current year.

And I would now like to turn to page twelve, where you have some further details on the revenue. Let us start on the left hand side where you will recognise the 5.2% uplift for the first nine months of the year. And then you have the individual components of the revenue uplift. First of all, all businesses did contribute positively to our growth. The new truck sales grew by 3.8% with a significant growth from E-trucks. The service business is up 6.8%. Again, driven by growth across the board in the after sales, rental and also used truck business as well as Egemin which is included in the Other item. On the right hand side, again the same set of numbers for the first quarter. You will recognise the 3.8% overall uplift and, while the new business is up 3.3%, the growth rate for the service business is at 4.3% with a strong performance in the rental business and again the growth in the Other line item still reflects a positive consolidation effect from Egemin, which is included in that item.

So please turn the page to number thirteen where 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. First of all, the EBITDA increase is driven by our profitable growth and the continued operating performance. You can see the non-recurring items for the first nine months of the year are standing at €28 million that is driven by expenses, which are related to the acquisition of Dematic. And the second item that I would like to pick out is our net financial expense. As you can see, for the full year that number stands at €80 million, or -€80 million driven by the costs, which were related to the refinancing. But if you then turn to the quarterly number, you will find €16 million negative financial expenses and relative to the previous year, you can see the positive effect that stems from the refinancing earlier this year.

If you turn the page, you have the cash flow statement on page fourteen. As always, I would like to start with the last line item on that page. You can see that the free cash flow to the firm stands at €65 million relative to the €39 million, which we had in the nine months of the previous year. Again, I would like to pick out some key drivers. First of all, the EBITDA increase is driven by our operating performance during the quarter. The change in trade working capital shows a good performance and a relatively positive effect to our free cash flow relative to last year. In terms of the taxes, you can see that this is driven by higher tax prepayments in 2016. And lastly, if you go to the acquisitions line item, this number is mainly driven by the Retrotech acquisition in 2016 and it includes the Egemin acquisition in 2015.

Last but not least, please turn the page to number fifteen, where you have the net debt bridge. So the net financial debt decreased by €524 million to €197 million compared to June 2016. So this is obviously the result of the successful capital increase in July, which yielded €459 million of gross proceeds, which were raised to finance the Dematic acquisition, and therefore the net financial leverage is temporarily reduced to 0.2 times, as you can see on the left hand side of that graph. Similarly, in the middle of the page, you can see the industrial net operating debt, which decreased to €583 million, and the respective leverage is 0.7 times. The pension liabilities did increase by €58 million to €1,051 million. Again, that is driven by a further decline in the interest rates from 1.6% in June of this year to 1.4% in September of this year in Germany.

Overall, I can reiterate and remind you that we do have a conservative financial policy of maintaining a strong cross-over credit profile and we want to, at all times, have reliable access to the debt capital markets. So, in this context, we also plan to ask our shareholders for approval to create another authorised capital of up to 10% in the next annual general meeting and this authorised capital would then be used in the future, should we believe it to be prudent to do so at that point in time.

And, on that basis, we are in a good position for the permanent financing of the Dematic acquisition with long-term capital market and bank debt. Last but not least, as you can see on the right hand side of that page, for our end-customer financing activities or financial services, the assets and the corresponding sale and leaseback liabilities, they grew in line and that again reflects the underlying business growth but also the pass-through character of that supporting business which we have.

So, with that, I would like to turn back to Gordon Riske who will talk about the outlook for the year 2016.

Gordon Riske

Thank you Thomas, moving to page seventeen. In a word, as it says in the title, we fully confirm our outlook for the full year 2016 where we do expect order intake between €5.35 and €5.5 billion, which would represent a growth of between 2.6 and 5.5 %. A revenue between €5.2 and €5.35 billion which would represent a growth between 2.0 and 4.9% and the adjusted EBIT between €510 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 between 9.8 and 10.0% compared to previous year level of 9.5%. Our free cash flow, we estimate between €280 and €320 million. Our free cash flow will be used to further reduce our net debt. And our 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 at 11.9%. So based on our strong results in Q3 2016, which we are very happy with, we hereby clearly confirm our outlook for the full year 2016.

