

# KION GROUP AG

## Update Call

## Conference Call Transcript

21.06.2016

10:00 CEST

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   Dr Thomas Toepfer (CFO)

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Gordon Riske

Thank you very much, and thank you, ladies and gentlemen, for dialling in so early this morning. We're very pleased to welcome you to this conference call about our acquisition of Dematic. We're very excited to announce this today, that KION has acquired, or acquires, Dematic, and creates, really, a global leader in the intralogistics solutions.

Thomas Toepfer and I would like to use this short presentation, and discuss and present to you this really transformational transaction. It is available, the presentation, on [www.KIONgroup.com](http://www.KIONgroup.com) under investor relations, in the presentations section. This document is what we will use as a basis for our presentation today.

I'm on page two, where we've tried to summarise some of the highlights for this transformational transaction. Dematic is valued at an enterprise value of \$3.25 billion, and after deductions for certain liabilities, KION expects the purchase price for the shares to amount to approximately \$2.1 billion, customary deductions for certain liabilities.

And Dematic contributes approximately \$1.8 billion of revenue, with an adjusted EBIT of \$166 million for the year ending December 2015. Dematic has shown a very strong revenue growth above 12% in the last years, and this landmark transaction truly creates a global player with a combined revenue now of more than €6.7 billion for the year ending December 2015. And a very strong profitability with a combined adjusted EBIT margin of 9.4%.

This acquisition will be funded, initially, with a fully committed bridge loan facility for €3 billion, and KION intends to refinance the acquisition through equity, long-term capital markets, and bank debt. And we are committed to maintaining the position that we have as a strong cross over credit, with reliable access to capital debt markets.

And the closing of the transaction is expected to be some time in Q4, so fourth quarter of 2016, and subject to the customary closing conditions and regulatory approvals. On the right side of this page, you can see our strong strategic and financial rationale for this transformational transaction.

We will elaborate in a little bit more detail on the strong rationale for this transaction, but here are some of the highlights. The purchase of Dematic establishes the KION Group as a unique global leader in intralogistics 4.0. And this transaction positions KION to take advantage of the attractive double-digit growth in the automation market.

This double-digit growth, on average, is about double what the forklift business has been growing over the past years. And the enlarged company will be able to seamlessly offer the complete material handling solutions offering.

Both companies contribute complementary positions of market leadership – we will show a little bit more of that in detail in the coming pages – and most importantly for us, also, geographical footprint. And finally, the transaction enhances KION's financial profile, and provides really attractive value creation for the KION shareholders.

Now, let me introduce you, just for those of you that don't know Dematic that well, page three, to some of the key numbers. Dematic is a leading global supplier of 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 number three position in Europe. The company, which has been growing annually by more than 12% since 2013, generated an adjusted EBIT margin, as I said earlier, of 9.2% in 2015.

And Dematic has implemented more than 4,500 integrated systems for small, medium, and large customers, with businesses in a broad variety of industries, very importantly, including a fast growing e-commerce business. Dematic has more than 100 locations, and has an impressive footprint close to its customers, similar to KION's global sales and service network and is headquartered in Atlanta, North America. Dematic employs almost 6,000 skilled logistics professionals, including... so almost half of those are 3,000 engineers, and is present in 22 countries around the globe.

Now, moving to page four, let me give you an overview of the development and the trends in the market for automation solutions. The acquisition positions KION for really attractive growth in the automation solutions business. We see the customer's requirements evolving, fuelling changes in the entire supply chain requirements.

The megatrends of digitalisation and convenience will drive the e-commerce business and omni channel retail business. The e-commerce pure plays, like Amazon, continue to expand, with even faster order cycle times and increased numbers of availability of stock keeping units, so SKUs.

So the customer demands are really driving the growth of Amazon. And traditional retailers, like Walmart, are playing catch-up, and investing in these types of advanced systems to move and improve service levels.

Automation solutions winners will be those who can partner with innovative customers to support design and implementation of increasingly efficient and sophisticated automated solutions. And as a result, annual market growth in supply chain automation is estimated to be more than 10% until 2019.

And so the winners and the leaders in this industry have to scale up to develop new technologies and provide continuous innovation for their

demanding and sophisticated customers. Long-term and close customer collaboration and service relationships provide visibility and stabilities for the leaders in this industry.

What we have tried to do on the next couple of pages is to give you, kind of, the inside view of what we are talking about, and creating a really unique and complete material handling solutions offering. On page five, you see the offering of KION across the entire enlarged KION Group.

The purchase of Dematic complements KION's full range of forklift trucks, warehouse equipment, and related services. KION will now provide a unique and most complete material handling solutions offerings, ranging from manually operated industrial trucks, to complete fully automated warehouse.

So the entire spectrum of what our customer needs in that warehouse is available through KION and its companies. Dematic's comprehensive product and systems portfolio ranges from AGVs, automated storage and retrieval systems, palletisers, conveyers, picking equipment, and sortation to its leading supply chain software and controlled software platform.

In the last year, KION Group already started to build a strong position as a provider of automated systems solutions by acquiring Egemin Automation and Retrotech. So in order to take the full advantage of this attractive growth market, the acquisition of Dematic is now a transformational step towards becoming an integrated Intralogistics 4.0 player.

