KION GROUP AG

FY 2017 Update Call

Conference Call Transcript

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Dr Thomas Toepfer (CFO)

Gordon Riske

Yes, thank you, and welcome to our update call for the full year 2017. Today, we will be presenting detailed results for 2017 as well as our outlook FY 2018 and an updated strategy KION 2027 for continued profitable growth. As a basis for this call, we would like to use our presentation that is FY 2017 available on kiongroup.com under Investor Relations in the Presentation section.

We will be presenting in five parts during today's call, and we will then open up the discussion for your questions. I will begin with the strategic and financial highlights for the year 2017 followed by a market update. I will then hand over to our CFO Thomas Toepfer for the financial update, and we will continue with our outlook for the FY 2018. Last but not least, I will talk a little bit about our updated strategy KION 2027.

So, following along on page 3, we have summarised our strategic highlights for the FY 2017. Commercially, we had a strong focus on our continuous expansion of our offering across all segments and regions. In April 2017, we attended the ProMat trade show in the US, which is a leading trade show for material handling industry. We released five new trucks based on our global platforms and adapted specifically to the US market. This was the first trade show where Dematic, Linde, Baoli jointly showed their products.

In September 2017, Dematic signed an agreement with the Norwegian company AutoStore. AutoStore is a provider of module piece-picking systems and will enable Dematic to expand its omnichannel integrated solution offering with an ultra-high-density storage and goods-to-person piece-picking system to optimise order fulfillment and kitting. Dematic will design, configure, engineer, install, and support AutoStore as a subsystem within an overall Dematic solution globally.

Also in Q3 2017, our brand Linde announced the market launch of new lithium-ion battery trucks with 2 to 3 tons payload capacity. This represents a significant expansion of our portfolio of lithium-ion-driven industrial trucks.

And most recently, in January 2018, we agreed upon a strategic and exclusive global partnership with EP. EP is a Chinese company having its focus on entry-level warehouse equipment. The exclusive strategic partnership will allow us to capitalise on growth in the global warehouse market.

Operationally, in March, we announced that we are expanding Dematic's European production footprint with a new factory in the Czech Republic next to our ITS factory. The ramp up will be completed in Q1 of this year.

Financially, and regarding debt and debt levels, during the first half of 2017, the KION Group obtained its first investment-grade rating, issues a promissory note of €1 billion, and we successfully completed a capital increase with gross proceeds of around €600 million, thereby lowering our net debt and leverage ratios.

Moving on to page 4, we have summarised our financial highlights for the FY 2017. We achieved record results and fully met our adjusted outlook that we published last October across all KPIs for the full year 2017. Regarding the top line, order intake for the KION Group grew to €8 billion and revenue to €7.7 billion. For the full year, the Industrial Trucks and Services segment increased its order intake by 8.8% to €5.9 billion and its revenue by 8.2% to €5.6 billion. Supply Chain Solutions segment showed a first full year order intake of €2.1 billion and revenue of €2.0 billion, mainly driven by the acquisition, of course, of Dematic in November 2016.

On profitability, the KION Group's adjusted EBIT margin improved to 10% compared to 9.6% last year, totaling to €766 million for the FY 2017. The ITS segment showed a slight margin increase to 11.4%, while SCS expanded its margin to now 9%.

Compared to the end of 2016, net financial debt was reduced from €2.9 billion to €2.1 billion as of yearend 2017. Driven by a strong operating performance, we generated a free cash flow of €378 million in the FY 2017.

Moving on to net income and our dividend proposal, we generated net income of €426 million in 2017, which includes a substantial positive one-time non-cash effect of €92 million from the approved US tax reform. Excluding this effect, pro forma earnings per share are €2.91, up from €2.38 in 2016. We are therefore proposing to the AGM a stable payout ratio at 35% of this pro forma EPS, which results in a proposed dividend per share of €0.99. This is a 24% increase above the dividend paid last year, €0.80, in the FY 2016.

So, let's move on to the market update. I am on page 6, focusing on the industrial trucks. And it shows clearly the global market development by region and a robust market last year. Overall, the market had steady growth path in Q4 and thus saw a strong finish to the year with 21% growth in the fourth quarter. Western Europe showed a persisting momentum with growth of 11.6%, again in the double-digit range. Eastern Europe grew at 19.4%, again displaying a steady growth in key markets. And China saw continued very strong dynamics with orders growing at 35%, driven among others by continued government spending, resulting in strong demand for economy IC trucks and also an increasing trend from manual to electrified light-duty warehouse trucks. North America grew strongly by 26.1% in Q4, catching up on a weaker Q3. South and Central America stayed on its recovery path with a strong growth of 39.8% in Q4 2017. As a result of these regional developments, the global market grew at 21% in Q4 2017.

And on page 7, we give you the comparison, the world market to KION's growth in the industrial truck segment by region, again measured in units per order intake. In Western Europe, we saw very good growth of 8.6% in Q4, even though we grew slightly below the market. Eastern Europe, we grew steadily and well above the market with 29.5%. And China KION saw again a very good quarter with growth of 14.3%, even though it lagged the market. As you know, we have a much stronger position in premium electric and warehouse trucks, whereas the market grew heavily in the economy segment of IC trucks. North America Q4 demand for KION trucks grew by 19.8% after an exceptional growth period from the new product introductions earlier in the year. South and Central America, KION saw a great finish with growth of around 21.3%. So overall, KION again saw a good Q4 with global unit growth for order intake of 10.9%, benefiting from the continued strong global market.

We recognised a total order intake for KION of 54,000 units in Q4 and, for the first time, reached more than 200,000 units in the FY 2017 for order intake.

Moving on to Supply Chain Solutions market on Page 8, as you know, there is no monthly industry statistic for Supply Chain Solutions. We can, however, approach the market via growth drivers and related proxies. Besides E-commerce, the Supply Chain Solutions market is driven by automation and digitalisation.

Related growth proxies are the following: the E-commerce Foundation's outlook for global E-commerce market anticipated growth of 17% in 2017. According to a survey by the Peerless Research Group, capital expenditure on enlarging and modernising warehouses and on the related technologies was expected to increase by around 9% in 2017. A logistics and real estate series of studies published by bulwiengesa AG shows that there was a 12% more logistics space in Germany in 2017. And these proxies simply confirm that the market for Supply Chain Solutions sustained its growth trend in the year 2017.

And with this, I would like to hand over to our CFO Thomas Toepfer, who will present the financial update.