Finally, if you look on page eighteen, you will see our financial calendar. The next reporting event will be our full year 2016 numbers, which will be published on March 2nd. So earlier March 2nd, 2017 but before this we will host a capital markets day on the 30th November 2016 to which we will invite over the coming weeks and this event will focus mainly on Dematic and it will take place in Frankfurt, close to the airport. And with this, we would like to close the formal part of this Update Call and turn it back to the operator so that we can now take your questions. Thank you very much.

Operator	Ladies and Gentlemen, at this time we will begin the question and answer session. And the first question comes from the line of Markus Almerud with Kepler Cheuvreux. Please go ahead.
Markus Almerud	Hi, Markus Almerud here from Kepler Cheuvreux. If I can just start by asking about organic growth. So, looking at the volumes, the order volumes were very, very strong, meaning that you had a negative price mix. If you could just elaborate a little bit on that and talk a little bit about pricing trends and how much is mix, etc.? So that is my first question. And then if I can just ask a little bit about China and also the UK, two markets which stick out. So you were talking a little bit about China there that you have temporary strength there but if you could just elaborate a little bit more if you think it has turned underlying or if it will continue to be weakish. And then also on the UK, what is the mood among your customers and do you expect this weakness to continue, etc.? Thank you.
Gordon Riske	Let me start with the second question on China. We just came back from China a couple of days ago. 22%, you know, we have a campaign at the moment for the next emissions level. Some of the big manufacturers have made a point to try to squeeze some of the smaller ones out by offering the next tier forklift at the same price for the old one. So, smart move, which has driven the sales up for the economy type of products, but we have also done well in that regard. And the other one, as I said, there is one company preparing for an IPO, which I know the company has plus 40% alone in the quarter. So, if I talk to other colleagues in other lines of business, whether it is construction equipment, on highway trucks, gears, axles and so forth, yes the market is making a slight recovery but nowhere near those

types of numbers of 22%, we are talking single digits. So I am not pessimistic about the Chinese market longer term, no. But we have always said for 2016, we do not see a huge growth. If things come back, they will start to come back in Q4. I said that in the first quarter and that seems to be happening, but 22% is certainly unusual. I would not say that is a precedent. On the UK, I think it is a little bit of “let us wait and see what happens” and some uncertainty certainly with the impact of the pound and most manufacturers that deliver into UK or manufacture outside of UK. So everything has become somewhat more expensive. I think a lot of people are kind of gauging what will they do and it is just a matter of time. It is tough to call that right now, I mean, forklifts and logistics, there is a lot of logistic companies based in UK so that market will continue. I think it is just a temporary slowdown and somehow we will have to adjust to that.

Thomas Toepfer — Okay, your first question. First of all, we do see that there is no significant gap between our order intake in terms of Euros, in terms of value, so relative to the order intake in terms of units. For the first nine months of the year, the value number is slightly lower and the key driver behind that is simply the FX effects. So where the Euro number is slightly depressed relative to what we see in units, but overall we do see that those two numbers are moving in line and there is no negative mix effect which we are observing, nor is there any significant decrease in average new truck price or value per truck. So actually, we think that this is moving absolutely in line with our expectations, but what you do have to keep in mind is the FX effect, which is negative, especially driven by the devaluation of the pound.

Markus Almerud — Okay, maybe I can take it offline with the IR team. But if I just take the volume, the number of truck units that were ordered

	compared to last year, I get 10% growth and then you have 6% organic growth which leaves 4% negative in price mix, but maybe there is something else or I have done some error in my calculations.
Thomas Toepfer	No, we can take it offline but again, the key effect between this bridge is the FX effect, which drives that gap.
Markus Almerud	Okay, thank you.
Operator	The next question comes from the line of Omid Vaziri of Jefferies. Please go ahead.
Omid Vaziri	Good afternoon everybody, hello. I have got two questions. First question, what was the admin costs relating to the Dematic acquisition in the third quarter, if any? My second question was on KION's performance in the North American market, the whole market showed a strong rebound in the third quarter. What was KION's performance specifically in North America versus the market? I will stop there.
Gordon Riske	Again, I will start with the second question. KION grew by 24% in the North America market industrial truck. Three, if you look on the page that we showed and the total market for all trucks in North America Q3 11.8%, I can tell you that we grew more than double that rate. However, and I have said this on a couple of calls, we have introduced the Baoli brand into the market, first point. Second point, we have introduced a number of new products into the market. And third point, and that is the most important one, is our market share is below 3%. So, once you do make jumps like that for us, of course, we have planned to outgrow the market significantly and right now we are a little bit

ahead of that curve and we do have in our base case that we do continue to outperform the market in the next couple of years, simply due to the introduction of all of these new products.