Creating this fully integrated company with its unique one-stop material handling solutions offering, not only transforms KION, but I do believe that we can transform the industry, being very close to what the customer is really demanding. For a more detailed view on

Dematic's full offering, we have added page six, with a product overview.

And on page six, we describe the Dematic IQ as a knowledge based logistics platform that provides customers with real time information on their supply chain fulfilment operation. And it goes beyond the traditional warehouse management or control systems. It optimises operations using advanced analytics, like big data.

Moving from software platform to a comprehensive product and systems portfolio. Dematic began designing and building conveyer systems more than 70 years ago, and provides all types of conveyer systems for assembly, for manufacturing and distribution applications.

Dematic's linear and re-circulating sortation systems are used extensively by leading retailers, parcel companies, and other distributors, requiring high speed, reliable sortation. And Dematic offers a complete range of storage solutions, from racks and shelving to a diverse selection of automated storage and retrieval systems.

These systems are capable of handling the full range of payload units, from pallets and totes to trays, and bins, and cartons. And the Dematic Multishuttle® 2 is the next generation of these systems that can dramatically increase speed, accuracy, and throughput in warehouses, factories, and distribution centres.

Picking systems include, amongst others, the voice-directed picking, and pick and put-to-light (PTL) systems to optimise order fulfilment across an extensive range of applications and industries. And finally, Dematic offers cost effective, high performance solutions for both manual and automated mixed case palletising for groceries.

After installation of a system, Dematic works with its customers to ensure the best possible performance throughout the life of their systems, which can easily last 20 years. And a comprehensive range

of services and support solutions includes spare parts, modernisations in upgrade, and remote service software packages. So this really does augment our existing business, and helps give us a much better insight into some of the larger e-commerce and other types of customers.

On page seven, I think, also very important, provides an overview of the combined regional set-up. And as you can see in the graph on the left-hand side of this page, both companies contribute highly complementary positions of market leadership and geographical footprint, as an opportunity for revenue growth.

KION will take advantage from Dematic's very strong position in the US and the European automation markets. And with this transaction, KION will also establish a critical presence in the US market, which so far, as you know, has been somewhat of a blank spot on our map, and this will now change.

Dematic, on the other side, can leverage the KION Group's sales and service network with our brand reputation in key markets like Europe, like China and Brazil. And this complementarity is also a source of cost synergies from this combination. We see many opportunities there.

And KION's strong sales and service network, together with Dematic's sizeable installed base, provides a good basis for unlocking further revenue potential from services and systems upgrades. This is a very important day for us, a strategic move, I believe, which takes us to the next step of propelling KION as the leader in this industry, and leader in this market.

And with this, I'd like to turn over to Thomas Toepfer, to provide you with details on the transaction economics, and of course, our financing.

Thomas Toepfer

Thank you very much, Gordon, and also a very warm welcome from my side. Thanks for dialling in at such short notice. I can tell you we are very excited about the transaction, and as Gordon said, I would like to talk you through the transaction valuation, and the upsides and value creation levers on page eight.

So if you look at the left-hand side of that page, you see the transaction has an enterprise value of \$3.25 billion. And if you look at the expected adjusted EBIT for Dematic, for the current financial year, which ends in September 2016, that number is between \$170 and \$190 million. So the adjusted EBIT multiple for the transaction, if you exclude any synergies, ranges between 17 and 19 times.

However, if you include the synergies that we project already with the 2016 multiple, that transaction is fully in line with the automation industry. What we actually do is we look much more towards the year 2017, because the transaction will close at the end of this year, so in Q4 2016.

And therefore, in the light of the strong growth profile of Dematic, (if you take) and the value creation opportunities, if you take the 2017 multiples, this one is very much in line with the actual current KION multiple for that year. So we definitely feel that this is fair valuation, at which, we have concluded the deal.

If you look at the right-hand side of that page, you see the valuation creation levers, and I would like to talk you through a little bit. The first one is the growth opportunities. Dematic adds to KION an enhanced financial profile, with strong growth in line with the recent years for Dematic, especially driven by the strong growth in automation solutions, and also driven by the strong growth in e-commerce.

Secondly, in terms of the margin, Dematic adds, also, a margin that expands in line with KION's margin. So it is in line with our target to improve our adjusted EBIT margin to 12% by 2018. That's very much



driven by an increase in software and service businesses, and an improved manufacturing productivity and operating leverage from top line growth.

Thirdly, top line growth, we have a very strong sales and service network, together with Dematic's sizeable installed base. And I think that's a very convincing basis for top line synergies, as well as the combined product offering, which is, I think, an unrivalled offering that we can make to our customers, and thereby, unlocking further revenue potential.

And last, but not least, we also see definitely cost synergies between the two companies, due to our complementarity of the businesses. So, for example, in terms of SG&A, but also purchasing, we see a 1-2% run-rate cost synergies, as a percentage of revenue.

So with that, if you turn to page nine, you see, on the upper side of that page, the clear path that we expect to the closing. And on the lower side, I will give you some more colour on our financing strategies. So let's start with the upper half. You can see that the closing of the transaction is expected to occur in Q4 of this year, and is only subject to customary closing conditions and regulatory approvals.