Thomas Toepfer

Yes, thank you very much. And also, very warm welcome from my side. I am on page 10, where you have the key financials for the FY 2017. On the very left-hand side, you have the order intake. And you can see that we saw strong growth of 36.8% to almost €8 billion with an order book that, at the end of the year, stood at €2.6 billion, clearly above the previous year level.

Then the column next to that is the revenue. You also saw strong growth, up 37% to €7.6 billion, and you can see in the bullets below that we had negative FX translation effect on order intake and revenue of €47 million and €48 million, respectively. And those relate only to the industrial truck segment.

Then if you look at the adjusted EBIT, that number is up by 42.5%, and we reached €766 million. And that represents a margin of 10%, so above the already strong previous year level of 9.6% and despite the fact that we did have material cost headwinds and negative transaction effects, specifically from the British pound.

And then on the very right-hand side of that page, you see we achieved a net income of €426 million, strongly above previous year. And while this is supported by a strong operating performance, the increase also includes, as we obviously said very clearly, a positive one-time non-cash effect from the approved US tax reform in the order of magnitude of €92 million.

So, on that basis, the proposed dividend of €0.99 is based on a payout ratio of 35% of a pro forma EPS of €2.91. And that excludes the mentioned effect from the US tax reform. The unadjusted EPS would have been €3.72.

So, with that, please turn to the next page, page 11, where you will see the same set of numbers for the fourth quarter of 2017. Order intake on the left hand grew by 27.9% to around €2.3 billion. Revenue also up to around €2 billion, and the adjusted EBIT grew 19% to €204 million, which represents a margin of 10.3%, again well above the Q4 2016, despite material cost headwinds and negative transaction effects.

Net income for Q4 came in at €196 million, significantly up above the previous year, of course, including the positive one-time non-cash effect from the tax reform in the United States, which we mentioned before. And without this effect, the net income would have grown by 26.8% in Q4 to around €104 million. So overall, we saw a strong set of results in the last quarter of 2017 with improving margins, despite the continued headwinds.

And with that, let me dive into the two operating segments that we have on page 12. You have the numbers for ITS for both the full year as well as for the fourth quarter. Order intake grew by 8.8% to €5.9 billion for the full year and by 7.9% to €1.6 billion in Q4. And the revenue is up by 8.2% to €5.6 billion in the full year and grew at the same rate to €1.6 billion in Q4.

Just if you look into this, you will see that the new business grew at 9.6%, and the services at 6.9% in the full year. So, both segments of the revenue were clearly contributing to the overall growth.

If you look at the adjusted EBIT, that number is up 9.1% to €640 million in the full year. And that equals a margin of 11.4%. And in Q4, the number is up 9.4% to €192 million, again with a very strong margin of 12.3%. So overall, we saw a continued growth and a slight margin improvement in the ITS segment in 2017.

And if you turn the page, you will see the same set of numbers for our Supply Chain Solutions segment. So, for the first time, we are showing the full year results of Dematic following the acquisition in November 2016. And you can see that the order intake totaled €2.1 billion in the full year and €693 million in Q4 2017. And especially the later, the number that I was just mentioning, the quarter confirms that Dematic saw an uptick in order activity in Q4, also supported by a single large order of around €100 million, which we received in November 2017.

If you look at the revenues, we achieved €2 billion for the full year and €413 million in Q4. In general, we achieved more of half of that in North America. If you look at the adjusted EBIT, overall number is €181 million for the full year and €27 million in Q4. Therefore, we achieved a margin of 9.0% for the whole year and 6.6% in Q4.

Again, let me remind you that the weaker margin in Q4 reflects the seasonality. We were alluding to that in previous calls, which is typical for that segment. But overall, we saw first full year results of Dematic with a clear margin improvement, and it fell well in line with our initial and, of course, our adjusted guidance for the year.

So, with that, let us turn the page to page 14, where you see the reconciliation all the way from the adjusted EBITDA to the net income for the Group. And as usual, I will only pick out and talk about some selected highlights, the first one being the non-recurring items. You see the negative €40 million. Those resulted mainly from expenses relating to the integration costs for Dematic and the Monterrey ramp up, which is now completed and which is absolutely in line with the guidance that we have given.

The second one is the PPA items, so the negative €176 million, which relate mainly to the purchasing price allocation amortisation for Dematic. And please remember the number in the previous year. That still relates to the KION acquisition items for 2006, which we didn't see any more in 2017.

Number three I would like to pick is the net financial expenses, negative €81 million. This reflects among others our optimised financing structure following the capital increase in May and also the refinancing through the promissory notes in February of last year. And last but not least, you see the pro forma EPS, which is adjusted for the one-time non-cash effect from the US tax reform.

If you please turn the page, you can see the cash flow statement. And also, as usual, I will start with the last line on that page. You see that we achieved a strong free cash flow to the firm of €378 million for the full year. And of course, our free cash flow to the firm is before interest payments. Overall, the performance was mainly driven by a higher EBITDA as a result of our strong operating performance.

And then let me pick out just two more items, first one being the change in net working capital. That simply reflects the Groups higher business volume. And the second one is the other line item, where you see that, in the previous year, so in the year 2016, that number included cash outflows due to some pre-contract expenses at Dematic in connection with the acquisition by KION. So, the shift that we see is simply due to the effect that we had in 2016.

Please turn the page to number 16, where you see the net debt of the business. On the very left-hand side, you see the pure net financial debt, which was significantly reduced by roughly €800 million to €2.1 billion at the end of December 2017 compared to the €2.9 billion, which we had a year before. And obviously, the main drivers for that was the capital increase, which we completed in May, and our strong free cash flow generation.

In terms of leverage, that represents a net financial leverage of 1.7x. However, you know that we are rather looking to the middle of that page, where it shows our industrial net operating debt.

Also, that number was reduced very clearly to €2.5 billion. And the respective leverage was 2.3x. You know that our target is to reduce this leverage further to around 2x over the course of this year. And obviously, this is before any accounting changes that might come with the new IFRS rules.

If you look at the right-hand side of that page, in the text, you see that, for our end customer financing or long-term leasing activities for the industrial trucks business, essentially, the assets and also the corresponding sale and leaseback liabilities grew roughly in line. Remember, it's essentially a flow-through business. And that's also reflected in the numbers.