Thomas Toepfer — Well on your first question, let me just give you some guidance on the admin costs and extraordinary costs that are linked to the Dematic acquisition. You have seen that we have NRI's of €28 million in the first nine months of the year. So over two thirds of that are linked to the Dematic acquisition and the extraordinary administrative and consulting costs which we were incurring due to that transaction. And of course the biggest part of that then is reflected in the admin costs. So this is what is driving the increase that you are probably referring to in the third quarter but also for the first nine months of the year.

Omid Vaziri — Okay, thank you. And just a quick follow-up question on the performance in North America, what has been the main driver of that? And do you see it as sustainable going forward?

Gordon Riske — As I have said, part of our business plan is investing in North America. We have a number of new products going in there and of course, we would not have done it if we do not see it as sustainable. So the two factors are: we introduce the second brand to capture the lower end of the market or the so-called economy segment by introducing Baoli. And we have introduced a number of new forklift trucks made in America that were designed by our Chinese and global R&D platform and that is now becoming reality.

Omid Vaziri — Thank you. Sorry, I was rather relating to the market as a whole.

Gordon Riske — Oh sorry. I mean 11 is quite a bit in a quarter. I think double-digit growth is certainly somewhat unusual but we are upbeat about growth of the North American market, at least in the next 12 months, due to a lot of different factors. Not everybody is betting everything on China anymore, North America looks like a very good market. Whoever will be President, the whole effort of reindustrialisation, logistics – especially e-commerce business – we see that also with our Dematic business, it is a growth market where we are pretty upbeat about it for the next 12 to 18 months.

Omid Vaziri — Great, thanks very much.

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

Sven Weier — Good afternoon. Three questions from my side, please. The first one relates to your margin development, which was again very good in the two core segments also in Q3, but I am still trying to get my arms around if I look at the other line and the consolidation line. If you take those two combined, they have again been getting more negative relative to last year. I was just wondering about the dynamics behind that and if that should improve going forward. The second point is just looking forward to your CMD and Dematic, I was just curious what you are going to share with us, are we also going to see some of their year-to-date numbers then given that the deal has closed and things like PPA and those kind of details. And the last question is just on your currency effects on orders and revenues. Assuming rates were unchanged would that be the same effect also on the Q4 numbers? Thank you.

Gordon Riske

Let me not raise but let us keep the expectations on the second question realistic. For Dematic, we do anticipate the close here shortly so the big focus is on Dematic and to try to understand two things. Mainly how does that business work in total and secondly, how does it fit with KION and what are some of the upsides that we see going forward, and some of the things about the integration process itself and some of the things that we have underlined with one or two percent synergies and how that breaks down. The fact is, we are closing the deal now and we have to get our arms around it. November 30th is not that much time to put all the numbers in the way we would traditionally do it in all the full scope, so we will have selected Dematic financials and some information on the transaction financing and so forth. And we try to provide as much as we can, but I do not want to put the bar too high because it is quite frankly not that many days between closing and having the capital markets day.

Thomas Toepfer

Well on your two other questions, let me start with the third one, the FX effect. Yes, we do, I mean, we do not have more visibility than you what the future development is but if the rates stay at the level where they are, I would rather expect that the FX effects will be more pronounced in Q4 relative to the first half of the year or the first nine months that you have seen. So yes, it is definitely something that is to be kept in mind and currently it is rather a slight headwind which we are seeing in terms of translation effect but also some transaction effects, which we are facing especially from the pound. And on your first question, this consolidation line is simply driven by the fact that indeed we are bringing the KION Group closer together. You know that we have implemented the CTO organisations so it is definitely our target to tap into the synergies between our operating units. That also means that there is a uniform and unified R&D

organisation, which provides services across the group. Legally, obviously, those people are sitting in the operating units and that simply yields a higher integration, but also higher consolidation effects between the units. So I think it is simply driven by the further integration, as I said, by the group and just a little follow-up on the capital markets day. And we know that you guys have your excellent models ready and we are definitely working that we can provide enough data so that you can fill your models on the 30th of November.