So we don't expect any difficulties to occur, and therefore, are very confident that Q4 is the quarter where you can expect the closing for this transformatory deal. Just to give you a heads up, in terms of the reporting also going forward. And Dematic will be an additional fifth operating unit, besides the existing operating units, which is Linde EMEA, STILL EMEA, KION Americas, and KION APAC.

And this new operating unit will also comprise the business of Egemin and Retrotech, which we had acquired earlier. And, as you know, the reporting for our future operating unit organisation will start with our

financial year 2016 numbers. So Q2 and Q3 of this year will still continue to be reported along our current organisational structure.

But I think that is absolutely in line because Dematic, as I said, the closing we expect in Q4, and therefore, I think, it is in line with our strategy that we had anyway with respect to our reporting organisation.

Now, if you look at the lower side of that page, you see our financing strategy. First of all, I would like to emphasise that our strong cash flow generation and the debt reduction over the last year, since the IPO, has provided us with the balance sheet strength for such a transformatory transaction. And we feel that we're absolutely in a position to finance this.

Initially, this will be funded with a bridge loan facility of €3 billion, as Gordon Riske already mentioned, and that has been firmly committed by a group of KION's core banks. And then between signing and closing, we are looking at an equity issuance of up to 10% of new shares, and we would utilise the entire currently existing authorised share capital.

And this equity increase is fully supported also by KION's major shareholder, Weichai Power. And then going forward, we are committed to maintaining our position as a strong cross over credit, with reliable access to debt capital markets. And therefore, we would consider the full spectrum of equity generating instruments, in line with our conservative financial policy, which, of course, we will maintain.

If you look at cash flow. The strong cash flow generation of both businesses, and the further growth, especially driven by Dematic, will drive a quick leverage reduction, so that KION will soon return to its current near investment grade credit profile. And as I said, in this cross over stage, this is where we see the company is committed to remain in that space.

Before we close the formal part of the presentation, I would just like to say a word on the current operational business. The guys from headquarters have been pretty busy with this transaction, but I can assure you that the rest of the team has continued to sell and service forklift trucks.

So the current business is fully in line with our guidance, and therefore, I think, this is just one message on our existing business that I also wanted to give you in this call. And I think, with this, I would like to close the formal part of this update call, and turn it back to the operator, so that we can take your questions.

Operator

Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star, followed by one, on their touchtone telephone. If you wish to remove yourself from the question queue, you may press start, followed by two.

If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star, followed by one at this time. And our first question today comes from the line of Mr Weier of UBS. Please go ahead.

Sven Weier

Good morning. Thanks for taking my questions. A couple of questions, please, from my side. First of all, I was wondering if you could give us the organic growth figures of Dematic since 2013. The second question is you mentioned a bridge loan, if you could share the kind of interest rate that you are foreseeing on that.

The third question is if you could talk also a little bit about the items below the adjusted EBIT line of Dematic. And the last question I had was just in terms of the existing leadership of Dematic. How it is planned for them to stay onboard, and how they will be incentivised. Thanks a lot.

Gordon Riske

Gordon Riske, hello. Yes, first question. Growth has been, you know, double-digit growth since 2012-13, so 12%, 12.3% exactly. That's organic growth. And we expect that to continue, you know, driven by the e-commerce and the heavy demand there.

The leadership team and the operating unit, as we call it, of Dematic, will be the fifth operating unit. So next to the Linde EMEA, Linde STILL, KION North America, and KION Asia Pacific. Dematic will be the fifth operating unit. And, of course, the CEO will become part of the global leadership of the KION team.

And we are very confident, very excited, with the team that we have, I think, to talk about individual incentives, may be not such a public thing to do. But I believe both sides are highly motivated and excited about this. As we know, these kinds of processes are always competitive processes.

And I think at KION, we have a very good relationship with the management there, and we expect to move through all the goals we want to achieve with this new team.

Thomas Toepfer

And then maybe in term of the financing, you know that KION has a group of core banks with a very close relationship. So those banks supported the bridge financing, and we don't generally disclose our interest rates, but I can tell you we have a very trusted relationship with our banks.

On the one hand, we have, from my perspective, an attractive capital market environment. So the interest rates are attractive, from our point of view, and therefore, I think, also the terms of the bridge loan, we find very attractive, from our perspective.

Sven Weier

And could you also comment on the items at Dematic below the adjusted EBIT line, or is that not disclosed?

Thomas Toepfer                    It is not disclosed. I mean, I think, you know, Dematic has been in the hands of private equity, so obviously, it has a capital structure that is driven by this ownership structure, which will, then, consequently change when it is part of our group. So I think, first of all, it is not disclosed.

But secondly, I think it's not so insightful, the line item below the EBIT, but it is, I think, an operationally very profitable business, as you can see, in their EBIT generation.

Sven Weier                        Maybe last follow-up question, if I may. You mentioned the company is the global number three . So are the important peers, DAIFUKU and, I think, Schaeffer is also active in that market. Anybody else you would mention?

Gordon Riske                    No. Those are the main ones. You've got it absolutely right.