So with that, please turn the page to 17. And that shows you the maturity profile of our debt. So remember, in January, the promissory notes issuance of around €1 billion allowed us to repay part of the bridge loan, which was maturing in 2018. And it also extended our maturity profile to 2022 and 2024. And then in May, we successfully completed the capital increase with gross proceeds of €603 million. And we used the proceeds to fully repay the remaining tranche which was due in 2018, so that overall, you can see we have strongly improved our maturity profile in the course of 2017. And in addition, in January of this year, we have also extended the term of our RCF line to February 2023. So I think, overall, you can see that, over the course of the year, we have essentially fully accomplished the refinancing of the Dematic transaction.

Please turn to the next page, number 18, which gives you some insights on how the new IFRS accounting standards may impact our financial statements. And I will talk you through. You see we have classified it by the three key standards which will affect us.

So starting with IFRS 9, that standard will essentially result in a changed impairment model for financial assets, which is now based on expected losses. And our estimate is that this will lower the necessary loss allowance that we have in our balance sheet. And the effect of that will be between €25 million and €35 million, again, positive effect, which will have, of course, an effect on both the asset side as well as the equity side to the same extent.

The second IFRS change comes with IFRS 15, which targets the revenue recognition in general. And as we see today, there will be no material impact on the revenue recognition in our IT&S segment. However, for SCS, we expect to see revenue for some selected construction contracts that could be affected by some timing shifts. However, I would very clearly say that the overall impact of that should be rather minor. So the one-time effect of the adoption could be anything between 0 and €50 million on the balance sheet, again affecting both sides, the assets and the liabilities. Overall, I would see this as a rather de minimis effect in terms of impact.

And the third one, which is clearly more significant, is IFRS 16, which concerns leasing and essentially will reclassify some transactions which were previously shown as outright sales into lease transactions. And secondly, procurement leases will generally be put on the balance sheet. And as you can see in the little table which we have put on that page, that will essentially result in a balance sheet extension by up to €1 billion, so that, as a result, the leverage on the industrial net operating debt may slightly increase. However, again, let me remind you it is a pure accounting effect and, therefore, operationally or economically is insignificant.

And with that, I would like to turn it back to Gordon Riske, who will present to you the outlook for 2018.

Gordon Riske

Thank you. I am on page 20 with our outlook comparison for the FY 2017. As you know, our initial outlook for the year 2017 was adjusted slightly downwards in October 2017 to the adjusted outlook shown on this slide. Clearly, this downward adjustment, mainly due to the weaker-than-expected order intake performance at the segment Supply Chain Solutions was very unfortunate. Today, we can report that we have fully achieved this adjusted outlook across all KPIs for the Group and for both segments.

Moving on to page 21, let me present you now with the outlook for the FY 2018. This is also in our Annual Report. But for the market environment, in view of the generally positive macroeconomic prospects, the KION Group anticipates that the worldwide market for industrial trucks and warehouse systems will continue to expand in 2018.

Following very strong growth in the global market for new industrial trucks in 2017, growth rates are predicted to normalise, returning closer to the long-term trend of around 4%. Demand for Supply Chain Solutions is likely to be underpinned by the strong inclination to invest seen in the main customer industries in connection with multichannel and E-commerce strategies. In the years ahead, market growth of around 10% per year is predicted.

So that means, for the KION Group, in 2018, we aim to build on our successful performance in 2017. And based on the forecast for market growth, we aim to achieve further increases in order intake, revenue, and adjusted EBIT. The order intake of the KION

Group is expected to be between €8.05 billion and €8.550 billion. The target figure for consolidated revenue is in the range of €7.7 billion to €8.2 billion. The target range for adjusted EBIT is €770 million to €835 million, equal to an implied margin of 10% on the lower and around 10.2% on the higher end.

Free cash flow is expected to be in the range between €410 million and €475 million. The cash payment for the planned acquisition of a non-controlling interest in the Chinese company EP Equipment has already been factored into these numbers. I would also like you to note that this KPI is adjusted for effects of the new IFRS accounting standards for the first time. Comparable free cash flow for the FY 2017 including the IFRS impacts would have been around €80 million higher.

The target figure for return on capital employed is in the range of 8.7% to 9.7%. Here, also note that the return on capital employed guidance for 2018 is impacted by the new IFRS accounting standards for the first time. Comparable ROCE for the FY 2017 including IFRS impacts would have been 9.1%.

For the segment Industrial Trucks and Services, order intake in the Industrial Trucks and Services segment is expected to be between €5.950 billion and €6.150 billion. The target figure for revenue is in the range of €5.7 billion to €5.9 billion. And the target range for adjusted EBIT is €650 million to €685 million.

For the segment Supply Chain Solutions, order intake in the Supple Chain Solutions segment is expected to be between €2.1 billion and €2.4 billion. And the target figure for revenues is in the range of €2 billion to €2.3 billion. The target range for adjusted EBIT is €180 million to €215 million. Also, please note that the outlook is based on the current exchange rate environment and the assumption that material prices will hold steady.

Now I would like to move on to the KION strategy, KION 2027. Looking beyond 2018, we have updated our Group strategy, which we would like to introduce to you today. And we are on page 23. Based on our 2020 strategy, we have achieved profitable growth, efficient use of capital, and a high level of resilience to economic fluctuation over the past 5 years. And the strategy was developed before the acquisition of Dematic, the 2020 strategy. We have taken the year 2017 to further shape our strategy and therefore created KION 2027. And this strategy builds on the success of the previous strategy and takes into consideration our excellent starting position following the acquisition of Dematic and the new governance structure.

On page 24, you will recognise our unchanged aspiration for profitable growth. As before, the KION Group is striving to steadily increase its share of the global material handling market while continuing to have the highest profitability in the industry. The other goals are to ensure the KION Group remains crisis resistant and maintains an active and attractive return on capital employed. Beyond this, KION 2027 is aiming to unlock the potential of all parts of the Group and to focus even more on our customer needs.

And on page 25, we describe how we will achieve this aspiration. KION 2027 provides guidance on the strategic direction for the next decade. At the core of our strategy are material handling solutions offered to our customers. The KION Group wants to evolve more towards being a solution provider in both segments.

We have therefore defined five fields of action for the KION 2027 strategy. Energy, we want to lead the way in terms of efficient energy use by our products and solutions. Thanks to the high energy efficiency of our premium brands' products, the KION Group is a global market leader today for electric forklift trucks and warehouse equipment. A focus of this strategy will be to develop and commercialise new energy sources for industrial trucks and related services, such as the provision and advice on energy matters.

Digital, the KION Group will transform its business in an increasingly digital world. The digitalisation of customer solutions, which will include fully automated warehouses, incorporating robotic solutions, will be accompanied by the digitalisation of internal processes. Digital solutions will be developed for customers to improve the efficiency of their own intralogistics. We will not only integrate software into solutions, but also increasingly market these solutions to customers as a separate product. New internal organisational structures will enable us to cater to the high expectations regarding the speed at which solutions are created and adapted.