Sven Weier Excellent, sounds good. Thank you.

Operator And the next question comes from the line of Richard Schramm of HSBC. Please go ahead, sir.

Richard Schramm Yes, good afternoon Gentlemen. I have two short questions please. One, the sluggish development in aftersales in Q3 and in nine months in total, can you shed a bit of light on this, what is behind this? So, I would have expected that we should see at least a moderate single-digit growth trend as well, following new equipment business. And also I have difficulties in getting together your positive development you have mentioned for China in Q3 with this double-digit rise in new orders but this is absolutely not yet reflected in sales because Asia as a total is down year on year for the quarter and also for the nine months. So can you also elaborate a bit on this, which markets are obviously dragging down here this region? Thanks.

Thomas Toepfer Let me maybe start with the aftersales development and I am looking at page twelve of the presentation which we just held so the numbers that you are probably referring to is the minus one on the right hand side which is a decline. I know I am somewhat repeating myself but it is exclusively driven by FX effects here so in this number alone there is roughly €7 million of negative effect on that number, so we would have seen at least a slightly positive development had the FX rates been constant. So again, sorry for repeating myself but this is the only driver which we see. Otherwise, operationally, the business is very solid and moving in line with our expectations.

Gordon Riske

And on China, do not forget, in 2015 the market went down and in the first two quarters we were looking at numbers of 2 and I think 3 some percent growth. And the numbers you will see here of course are order intake, so that will take a little while to get into the revenue numbers. So, in total the China market, not just for KION but for everyone in terms of value, is down. Also, we have a mix, as you know, that is why we are a little bit surprised. The economy IC-trucks, those are the ones going up. We have seen a sharp downturn in IC-trucks beginning of the year, mainly focusing on warehouse trucks due to the cost of the emissions warehouse. So, I believe that will level out towards the end of the year and next year but yes from a Euro standpoint, the total market is behind a little bit.

Richard Schramm

Okay, and just come back to the aftersales. Adjusting for this you would be in at nearly 2% so you would think this is, at the moment, a really satisfying trend you would see as underlying growth trend here.

Thomas Toepfer

I think it is going up and down from quarter to quarter but yes, as an underlying growth trend I think 2%, maybe slightly higher is not unusual. Again, it is nothing that I would say is not in line with our expectations.

Richard Schramm	Okay, thank you.
Operator	The next question comes from the line of Ben Uglow of Morgan Stanley. Please go ahead.
Peter Murdoch	Hi Thomas, hi Gordon. It is Peter, sorry, instead of Ben. Alright, two questions please if I may. First question is just on the EBIT development for the quarter. If you back out your drop-through rate for Q3, I think it is a little bit lower than Q2 and I just wanted to understand if there is anything there that is worth noting, if there is anything there that I should adjust for, anything different quarter on quarter. And then second question is just on guidance for the year. So considered at the top end of the range and we are three quarters of the way through the year now and we are at the midpoint. What would be required for KION to reach that top end basically in the fourth quarter? Is there anything that you need to see in the world to happen or is there something that you need to do operationally? There are my two questions.
Thomas Toepfer	Well let me start with the first one, which is the drop through in Q3 relative to what you have seen in Q2. First of all, remember in Q2 there was a special effect because Q2 2015 we had a negative effect of €6.5 million due to a legal case which we had to settle, so that was depressing our result in Q2 2015 so that in fact the uplift at first sight is very high last quarter. Secondly, the drop through in Q3, simply the operating leverage in the third quarter of the year, is slightly lower than in the other quarters, simply because there is less working days, especially in August. And therefore this is the only reason that we see that operationally there is nothing which has fundamentally changed

and therefore this is also why we feel the quarter is fully in line with the overall guidance that we have given. In terms of the full year, I would say there is no particular thing which we look at which has to happen or should not happen. I think we are currently seeing that we have good momentum and a good start into the fourth quarter of the year. We also see that the environment is stable – yes, in terms of currencies there are some ups and downs but currently, as we said, we feel we are fully in line with our guidance and therefore feel comfortable that we will reach our overall guidance, which we have given.

Peter Murdoch — Okay, perfect. Thank you.

Operator — The next question comes from the line of Philippe Lorrain of Berenberg. Please go ahead.