Sven Weier                        Thanks a lot for that.

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

Sebastian Growe                Good morning, gentlemen. Three areas for questions. So the first one is also a follow-up, so to say, on Sven's question on the historical financial. Can you just share with us what the historical peak margin at Dematic was, and how this compares to the current margin?

The second part of that, the financials block is then on the growth trajectory. If you then also look at 2008 and just sketch the historical growth trend. So we have been speaking about the 2013 to 15 CAGR of more than 10%. But I've been just in the, sort of, more long-term growth trajectory that the company has seen.

And then also, you were talking about the adjusted EBIT for Dematic, so could you just share with us what is included there. So are there

any sort of PPAs? Are there some kind of non-recurring items that we should have on line? And then lastly, here in the section of financials, the free cash flow conversion, I would be very interested in.

Could you just give us a quota from the adjusted EBIT? How much, usually, is converted into free cash flow. Then the second block of questions is on synergies. I understand the presentation, as such that is mainly cost related. Can you just give us an idea of how much, percentage wise, should be in procurement, and how much would be, then, in G&A?

And in addition to that, could you also then comment on the sales synergies that you do think are possible here? And then lastly, more, kind of, a technical question really, it's coming from private equity. Could you just share with us if this has been an exclusive deal for you, as KION, or have there also been other bidders competing in a roundup for the asset? Thank you very much.

Gordon Riske

Maybe starting with the last one. Yes, it's a PE deal. Of course, we never know who all was competing in it. We have our, let's say, insights, but yes, it was a competitive process. KION was not alone, in this case. So that's that question. Maybe to answer the question on the growth, if you, kind of, compare the 2008 number to the 2013-14 number, that's a little bit different context.

You may have known, or maybe historically, that Dematic, over the past ten years, has had four different owners from Siemens to PE twice. So it's a little bit different structure. It was a European based company. Now it's a US based company. And in the past years, you know, they've really made a transition to very heavy into the e-commerce business, but they're also very strong in grocery business and manufacturing in the parallel business.

So that's one of the very attractive features of Dematic, that they're in so many different businesses, driven by the internet and driven by the

need for our customers to be efficient. So, you know, to cut a long story short, where we do see, in all the analysis that we've done, also with external help, we do see at the longer term, double digit growth, at least to the year 2019-20, based on all the facts that we have together.

So very, very attractive growth, and that's where we see, especially for the US, being the number one player in the US market with over a billion in sales. Many of those customers that Dematic has are the same customers that KION has. The difference being when Dematic goes to a customer, normally, you all know these things.

You have a good projection because these types of orders take a little bit longer. You know, one, two years ahead of time, forklifts are normally purchased at a later point in the whole stage of making a distribution centre. So we think that's, you know, a very attractive part of the synergies on the top line side. To name a number at this point, I think, on the top line, it is a little bit early.

Sebastian Growe

On the question regarding the peak margin, would you be willing to answer that one? And then also, what is really there, in terms of NRI and the free cash flow conversion, please

Thomas Toepfer

Well, I think on the peak margin, we have given you the 2015 number. And I think that is what we are looking at. But I can assure you that Dematic has continuously expanded its margin, and that is also what they are looking to in terms of their plan. So this is how we look at it.

Sebastian Growe

A word on the free cash flow conversion, then, please.

Thomas Toepfer

Maybe just to give you some impression. First of all, it's obviously cash positive and has a negative working capital. So as the business grows, this is actually growth that is actually generating cash. I think on the exact working capital conversion, it would be a little bit too early to comment on this.

We would rather do it in connection, once we have the consolidated data with KION, and published data on that side. But, I think, just conceptually, it's cash positive, as I said, and has a negative working capital.

Sebastian Growe

Understood. And then lastly on the synergies that I asked you. Can you just share with us what really should be there, in terms of percentage coming from procurement? What is, then, coming from the G&A part? Because especially for the G&A, I think that will be quite a debate, given that it has been handed full private equity.

So there's, clearly, not so much room, at least intuitively, I think, on the G&A part. So maybe you can just share some thoughts on this one. And then lastly, really, on the saved synergies, if there is anything obvious, so to speak, between the two companies, if you combine Dematic with KION. Thank you.

Thomas Toepfer

Well, I think it would be a little too early to, kind of, break it down exactly by G&A purchasing, etc. I think we have done a thorough analysis, in terms of our due diligence. But, of course, we would now, to follow up in more detail with the Dematic team.

And I think once we have done that, we will also come with some clearer guidance on this. But the 1-2%, we feel very comfortable, based on the current plan we have made with the team.

Sebastian Growe

Okay. Thank you very much.

Operator

Our next question comes from the line of Omid Vaziri of Jefferies. Please go ahead.

Omid Vaziri

Good morning, gentlemen. And congratulations on the deal. Most of my questions have already been addressed. I had a question regarding the financing side of things. What net debt to EBITDA is management targeting for the medium to longer term? And also,



would management consider further equity raised, new equity issuance, over and above the 10%? Thank you.

Thomas Toepfer

Well, first of all, if we look at our leverage, we take the net industrial debt. Remember, the presentation that we always give you for the individual quarters, so we include the debt that is associated with our short-term rental fleet. If you do this, we feel that this should be quickly below the three times leverage, after we have done the first capital increase.