Automation, our solutions will enable customers to use automated technologies effectively and easily and will help them to achieve lights-out warehouse. Today, the KION Group with its two segments covers the complete spectrum from customers with just one forklift truck to those with fully automated large-scale warehouses. KION will develop different solutions enabling us to offer customers a scalable automation solution that is suited to their particular requirements.

On innovation, the KION Group is driving innovation in the material handling market with an effective innovation ecosystem at cutting-edge rapid development processes. It is developing new technologies into innovative products for use in both segments. And for this purpose, we enter into strategic partnerships with research institutes, universities, and innovative companies empowering us for the development of desired new products and solutions.

And lastly, performance, we are continually improving our internal efficiency and the performance of our products from a customer perspective. We are continuing to fully leverage our synergies across the entire Group. We will provide a much deeper insight into our strategy KION 2027 at our Capital Markets Day in Frankfurt at the beginning of next week. And we are looking forward to welcoming many of you on that date.

Looking on to page 26, you will see our financial calendar. The next event after our Capital Markets Day will be the presentation of our first quarter results on April 26th, 2018. Our Annual General Meeting will take place on May 9th, 2018, also in Frankfurt.

And with this, we would like to close the formal part of this update call and turn it back to you, the operator, so that we can take your questions.

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. One moment for the first question please. The first question comes from the line of Felicitas von Bismarck of Deutsche Bank. Please go ahead.

Felicitas von Bismarck — Thank you very much. Three questions, please. First of all, could you maybe comment on the key margin drivers that you were seeing for 2018 for the two divisions separately, so for Industrial Trucks and for Supply Chain Solutions?

The second question would be on the accounting changes. I think these will cause your equity ratio to drop some percentage points. Could you give us a level which would make you starting to feel uncomfortable here or a target level of equity or anything like that?

The second point related to that would be, did you just mention that it will change the way you are calculating your net debt? And if yes, can you please comment on how and give us an indication how this will change?

And lastly on this one, just did I understand correctly on the free cash flow that it would have been around €300 million for this year if you had already introduced these accounting changes, or the other way around?

And then the last question would be on your guidance for orders for the Supply Chain Solutions. I think, on midpoint, it implies around 7% growth. This is clearly below the midterm outlook of this business. So I just want to know, are there still some short-term bottlenecks you see in the market, or is this more a Dematic-specific issue? Thanks.

Thomas Toepfer — Yes, so let me start with some of the financial topics that you were touching upon. So first of all, the accounting change, I think you are right. It will have an impact on the equity ratio. And I think, if you go to page 18, essentially, that gives you all the ingredients that you need in order to calculate what the impact is. You have the impact on the balance sheet in terms of it will roughly be €1 billion of additional assets and liabilities. And you also have the impact on the equities side. And I think, if you take all this together, it is fair to assume that the equity ratio will roughly drop by 4 percentage points.

Now again, let me reiterate that is a pure accounting effect. Our business does nott change. Our business model does not change. It is just the way how it is represented. And therefore, this does not, I would say, leave us sleepless at night. And no, we do not have any specific target ranges for our equity ratio. I think we feel very comfortable with how the company is financed. So therefore, this is for us really a side note in terms of representation of the number.

Then secondly, you also asked, what is the impact on the free cash flow? Just to confirm, the impact is €80 million. So the free cash flow in 2017 would have been roughly €80 million higher had the IFRS standards already been applied to the 2017 numbers. So this is what you need to make it comparable.

And I think then on the guidance range for the SCS segment, yes, if you take the midpoint, you are absolutely right. But you also see that we have on the high point a clear double-digit growth. What we have reflected here is it is a lumpy business. And unfortunately, the order intake and revenue does not always exactly come in terms of the quarterly financials. So that is reflected essentially in our thoughts when we put the guidance together.

Felicitas von Bismarck — Can I just ask if you -- don't you -- isn't there some kind of probability adjustments in there? So if you would think it would be double digit, wouldn't be the midpoint 10%, if you don't see any specific negatives coming up in the market, or is this just conservative?

Thomas Toepfer — Again, I would not say it is specifically conservative, Felicitas. What we did, as I said, is reflect the fluctuation in the business. But I can at the same time confirm to you that our view of the market in terms of growth, as Gordon just said, clearly is that the market will grow at around 10%. So that is unchanged. And our ambition, just to make that very clear, is of course to grow in line or slightly above with the market, just to make that very clear.

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

Sven Weier — Yes, hi. Couple of questions from my side. Maybe we can go through them one by one. The first one is on Supply Chain Solutions. And I was wondering if you could give us an update on the three factors that you have mentioned in October that caused the guidance adjustment on the client postponing orders and delays in the project approvals. Just wondering where you stand on those three items. That would be the first question, please.

Gordon Riske — Good. I mean, you saw, with the €693 million, we had a great fourth quarter in order intake. So I think that's an important point to note. If I think about the hesitation to invest, despite growth, the first one, I mean, it depends on which country you are in. That seems to be -- at least in the fourth quarter and right now, that is fine.

Number two, delayed projects, we had some big projects that were delayed. One of the big ones, as Thomas mentioned in his section, we did get a €100 million order in November. So, I think we have made progress.

The last one, lost orders, that is an important one because I would say the customers that we have disappointed when we were ramping up the Monterrey factory -- and Monterrey, as I said, is now behind us, is fully functioning, everything is fine. We have had many, many customer visits. And recently in this quarter, we have had several customer visits to the new factory, Stříbro 2, which is coming on-line. So we have I think from our customer base a good enthusiasm that now we have a solid European base by which to deliver to them instead of coming from Mexico or from China. So, on all three topics, we have made good progress.

Sven Weier — Okay. And the second question is on your margin guidance for Supply Chain Solutions, which just implies a small improvement at the high end. I was wondering why you are not foreseeing a bigger improvement on the margin there this year.

Thomas Toepfer — I think, first of all, I would like to say that we have seen a clear margin improvement 2017, absolutely in line not only with the adjusted guidance, but also fully in line with the original guidance, and we are very happy with the achievement that we have made, specifically with respect to Monterrey, which remember was an issue when we were speaking a year ago. There were many question marks from you guys. And I think that was absolutely resolved in a very professional manner.