Philippe Lorrain — Thank you for taking my question. Just wanted to know if you could share with us a view on the overall acquisition effect you are expecting for the full year, so indeed my question is more focused on Q4 to have a better view, what we might expect here to be the first one.

Thomas Toepfer — Well what do we expect: You will see that we will have Dematic consolidated for two months in Q4, as we expect the transaction to close early November, so you will see two months of Dematic in our P&L, but then, as we said, obviously there will be some significant PPA effects. I think it is too early to comment on the exact order of magnitude of this. But I think from the rough numbers that we have given in terms of purchase price, you can well estimate that this will also have an impact on our intangible values in our balance sheet.

Philippe Lorrain	Thank you very much. And if we strip out the Dematic effect for the two months, what would be the effect that you are expecting actually from Retrotech for Q4?
Thomas Toepfer	Very minor.
Philippe Lorrain	Very minor, okay, thank you. And then just a follow up, regarding the margin, we saw an improvement of 10 bps compared to Q3 last year on the adjusted EBIT line but actually if we look to the adjusted EBITDA line, which I think is the better matrix here to look at in terms of seasonality, we saw actually 40 bps increase. I just wanted to understand what kind of guidance you would share with us regarding depreciation and amortisation for this year, ex PPA. And if we should expect that figure to grow more in line with the top line development going forward. Thanks.
Thomas Toepfer	You know Philippe, we give guidance on the 5 KPI's which we have in our annual report so I would be hesitant to extend our guidance to further KPI's, but in terms of D&A there is no extraordinary effects that I would expect in Q4, other than of course the acquisition effects that come through Dematic.
Philippe Lorrain	Okay, thank you very much.
Operator	The next question comes from the line of Sebastian Ubert of Société Générale. Please go ahead.
Sebastian Ubert	Thanks for taking my question. It is more a housekeeping question with regards to the working capital. We have seen a slightly elaborated level now also with Q3, which I think is partly due to the ramp up of the production at the Pilsen factory. Can

you give us an indication where you see this development going forward, first of all, end of this year, but then also how long does it take to bring down working capital to more normalised levels throughout 2017. Thank you.

Thomas Toepfer

I am not exactly sure, whether I got your question right and if I did not, then please do not hesitate to ask again, or let us have a follow up. The way we look at this, first of all, if you look in the cash flow statement you can see that the working capital development is about €30 million more positive than it was over the last nine months of the previous year. And if you look at the absolute level, in terms of working capital and you kind of look at this in days, you will see that we have also reduced working capital by one day relative to the 2015 numbers, so we feel we are well on track and absolutely in line with our plans. Of course, the absolute level towards year-end as always will reduce further but there will be no fundamental changes and I do not see any fundamental deviation in Q3 due to the Pilsen factory.

Sebastian Ubert

Okay, thank you.

Operator

The next question comes from the line of Peter Rothenaicher of Baader Bank. Please go ahead.

Peter Rothenaicher

Hello Gentlemen, I have one specific question on the pound development and its impact on your sales and the margin, because you mentioned also some smaller transactional impact now. Can you elaborate a little bit about your hedging policy for the pound, how long is it secured and how will you react in terms of pricing in pound? Are you planning respective price increases to compensate for this? And what is your view on the impact of your UK business in margin terms for 2017. And the second question is on Egemin. We have seen still significant difference between order intake and sales, do we expect here sales to pick up considerably in the fourth quarter that this difference is being closed?

Thomas Toepfer

Let me start with the chain of questions that you had on the pound and UK. First of all, just to put into perspective, UK is about 8-9% of our order intake so it is important but it is not the most important market that we have. Secondly, through the Brexit what we see economically is that yes, there is some hesitation in the market, but there is no fundamental change. People still use forklift trucks to lift and shift the stuff in their factories. However, of course, there is the devaluation of the pound, which we have to cope with. We do have a hedging policy where we aim to hedge between 50 and 75% of the exposure that we have.

However, with the pretty rapid devaluation of the pound it, of course, is not always easy to keep pace with this development. In terms of price increases, yes, I think there is some hope in the UK because the fact is, there are no local manufacturers or all the manufacturers are actually facing the same situation as we do. They have their production base mostly in the Euro area and then sell in pounds so I think there is some incentive for everybody to raise prices. Whether this can be done to the full extent, I think yet to be seen.