And then, I think, this will further delever. And as I said in the presentation, we will consider a wide range of equity generating options that we have. So I think we have a full spectrum here at our discretion.

Omid Vaziri

Thank you.

Operator

And our next question comes from the line of Alok Katre of Société Générale. Please go ahead

Alok Katre

Hi. This is Alok Katre from Soc Gen, just filling in for Sebastian. Just a couple of ones. One, you mentioned that for Dematic, you expect margins to reach 12% on similar lines as KION's. If you could just elaborate a little bit more on whether it's just volume growth, and therefore the drop through on that.

Do you expect a bit more from cross selling, and the synergies? Because that, you know, given the margins are at roughly 9% in 2015, somewhere, or 9.5% implied for 2016, it seems, you know, you probably need another 200- 250 basis points to get to that 12% margin target.

Are we, sort of, talking again, you know, back end loaded three to four years out is where you'd reach 12%? And how does that, then, compare with what we've seen at KION, where I think the progression

has been, again, a bit more like 50-60 basis points today, and requires you to get 100 basis points now in 17 and 18.

So that was my first, sort of, question. The second question was, again, just on Dematic. You talked about spares, and service, and maintenance for, sort of, a 20-year timeframe after the initial installation. Could you give us a sense of how large the service business is at Dematic? You know, and what sort of growth and margin profile does it have, relative to KION's own, sort of, services business, as such?

And the last part of my questions is if I assume a 10% equity issuance that you've, sort of, mentioned, then the total indebtedness of the combined business, including Dematic, would still be, you know, two and a half times net debt EBITA. And if you add in the pensions and financing liabilities, then it's well in excess of three and a half.

So I just wanted to get, again, a sense of how comfortable you are with this level of gearing. And does it limit your flexibility after this deal? Thanks.

Gordon Riske

Maybe on the service, in the presentation, where we have the Dematic at a glance, you'll see the services part is about 25%. And, you know, comparing with KION. Since we have this aspect of these, you know, 50% of the sales being attached, or having a full service contract attached to it, it's a little bit different. You know, we're at that 46%, 47%.

So a little bit different in the product business, but we see an opportunity there. First of all, you know, the 4,500 installed systems, number one. Number two is it's kind of difficult to bring it across in a presentation, but the software capability and the software requirements in supply chain software is a growing demand of our customers.

And this whole idea of one stop shopping, you know, when we talk to customers, like the Amazons of the world, they're really looking for someone across the globe that can help build, and construct, and run these distribution centres. So we do see an opportunity to increase that part of the services.

It's perhaps a different service than we're used to. If you go out on a forklift and maybe repair something, this is more on the soft side. Running the system, upgrading the system, and then offering software packages behind it.

Alok Katre

Sorry, just to follow up quickly on this one. How much of the 25? I mean, is the bulk of the 25 software, then, today?

Gordon Riske

No. That's where the growth is. The bulk of it today is a typical system. Dematic, or I say we, in this case, because a part of us, when a system is installed, let's just say a system for \$50 million. You will have ten, 12, I don't know how many inside people stay with it for a year or so. That's the type of service I'm talking about.

Alok Katre

Okay. Fair enough. Thank you.

Thomas Toepfer

And then maybe follow up on leverage. Again, the number that we look at is the industrial net debt, and that is excluding the pensions. From my perspective, pensions are, kind of, fluctuating a lot with the discount rates. And therefore, I don't think it makes so much sense to include this, when you look at what is the leverage of KION, especially as this has a very stable cash out of 20 million every year.

So again, if you look at the net operating industrial debt, then after the first capital increase, so the 10%, we will be close to three times, and then we will continue to delever the company with all the options that we have, so that we will very soon be, again, under the three times leverage, if you look at that particular number. And we feel very comfortable in that space.

Alok Katre

Okay. Fair enough.

Gordon Riske

And we had the margin target, 12%. Right now, Dematic being at 9.2%. Yes, we do have a growth plan. I would say, looking through our due diligence process and the growth requirements, and the customer demands that we're very comfortable with double-digit growth. And out of that, we do expect a margin increase. That's the one side.

The other side, you know, we do have... and Dematic has made great progress in reducing their costs of goods sold in restructuring the factories, moving purchasing in some other factories into lower cost country areas. So I do believe we will be able to take advantage of that.

So it's not just, you know, the higher volume coming through in the EBIT margin then, but also, you know, our clear cost advantage in moving to these lower cost country sites.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press the star, followed by one, at any time. And our next question comes from the line of Peter Murdoch of Morgan Stanley. Please go ahead.

Peter Murdoch

Hi, Gordon. Hi, Thomas. I just had a question just to do with the large project nature of Dematic. I wondered if you could, you know, tell us how much of, percentage of revenues, are large projects. How much of the percentage or revenues do, you know, top five, top ten customers make up?

And if you can, just describe, you know, are there advanced payments, typically, with this business? And just the nature of how that works.