So the step up in 2017 was, in our view, absolutely pleasing. And therefore, now the further increase in margin will simply be a little

	slower. And I can only come back to what I said earlier. It is a lumpy business, and of course, we have also learned from the experience in October last year. And therefore, this is what we think is an appropriate guidance for 2018.
Sven Weier	Okay. And the target remains 12%, right?
Thomas Toepfer	Well, on this one, we always said the target for the overall Group remains 12%. And we said both segments will contribute to that essentially journey to expand the margin. They have different starting points. And both, as I said, will contribute in the same way. We never said that both segments will achieve a 12% margin by themselves.
Sven Weier	And then on the order guidance range you give for Supply Chain Solutions, what kind of currency translation effect have you baked in because I guess that is a meaningful impact that probably the organic growth that you see for the orders is much higher than what we see on the guidance range, right?
Thomas Toepfer	Yes, I think that is a very fair statement. Please remember more than 50% of the business is in the United States. And therefore, the strong euro hits us in terms of the translation effect that is behind it. So I think, speaking rough numbers, every euro cent movement in the exchange rate will have for KION an impact of roughly €15 million in terms of the revenue. And therefore, it does have a significant impact.
Sven Weier	And the last question is just following up on Felicitas regarding the impact of the accounting change on free cash flow. I mean, I do understand the impact on balance sheet and P&L. But why does it also impact your free cash flow so materially?

Thomas Toepfer — That is a very simple one. That is just a reclassification. So essentially, in terms of the procurement leases, everything that was operational expenses and therefore showed up in the operating cash flow previously will be reclassified as financial expenses and will show up in the financial cash flow. And therefore, bottom line remains the same, but the free cash flow increases by €80 million.

Sven Weier — Okay. Understood. Thank you.

Operator — The next question comes from the line of Martin Wilkie of Citi Research. Please go ahead.

Martin Wilkie — Yes, thank you. It is Martin from Citi. Just quickly following up first on the Dematic margin, two questions on that. I appreciate the semantics around the 12% target. But just to clarify, obviously, when you made the acquisition, you talked about run rate cost synergies of 1% to 2% of Dematic sales. I just wanted to check that that was still doable, given the apparently limited progress that looks to be the case for 2018.

And then secondly, obviously, there is lots of mix effects within this. I mean, you obviously have won a large contract, the €100 million or so from November. Is that a factor as well, the certain contracts that may be more tilted towards product versus software and so forth? Does that cause a margin mix effect that could also be something of a consideration in 2018? Thank you.

Thomas Toepfer — Well, let me maybe start with the cost synergies. As you correctly said, and let me just reiterate, we said at the beginning of the transaction that we were expecting 1% to 2% of the Dematic revenues to flow in as EBIT-relevant cost savings. And roughly 50% of that has materialised in 2017, mainly due to some cost savings, which we achieved in the former Dematic headquarter in Atlanta, but also by bundling services from our auditors or consultants, etc. So, I think that has fully materialised. And we are expecting that the remaining 50% of that number will come through in 2018.

However, the background is a different one. This is more driven by purchasing savings because we are bundling purchasing volumes for the two businesses. So I think I can fully confirm that. In terms of the mix effects, I would not see specifically that the large order that you were alluding to has a negative mix effect. Of course, some orders are more profitable than others. But this is not specifically driven by size. And therefore, from that perspective, there is no specific effect that I would think is relevant.

Martin Wilkie

I guess, if we put that together -- I mean, I appreciate the comment you made that each individual division does not necessarily have to meet 12%. But if you have already reached the 50% of the synergies, obviously, there would be some benefit that the Monterrey challenges will no longer repeat. But essentially, do you see Dematic as essentially -- or SCS as a sort of 10-or-so percent margin business in the long run, given that you have already got 50% of these synergies already in the 2017 numbers?

Thomas Toepfer

Well, I mean, just again, we do think that both segments will expand their margin going forward, a very clear statement. And also, Dematic will do so. However, the step up, especially in 2017, was so high that the incremental increase in 2018 will be a little lower. So I can just confirm that we will see further margin improvement for both segments. And that is also reflected in the guidance.

Martin Wilkie Okay. Thank you.

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

Jack O'Brien Hi, good afternoon. First question relates to Dematic and your tie up with AutoStore. I have noticed that Amazon and Alibaba, that they are using more and more of these sort of self-driving bots around their warehouses. And so is your AutoStore tie up one way of sort of trying to tap into the growth in that market? Perhaps let's do them one by one.

Gordon Riske Good. The self-driving units that Amazon has that they purchased the company some time ago are a little bit different. The AutoStore solution is for a different density of warehouse. They are not self-driving on the floor, but they are within a racking system. And so we are using this as part of our entire system, even with multishuttles and all the other pieces of equipment we have. So, it is a little bit different technology.

Jack O'Brien Okay. Perfect. And is that an area that you think you would like to expand into, given the growth and the rise in the last year or two?

Gordon Riske Well, as part of -- customers, two of them you have just mentioned, as part of the KION 2027 strategy, it is clear in the areas of automation, robotics, lights-out warehouse that we will not be able simply due to speed invent everything our own. So

	we will continue with partnerships or what we just did recently with EP on the ITS side, acquire pieces of companies that can help us in technological areas that we need to grow in or where the market is changing to. So that pattern of hooking up with partners will continue in the next coming years.
Jack O'Brien	Okay. Great. And just changing tack slightly, if we think about the raw materials, how big a sort of EBIT impact was that on your business in 2017 do you think?
Thomas Toepfer	Well, we said there were two major headwinds in 2017, one being the British pound, and the second one being the raw material impacts. And the rough quantification that we have given to you was the British pound was roughly €25 million, and the raw material was more €20 million. Sorry, just the other way around. I was just getting some signs here. So €25 million was the raw material, and €20 million is the British pound, the British pound being evenly distributed across the year, and the raw material impact mainly came in, in the second half of the year, but that is the order of magnitude.
Jack O'Brien	Okay. Perfect. And on your -- obviously, there is quite a lot of rhetoric in the market at the moment about rates rising, etc. Does that have -- what sort of impact does that have on your leasing business?
Thomas Toepfer	If I got the question correctly, if rising interest rates have an impact on our leasing business was your question.
Jack O'Brien	Yes, just historically, how rates have impacted your leasing business and if that is a consideration or not for 2018/19.

Thomas Toepfer | No, I would not say that this is a specific consideration for our business. First of all, the interest fluctuation is still relatively small on a low level. I think the bigger impact comes from the fact that we are trying to internalise part of the business and to offer financing solutions to our customers through ABS programs which we are setting up, and therefore internalising profits that otherwise banks would have made with our customers. So, I think that is a much bigger lever. I think the interest rate level per se is not a major driver and not a consideration.