Gordon Riske

And the second question, yes we will see a pick up in the sales of Egemin. I mean, it is a longer cycle business, we have some nice orders but the throughput time is quite a bit longer than on the forklifts.

Peter Rothenaicher	Again on UK and the pound, do you expect here some negative impact on your margins in UK for 2017. You mentioned 8-9%: I think it is not a very low impact.
Thomas Toepfer	No, there will be some impact in 2017. We are in the middle of the budget planning phase and therefore it is too early to quantify but yes, this is an item that we have on the agenda for the planning in 2017 which we have to cope with.
Peter Rothenaicher	Okay, thank you.
Operator	And the next question comes from the line of Alexander Hauenstein of DZ Bank. Please go ahead.
Alexander Hauenstein	Hello, thanks for taking my question. First of all, I would like to come back a bit more specifically on the pricing side, especially in Europe. Is it fair to say that you currently do not see any more aggressive pricing strategy from your direct competitors on the IC- and E-truck side, but is it happening in warehouse equipment, is this the right interpretation for Europe? So that is my first question. And the second question is regarding Dematic. I was wondering what will be the one or two first issues on your agenda after the official closing will be done. And the third question is with regard to your North American growth offensive. I was wondering what is ahead of us here, maybe a bit more light on the launch schedules for your new products here. What is the potential financial impact here in 2017 if possible to quantify. I understand it is probably rather small but still maybe you could give us some idea. And last question, a bit provocative, what makes you sure that the clients accept the new products and especially as the brand is so far, let us say, a

bit less visible here, why should clients not keep sticking to US local forklift names? Thank you.

Gordon Riske

Let me start with the pricing side in Europe, it really depends sometimes on which country. Some of our competitors have a little different strategy in France than they do in Germany. But the general tendency, which you have outlined, much more aggressive on the high volume, lower value products, namely warehouse, that has become somewhat more aggressive and we as market leaders do not really participate in an aggressive behaviour. We have, I think, a fairly good price assertion for this year and we intend to keep that level, but your assumption is basically correct.

The second question, Dematic, first we would like to close the deal in the next couple of days and then our agenda, of course, is to make sure our teams are in place and ready to go, everybody motivated which I do believe they are very highly motivated to get the jobs done ahead. You know, we have noted in all of our publications what we expect in terms of synergies both on the cost side and on the growth side so that is a big topic for us. How can the very strong base in North America help us on the forklift side? And the other side of the coin in Europe and especially in Asia with our strong connections in Asia, in China, our strong sales and service backbone, how can we help promote the Dematic technology in China? So those are really the first things that we are attacking together and we have already set up teams to address those issues.

Now the North American effect in Euros, I do not know if we can do that so quickly, answer that just one question but the last part of your question, why would they change to Linde or to Baoli. Fact is, with the brand of Linde and with the Baoli trucks we have one of the largest new product launches of anyone in this market and also the North American market is looking at high performance electric trucks, which we do offer, and economy trucks for many dealers that may have two or three or four different brands right now and some of them being very small brands that may not be able to offer a complete product line. The KION family of brands with its products is a very attractive alternative to some of these dealers who are considering opening up and changing the suppliers that they represent.

Thomas Toepfer And, I think then, just to follow up on the financial impact, I would say from an overall group perspective it will be rather low. From both perspectives, you will not see a negative impact in terms of our CAPEX line because most of the money has been spent. And you have not seen that this moved significantly our CAPEX spending, because we were able to build those trucks on the basis of platforms that we had, and very cost efficiently in China, so no negative impact. But then on the other side, do not expect any specific positive effect either because yes, we are selling more trucks but we also have to invest in our sales and service structures in the US, so that there is no significant margin that comes from those sales in the first one or two years. And therefore, overall, I would say it is a negligible effect in terms of the overall EBIT of the group.

Alexander Hauenstein Thank you very much, very clear.

Operator: We have no further questions. I hand back to Mr Gordon Riske for closing remarks.

Gordon Riske — Yes, thank you very much for participating in our Q3 Call and we look forward to seeing many of you at our Capital Markets Day in November and if not there then for the next call coming up the beginning of the year to announce the results for the full year 2016.