Gordon Riske

To give you an exact percentage, at this point, as I said, I wouldn't like to give the information out. But the large project revenue, when we

first looked at it, yes, we saw a lot of large projects, but we saw many, many projects that are under a million. So what you have, because some of these systems last 20 years, what you do is you go back in there and, say, after three years and five years, and you do a small retrofit.

You upgrade a software, you upgrade a conveyor. Because instead of running it at 200 boxes a minute, the customer now wants 300 cartons per minute, and that can be done on existing systems. So that's not just the systems business. Interesting question, also, on the top five, top ten.

I can tell you in 12 months, it's that way, and in the next 12 months, it'll be a completely different picture. Because some of these bigger customers, they make a deal with you for a number of years, and want you to have globally. But then the following year, it will be a completely different list of customers.

The most attractive thing on the customer profile of Dematic is the broadness of the offering, so it's not just e-commerce, or it's not just apparel, it's not just grocery, or it's not just manufacturing, and it's not just post and parcel. So, you know, we have, really, with Dematic, a company with extremely strong positions.

And I'm talking number one, two, or three, in each of these segments. So it's one of the unique companies that really is strong in each of these different segments. And all of the segments, all of the customers, need forklift trucks, that's the beauty of it. So we really see this as a huge step forward for KION. Not only the company, but I think we can transform some things in the industry, itself.

Peter Murdoch

Thank you. And just one quick follow-up, just on R&D. Can you talk about how much... is it similar to what KION spends or is it a big higher?

- Gordon Riske It's less. We have, you know, percentage, about the same.
- Thomas Toepfer It's about the same percentage, and therefore, I think, fully... I mean, you will not see a big surprise in terms of our R&D line, when you look at the two businesses combined.
- Peter Murdoch Thank you very much.
- Operator Our next question comes from the line of Alexander Hauenstein of DZ Bank AG. Please go ahead.
- Alexander Hauenstein Hello. Alexander Hauenstein, thanks for taking my questions. Congratulations on the deal. I have a few questions with regard to the synergies. First of all, should we think there about cross synergies or net synergies? I understand you don't comment further on the revenue synergies, but maybe you could give us some flavour here. Should we see, maybe, the 1% as the net number and the 2% as the gross number?
- And also on the deal, how many integration costs do you expect here? And in terms of timing, when do you think the integration will be done? And maybe you could also give us a rough indication how to think about the deal costs here. And then another question with regards to page six from your slides.
- I have a question with regard to the voice directed picking. Maybe you could share some ideas and shed some light on that, also on the pick and put to light systems. Maybe you can give some colour here. Is that something unique? Is that something differentiating? Or why did you put that out especially? Thank you.
- Gordon Riske Maybe starting with the last one. Pick and put to light, that's maybe not totally unique. I think the broadness of the system that we have with Dematic for the different types of customer segments that I alluded to, I think that's the unique part of it. And the voice directed picking, I

mean, the fact is, you know, the biggest thing, or one of the biggest things driving the customers to have more automation, is not only on the demand side from the customer.

Not only next day, but same day delivery, and the doubling and tripling of the SKUs. But it's the available type of labour, and the type of labour you have in these warehouses. So if you can do it with voice or with light, it's much, much easier for the workers to be able to, you know, do the warehouse work versus the way they did it before.

So I think it's, you know, what we've seen and what we've seen in customers is a very interesting technology, and I do believe, then, the software that's the Dematic IQ system, that puts all that software together in one platform, that's the uniqueness of what we have here with Dematic.

Thomas Toepfer

And then on the synergies, it's not that the 1% is the net and the two is the gross number. The way we look at it is that we expect relatively little implementation effort to achieve these synergies, because most of it should be driven by purchasing, which is relatively straightforward. And further as G&A savings, which should not be associated with larger cost items running against it.

So we see this as this order of magnitude coming through net with only minor costs that we have to bear, to achieve this in the medium term.

Alexander Hauenstein

And from the timing side, one or two years of integrating that, or even shorter? I mean, your comment points into the direction of a short time to integration. Maybe one year? Or is that too ambitious.

Thomas Toepfer

Well, I would say let's distinguish between integration and between the full run rate synergies. I think integration, that's to be, obviously, done, is a task for the next 12 months to achieve the integration. But then

the full run rate synergies, we will probably achieve within the next two to three years.

Alexander Hauenstein Thank you very much.

Operator Our next question comes from the line of Stephen Peak of Henderson Global. Please go ahead.

Stephen Peak Yes, thank you. And good morning. I really had a question, which probably links into the due diligence process. You mentioned, well, certainly Dematic has an interesting history, with lots of well known names including Mannesmann, Siemens etc. And I think you said on the call that it's had multiple owners over the last few years.

So taking a more of a cynical viewpoint, I just wondered if you could talk a little bit about the common accusation that, you know, with PE ownership, sometimes, these companies can be, you know, leveraged up and dressed up for sale. So could you expand a little bit on the, if you like, the state of the company from the investment standpoint?

There was the R&D question earlier, but I suppose my question is is this a well invested company? And you're happy with the quality and your due diligence that you've managed to undertake thus far.

Gordon Riske I love the cynical part because I can be cynical myself, and very dramatically. But that's another day for that comment. But the... I would say the best proof, I mean, I've been in the industry now for 35 years in private equity, KKR and Goldman from 2007 until we did the IPO in June 2013.