Jack O'Brien | Okay. And perhaps just one final one before I hand over. Mr Toepfer, I know you are leaving in a couple of weeks. Is there any news on a sort of successor?

Gordon Riske | When we have the news, of course, we will announce it to the market. That is a process that is well under way. We are very confident about this process with our supervisory board. Rest assured everything will be fine.

Jack O'Brien | Great. Thanks for your time. Cheers.

Operator | Next question comes from the line of Omid Vaziri of Jefferies. Please go ahead.

Omid Vaziri | Yes, hi, Gordon. Hello, Thomas. I was wondering if I could just pick the conversation on Slide 7 in your presentation pack. I always like to look at this slide as a first thing when they come through, the order intake unit turns and market versus KION. I have noticed that, over the last couple of quarters, KION has been underperforming in the Western Europe and in some of the other regions globally in unit terms. And I think I understand it is mainly due to some of the lower value warehousing equipment as a product category of the forklifts growing a little bit faster than the other two, other two being IC counterbalance trucks and electric counterbalance trucks.

However, these are -- just generalising a little bit -- lower value for lower-margin products. And to me, it looks like you like to highlight that you focus more on margin development rather than just outgrowing order intake in unit terms for the sake of growth, which is understandable.

Now I wish I had the order intake development and a comparison of KION's performance versus the market in value terms. So my question I guess has two parts. First part, are you able to add any color, any commentary as to the order value development of KION's, initially these key markets, especially Europe versus the market -- in Europe, KION versus the market?

And secondly, if the strategy is to really advance -- if the strategy is to then underperform on unit order intake, outperformance going forward, so it essentially keeps the strategy you -- the strategy of what you have done in 2016/17. Going forward, are you looking to readjust your product exposure to higher exposure to warehouse equipment, slightly lower as a result to electric forklift trucks and even lower to IC trucks? I understand the time dynamics in China. And I look at it as a kind of a one off, where economy IC trucks saw a very large uptick. So I would just exclude that from the conversation if possible. Thanks.

Gordon Riske

Well, okay. I will try to be to the point here. First of all, let us talk about Europe. We absolutely defended our castle last year with great success. If you look at the FY 2017, both Western, Eastern Europe, with 9.7%, 9.1%, 21.6% to 26%, we are very happy with what we have done because, as you correctly said, look at the results of KION and compare to other companies that also do have something similar to forklifts. There is quite a bit difference in the results of selling all these units. So yes, correct, we do have a premium market in Europe. We are up to more than 40% market share in electric trucks. There is no one even close.

If I look outside of Europe, especially in China, China is a very unique market at this time, not only the one side of government spending, so driving the growth of entry level or lower-cost IC trucks. Our division of lower-cost trucks with Baoli grew at the same rate, by the way. It is a small number, but grew at the same rate. But the entry-level warehouse equipment, which simply means you have about 1 million hand pallet trucks with no electric motors being produced in China each year. So if you think about only 10% of them moving to electrics, that changes the numbers quite a bit, and that is also one of the reasons we are working with EP and other partners. So that market has grown quite a bit.

Also, to be clear, we have no strategy to reduce market shares in any region, in any world, but we have always a balance to what is our market share and our profitability targets. And we have seen over the years, especially in Europe, it has paid off. We have kept the line on pricing. Yes, we have had attacks in 2015/16, even against some of our premium products. And if you look very closely in 2017, we managed to overcome that by quite a bit. So we have no targets to reduce our market shares.

Omid Vaziri — Thank you. And are you able to make any commentary around the order value development, KION versus market in 2017?

Gordon Riske	I'm not sure. We just released our numbers. In terms of value, they are a little bit lower, of course, than the increase of 13% in units. You saw the 8.6% on ITS. And you can compare that with the others when they release their numbers.
Omid Vaziri	For the regional split I meant, so say focusing on Western Europe, which is your core market.
Gordon Riske	Right. There is no -- the nice thing about the units is we have a so-called WITS, World Industrial Truck Statistics, which all companies report into. We have no comparable numbers with values because, also, values of a forklift, some forklifts that we sell have probably 20% options added to the additional forklift, and that is very difficult to compare.
Omid Vaziri	Yes, no, absolutely. And that is the very essence of my question. That is the main reason why I am asking the question in the first place. So if we looked to the same table in value terms, would you expect FY 2017 in Western Europe KION versus the market, how would it look different, maybe just directionally?
Gordon Riske	Not too much. We are market leader in units and market leader in values.
Operator	The next question comes from the line of Markus Almerud of Kepler Cheuvreux. Please go ahead.
Markus Almerud	Hi. Markus Almerud from Kepler Cheuvreux here. So two questions if I may. First, the underlying growth in orders and sales in Supply Chain Solutions, if you could help us with that, please, so just comparing with the pro forma figures for 2016.

And my second question is you now have around a third of sales in E-commerce in Supply Chain Solutions that you had in 2017. The 10% market growth that you are referring to, is it the overall market, or is it your addressable market would be interesting to know. Thank you.

Gordon Riske — Well, it is an overall market that we address, if I can maybe put it that way, because we do have some competitors that are in this scope that sell, let's say, plastic boxes and so forth within their warehouse systems that we perhaps buy or do not have in our program. So that is -- the 10%, we see that as an overall in this space growth driven by the higher growth markets like E-commerce.

Thomas Toepfer — And then just to your first question, and I think we already said that in our Q3 call, if you take the numbers like-for-like, you will see that the SCS segment has generated double-digit growth for the revenue line.

Markus Almerud — And in orders?

Thomas Toepfer — Order also, as we said before, slightly below that.

Markus Almerud — Okay. So that stays slightly below. Okay. And then if I can just follow up, so the 10% market growth that you are talking to, it is not -- because, obviously, the E-commerce part of the market is growing a lot faster than others. I think you had a nice breakup of different growth rate in the midterm and at your Capital Markets Day. So it is just the overall market you expect 10%.

Thomas Toepfer — That's correct.

Operator — The next question comes from the line of Peter Murdoch of Morgan Stanley. Please go ahead.

Ben Uglow — Great. Hi, Gordon and Thomas. It's actually Ben Uglow. Thank you for taking the questions. I had a couple. So first of all, just on the market outlook in truck, I just wanted your general sense of how you are thinking about 2018. There has been a fairly big increase in the North American market. Do you see that that growth rate during 2018, do you expect that basically to carry on quite nicely from here? And in contrast, how are you thinking generally about China, as we do see some of the data there beginning to plateau? So that was the first one.