That was the greatest thing that could ever happen to the company, because we really focused on what we do well. We focused on costs. Knowing what our costs are today, tomorrow, and the next day. And really focused on doing, you know, our work. That discipline was very helpful in private equity.



And when we looked at Dematic, and you know, we saw private equity and some of the changes that they have gone through, yes, it's a tough time. You have to have rigour and discipline, but we really liked what we saw on the R&D. R&D spending has been doubled in the last couple of years, due to, you know, the requirements in software, and the customer demands.

The invest... there's a new factory going up in Mexico, so the investment part has been very well managed, and not what you would, maybe, typically think of as a private equity, kind of, just sucking the blood out of it. That has not happened in any case. So we're very excited about what we've seen in the R&D capacity.

You know, whether it's Dematic labs. A small laboratory in Silicon Valley, or the fact that in the software, you don't try to do everything yourself, but take over, you know, some of the former Blackberry people in Waterloo, Ontario. Very, very smart moves, and all supported by the private equity owners.

So that point, I can assure you, we're very confident on what we've seen, in terms of investment, and how that has been managed by this group of people.

Stephen Peak

Thank you. Thank you for the answer. I appreciate it.

Operator

Our next question comes from the line of Jack O'Brien of Goldman Sachs. Please go ahead.

Jack O'Brien

Thank you. Just one question from me. On a combined basis, your Asia revenues are still going to remain at around 12%. What's your strategy, going forward, for the region? Thanks.

Gordon Riske

We have a strong position with the forklifts. And of all the companies in the world, except for DAIFUKU, which is based in Japan, they all have a weaker position in Asia. But we know from our activities there,

and from our service organisation, that we have at KION today combined with the factories that we have now with Dematic.

And the customer demands, especially from the professional type of customers, like JD.com, Alibaba, and co, that we do have a tremendous growth opportunity. Yes, Asia Pacific today is 12%. We do see that as one of the key opportunities to grow in this market, simply because in many fields, many people might be surprised, but the e-commerce demand is further along than it is in parts of Europe.

So this combination, having a lot of people on the ground, customers' confidence, because of Dematic being with KION, and all of the structure that we have in place, and even leveraging, in some cases, Weichai Power's connections to other big players and big customers in this. So I think we have the ideal set-up to grow that platform.

To give you today a number exactly what is going to be in 2019. I don't have it, but on the Asia side, a very, very strong opportunity, through this combination of Dematic and KION.

Jack O'Brien

Okay, thanks.

Operator

Our next question is a follow-up question from Mr Weier of UBS. Please go ahead.

Sven Weier

Thank you for taking my follow-up question. It's three. The first one is on the regulatory approvals. You know, given that the majority of the sales are in the US, are you going to file this with the CFI US? And does Dematic have any sales to some critical industries, like defence, for example?

Would you foresee any kind of issues? It seems you are not foreseeing any issues? And the second one is another follow-up on equity. You said that once the capital increase is done, you will soon be below three times, and then you still have the full instruments

available. So you're not ruling out another capital increase after the 10%.

And the third one is on the tax rates. And when we think about accretion of this deal, should we be using a, kind of, a 35% tax rate? Or what would be your best advice on that? Thank you.

Thomas Toepfer

Let me start with the first one, which has developed as one of my favourite topics over the last couple of weeks. In terms of CFIUS, I can tell you we have had, let's say, very good counsel on that from our lawyers. And I think the advice is to go for a voluntary filing, but we don't expect any difficulty arising out of that procedure. So I think that's how we look at it.

In terms of equity, I think I can only iterate, we will go for a capital increase with the 10%, and then subsequent to that, I would say we are looking at the full spectrum. And we wouldn't rule out anything, but like to have a full optionality. And then in terms of tax rate, we don't expect it to change significantly, but maybe a little early to tell.

But I think, from the overall perspective, nothing that would make a significant difference, economically, from our perspective.

Sven Weier

So the guidance of 30% to 35% is still the right one?

Thomas Toepfer

Yes.

Sven Weier

Okay, clear. Thank you.

Operator

Our next question comes from the line of Frederik Bitter of MainFirst. Please go ahead.

Frederik Bitter

Good morning. Thank you for taking my questions. I would have four, of which, three are, sort of, more confirmation questions. I'll start with the first one. Is there any agreement at this stage with Weichai Power

as regards the intended capital increase, or any further measures?  
Could you clarify on that, please?

Thomas Toepfer

Well, obviously, there is an agreement, and we wrote that Weichai is fully supporting this, so they will participate in the capital increase, because they don't want to be diluted. But are interested to, at least, keep their current position. And, in that sense, we have this agreement with them that this will, obviously, be dealt with.

Frederik Bitter

So in other words, they would also be... would they be willing to do the whole 10%?

Thomas Toepfer

I think we would probably run into, let's say, regulatory difficulties. But what they have said is that they would, at least, like to maintain their stake.

Frederik Bitter

Thank you. Confirmation questions of that sort. Will KION take over all liabilities in the first step of Dematic? Did I understand it correctly?

Thomas Toepfer

Yes, I mean, we will take them over, and then we pay them.