The second one, Thomas, you very kindly gave us a way of thinking about the FX exposure in terms of revenue. But actually, what I was hoping for, what maybe you could steer us on is, in your thinking, how significant is the FX headwind on SCS at the EBIT level? I appreciate that you have probably got a range of outcomes. But it is very material to the guidance and how we think about 2019, whether that's a €2 million, a €5 million, a €10 million impact, whatever. So how should we think about FX on the SCS EBIT?

And the final question, just generally, Gordon, you have mentioned lost orders. Obviously, we follow and listen to what Honeywell and others do. To what degree have you seen any acceleration of pricing pressure within the SCS area? Is that part of your thinking about the margin guidance for 2018?

Thomas Toepfer — So let me maybe start, Ben, with some more color on the FX topic and give you some more background. So first of all, I would say roughly 20% of the overall business is in America, and this means mainly North America. So take a rough number, €1.5 billion sales are in US dollars. And I said, if the exchange rate varies with €0.01, so the dollar weakening or the euro strengthening by €0.01, the impact on the revenue, as I said, is anything between €10 million to €15 million. And on the EBIT line, I would say it is between €1 million to €2 million negative.

Ben Uglow — Thank you.

Thomas Toepfer — For the current guidance, of course, we have -- as we also wrote in the report, we have factored in the current environment.

Gordon Riske — So first question on market outlook, yes, the 2017 was a strong growth market. But as I said in -- leading into the outlook for 2018, following the very strong market, ITS 2017, we do predict somewhat normalisation, returning closer to the long-term trend of 4%. And at this point of the game, I think that is an accurate statement.

In China, we will have to see. It is Chinese New Year. That is over February. They have over 30% growth rate. The political party things are over with now. We do expect also a little bit of normalisation in the Chinese market, although I think that will still be in 2018 quite a bit higher than what we will see in Western Europe and North America.

And then last question, price pressure for this year versus last year, we do not see any significant change in terms of that on the SCS side of the business.

Ben Uglow — That's very helpful. Thank you.

Operator	The next question comes from the line of Glen Liddy of JPMorgan. Please go ahead.
Glen Liddy	Good afternoon. On the new plan for 2027, are there going to be any costs that are significant to be taken in the next two or three years?
Thomas Toepfer	I would say no, not specifically. I think the strategies that we are embarking on are fully reflected in our numbers for our CapEx. And that as a percentage of revenue will not change going forward. So you will not see any specific spikes in terms of necessary expenses here.
Glen Liddy	So there is no need for a material increase in R&D spending or anything like that.
Thomas Toepfer	No.
Glen Liddy	No. Okay. In terms of pricing for trucks in Europe or the types of trucks that customers are buying, is there any significant change in terms of them trading up to using more of your solutions or more expensive lease propositions, or is it very much a fairly stable environment today compared with two or three years ago?
Gordon Riske	It is a stable environment percentage wise, certainly, the warehouse business driven, again, by things like Supply Chain Solutions and more warehouses. The warehouse segment itself is continued growth, a wider range of products, more options, and so forth. What we are seeing also is an increase in mobile automation. That is warehouse products that we are certainly I think the leader in Europe and products without drivers, so automated forklift trucks that will certainly change and is certainly

	a bigger part of the future than it was three years ago. But in general, it is fairly stable with the one change much more driven by warehouse equipment.
Glen Liddy	Right. On one of your slides, you flagged a growth proxy for Germany, logistics space growing at 12%. Are you in Germany for your whole business keeping pace with that growth?
Gordon Riske	Yes, in Germany, we are with a wide range the absolute strongest supplier in this market.
Glen Liddy	Okay. That is great. Thank you.
Operator	The next question comes from the line of Alexander Hauenstein of DZ Bank. Please go ahead.
Alexander Hauenstein	Hello. It is Alex Hauenstein, DZ Bank. I have two questions. First of all, with regard to KION 2027, when I look back at your strategy 2020, implied if I remember correctly a 12% margin target, let us say, by that year. Can you actually confirm this number? I mean, is this margin still on the way into 2027 the number we should cross there by that year, or is that somewhat postponed or even maybe achieved a bit earlier? I understand it is a Group margin, but still so the year is set, still set?
	And the follow-on question on that is whether you may give us maybe today or maybe next week some more indication where the margin might head to on the way beyond 2020, still a long time, but still maybe give us a certain sense here.
	And lastly, coming back to Sven Weier's question, I did not hear exactly what you answered with regard to the first point of the

Dematic issues in the last quarters with regard to the hesitation of US retail clients. Has this changed in trend here? Maybe you can tell me again. What was the answer here? Thank you.

Gordon Riske

Regarding the first one, we said that -- we communicated that the entire Group to expand the margin 12% over the period 2019 to 2021, so both segments. And the ITS segment, as you saw with the results last year, is absolutely very strongly moving in that direction. And SCS has also made good progress, as Thomas pointed out, meeting even our original guidance. So our midterm target of 12% remains intact, and we are on the way.

And on the first one, hesitation, we had some hesitation topics that have, at least in the fourth quarter, as you saw by the tremendous order intake, have been somewhat relieved. We will see how it goes this year. But the other ones, especially the topic of lost orders, some of the repercussions of factories missing dates due to Mexico, and so that has been fully solved. And we have even added capacity now in Europe to serve our big European customers.

Alexander Hauenstein

Okay. Thank you. So, the hesitation has somewhat relieved, but there is still some out there. Is that the right interpretation?

Gordon Riske

Today's March 1st. As said, we had a great progress in the fourth quarter, and as Thomas has also said, the business is lumpy, and it is a lumpy business. So, we feel very confident about the year 2018, and that is all we can say about it.

Alexander Hauenstein

Okay. Thank you. But you cannot give or you will not give us a number here with regard to a margin target beyond the 2019 to 2021 range, right, or any idea here how to think?