Frederik Bitter

Thank you. And then also, are we talking about industrial net financial debt, or industrial net debt to adjusted EBITDA as a key measure of leverage? I think you used both in the call earlier, so I was a bit confused.

Thomas Toepfer

So industrial net operating debt is what we're looking at.

Frederik Bitter

So is it the industrial net debt or industrial net financial debt, sorry?

Thomas Toepfer

Industrial net operating debt. So we take the net financial debt, and then we add the pipe, which is due to the financing of the short-term rental fleet. And that is a number that we've always given in our presentation. So that is if you take the latest number, the 1.021 billion, as at March 31<sup>st</sup> of this year.

- Frederik Bitter                      So as expansion liabilities, as you mentioned earlier, correct?
- Thomas Toepfer                      Correct.
- Frederik Bitter                      Okay. Thank you very much. And then on KION, how shall we think about KION depreciation and amortisation, post the deal? And I'm especially highlighting PPA. I'm just curious to know about PPA. Any comments on that?
- Thomas Toepfer                      Well, I mean, we have to go through the purchase price allocation, obviously, and I think this is a very intensive process, and we will have to wait to see what the exact outcome is. But I think it's fair to expect that there will be some amortisation and depreciation coming out of this.
- Frederik Bitter                      Sure. But no comments on any quantity?
- Thomas Toepfer                      No. Because it's too early to say.
- Frederik Bitter                      Sure. Last one, please, and I'll leave you alone. The 12% margin target, is that still valid for 2018?
- Thomas Toepfer                      Yes, that's unchanged.
- Frederik Bitter                      Thank you.
- Operator                              Ladies and gentlemen, as a reminder, if you would like to ask a question, please press the star, followed by one, at any time. And our next question comes from the line of Richard Schramm of HSBC. Please go ahead.
- Richard Schramm                      Good morning, gentlemen. I would first be interested in what is the order backlog you take with Dematic? So what is the visibility going forward in this business? And is there a specific seasonality, or a quarterly order inflow more due to the just the size of orders? If you

have a bigger one, or if you have more normal business included here. That would be my first question.

And my second is concerning the market position. You mentioned you claim a leading position for Dematic in the US and in Europe. Can you put a market share to this, to give us an idea? Especially if it's a leading position in Europe with only 22% of sales there. It seems that the European market is obviously massively underdeveloped in this respect, and obviously then has the opportunity to catch up here.

And last, concerning the profitability of Dematic. It's interesting to see that the margin is here, already an impressive level, compared, obviously, to peers. Is it fair to assume that if we look to the regional split of profitability, that the US stands out here with an above average position that other markets are less profitable at the moment? Thanks.

Gordon Riske

Basically, your questions two and three somehow go together. If I say market shares and try to put it into a number, we're looking at between 20% and 23% of Dematic's position in North America and in Europe. However, in Europe, instead of, you know, two, or three, or four bigger players, we have a number, you know, even Egemin counts to that.

Egemin is in the top 20, so you know, the first five or so is half the business, and then we have a lot of smaller ones. And so the competition, or the speciality of the European market and its customer base, is much more complex than it is in North America.

And that is why we have, in Europe, because there are so many more players, some family companies, or family owned companies, that maybe don't have the same type of, you know, running a business, as we see it, is slightly less profitable in general. And the North American is more profitable, because it's bigger systems, higher throughputs, running... the clock runs really faster in North America and Asia.

However, having said that, with KION's position in Europe, with our very extensive sales and service network, with Dematic's technology that they have available, we do believe that some of the smaller players, due to lack of size and scope, will not be able to keep up with some of the key customer demands.

And we're already seeing, you know, enquiries, what we've seen in due diligence, that some of the global or big US players are looking how to expand their operations in Europe, but you know, maybe haven't felt so comfortable on who can supply these systems.

And with KION in the background, and all of our service capability, that question gets a whole new answer. And so you're absolutely correct, the numbers for Europe are a little bit different than in North America, but we feel confident to match those up. And the track record of Dematic in Europe has been good in the last years.

Thomas Toepfer

On the order backlog side, I think the comment that I would make is that KION has a good visibility on our business, but the visibility from Dematic is even higher, because the projects have a longer lead time. So the order backlog, relative to their sales, is higher, and therefore, the visibility is even higher than in the business that we currently have.

Richard Schramm

Okay. So obviously, no figure available, but we can assume that the backlog is above the sales level at the moment? That's correct?

Thomas Toepfer

Well, what I said is that the backlog, relative to sales, is higher than what you see for KION.

Richard Schramm

Okay. Thanks.

Operator

Ladies and gentlemen, as there are no further questions, I'd like to pass the call back to the CEO, Mr Gordon Riske, for any closing remarks.

Gordon Riske

Thank you very much for participating and for all the questions, and especially so close to the announcement this morning for the very deep interest in KION. You know, we will continue to inform the market as things develop. Again, this is really a transformational transaction.

As we said, we believe the combination of Dematic and KION is a one time thing in the world of Intralogistics solutions, and we have, really, a premium leading position. And we're very excited about the next quarters and years coming up, to be able to report to you on the progress that we're making. So thank you for participating in this call.