Gordon Riske	We stick with our 12% target as we have announced and in the timeframe that we have announced and well on our way there.
Alexander Hauenstein	Okay. Thank you.
Operator	Next question comes from the line of Philippe Lorrain of Berenberg. Please go ahead.
Philippe Lorrain	Yes, good afternoon, gentlemen. Philippe Lorrain from Berenberg. Couple of questions on my side. I mean, I have got one actually on the impact of changing accounting. When you mentioned that actually you are restating and rebooking costs for operating leases into the financial results from basically the line above that would have an impact on your stated free cash flow to the firm of about positive €80 million as of 2017, does that mean that actually there would be an impact on the adjusted EBIT line as well? So that is the question on the P&L. And does it mean as well that, backed into your guidance for 2018, you have already reflected the fact that these costs are going to move into the financial results?
Thomas Toepfer	Correct, Philippe. So, if you go look at that page 21, where we have given the outlook, this is exactly true what you say. So the €410 million to €475 million for the free cash flow 2018 reflect the fact that roughly €80 million have been reclassified with a positive impact on that number and which was not the case for the €378 million in 2017.
Philippe Lorrain	Yes, I do get that on the free cash flow. But does it have as well an impact of €80 million on the EBIT?

Thomas Toepfer No.

Philippe Lorrain Okay. And then I have got another quick question really. Your PPA guidance for next time, and you reached something like €175 million for Dematic this year. What is your expectation going forward? Do you provide a timeline with us so that we can plug in that into our models?

Thomas Toepfer Well, I think what you can plug in is roughly €100 million, maybe slightly more than that, and then this should go down to €80 million one year later.

Philippe Lorrain Okay. Perfect. And then the last one perhaps, I mean, we spent a lot of time discussing the Dematic margin and the SCS margin generally speaking. But I mean, there seems to be a Dematic before the Monterrey ramp up and a Dematic after the Monterrey ramp up. So if I take the Dematic before the Monterrey ramp up, margins were about like 9% to 10%, something like that, if we exclude this 10.8% margin that you had in 2014. And after the Monterrey ramp up, but after synergies as well, you come to 9% to 10% margin. And that is as of 2017 basically.

So is there something that really explained the difference here? Is there something like matter of capacity utilisation in Monterrey, increasing wages, some increase in pricing competition perhaps somewhere, or just project mix shifts, or is it just the fact that you combined Dematic as being a quite profitable business together with Egemin and Retrotech, which seems to be less profitable? And that would explain the fact that we are now at 9% to 10% as a new basis, say. That is the question.

Gordon Riske — Yes, no, no. Clearly, the last time we checked, Mexico was clearly cheaper than Michigan. So no, we have no inherent risk to the margin. That has to do with Mexico. There were some lost orders, as we have explained many times. And this factory is now running, and we are very competitive. What we simply have in this business is project mix and so forth, more European business, Chinese business coming up. But there is no inherent risk now that we have a factory in Mexico, not at all.

Philippe Lorrain — Okay. But you would say that, as of today, if we backed in the fact that you have got already reached your 50% roughly of the cost synergies, the level of profitability of the overall Supply Chain Solutions business is about 9% to 10%, something like that. And then on top of that, not bringing up the margin over time, we are going to have the remaining 50% coming next year, but somewhat not really fitting through completely because it appears that you are guiding for something like 20 or 30 bps increase in margin. And then on top of that, then longer term, the fact that you aim at basically selling more efficiently your software, which would benefit to your product mix actually there.

Gordon Riske — Exactly. If you look at the KION 2027 strategy and how we are changing the company, it is a pattern that we have done with the forklift business. I mean, when it was taken over in 2007, it was also a 5.5%, 6% business. And we had big celebrations when we made 7.5%. And now we are kind of at the edge of 12%. And the same thing we will do with the Supply Chain Solutions. We know how to run efficient businesses. We know what the market drivers are. And we have really with our 2027 strategy the topic of energy, automation, digitalisation, some real insight as to how to increase the profitability of this business. And it is in a growing market. So we are very confident about the margin expansion.

Just looking at the numbers from 2016 to 2017, we have already made a big step, and we will continue that.

Philippe Lorrain

Okay. Thank you very much. And perhaps just a final question, I mean, I see that probably for the Supply Chain Solutions going forward, one of the most attractive opportunities for you to grow, guys, is actually to expand strongly into the Asian region. Are there any plans actually to expand, let's say, the footprint there, or perhaps you could talk about a M&A pipeline or something like that.

Thomas Toepfer

No, I think very clearly Asia is one of the key markets that is growing at a high rate and will be super attractive. And I think we are excellently positioned to tap into that market. Weichai is just one example that is very helpful here because we are currently building a blueprint outlet for their spare parts facility, which will be one of the biggest project that we ever had in Asia. And we are seeing currently very high interest from the market and very good order intake. So I think we are absolutely on the way, but we do not foresee the necessity for any acquisition, but do think that we have all the resources in place to tap into that opportunity.

Operator

The next question comes from the line of Jasko Terzic of Metzler. Please go ahead.

Jasko Terzic

Yes, my first question is on the PPA. Could you give us an indication how long you will carry on those PPA costs?

Thomas Toepfer

Just I think for the next 15 years or something, so I think 2030 something. I don't know how far your model goes, but probably you should put it in for a longer time.

Jasko Terzic	Okay. Thanks. That's helpful. Then the second one is on Dematic again. And the book-to-bill ratio is indicating roughly 1.05x. It was also the case for 2017. Your order growth should the second year be below 10%. So is there any internal restrictions regional wise or capacity wise that prevents you from showing a stronger expansion of orders or book-to-bill?
Thomas Toepfer	No, I think we have put all the capacity in place in terms of Monterrey being up and running. And as Gordon said, our Stříbro factory, which is next to the one that we already had done for the forklifts, so I think capacity is there. And I think we talked already in this Group extensive about the rationale which is behind the guidance range that we have given. But there is no specific restriction on our internal capabilities.
Jasko Terzic	Okay. The reason why I am asking is because your new guidance is at the higher end below your initial guidance you gave for the first time in 2017, for 2017. And looks as if the volumes are growing. So I got the impression that your confirmed 10% growth on the market is experienced, and still, your new guidance is not yet there where you were a year ago. So my question is, are there any reason behind that that you cannot capture a faster pace here?
Thomas Toepfer	Well, maybe I did not fully get your question, and we can take it offline. But let me just -- I mean, if you look at our guidance range for Supply Chain Solutions, we are at the high end implying a growth of 14.3%. So that is above the long-term market growth of 10% that we are seeing. So I think that confirms our view that we can grow at such a rate. But I think, if you have some more specific questions, I think Karoline and the team are happy to take it offline.

Jasko Terzic	Okay. That is fair. Thank you.
Operator	We have no further questions. I hand back to Mr Gordon Riske for closing remarks. Please go ahead, sir.
Gordon Riske	Okay. Yes, thank you, all, for participating in our call today. And we look forward to seeing many of you at the Capital Markets Day next week, and thank you for participating.