KION GROUP AG

Q1 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 Q1 2017. We would like to summarize today's call or summarize the very dynamic start to the year for the KION Group as a basis to the call.

As usual, our Q1 2017 presentation, which is available on our homepage, kiongroup.com, under Investor Relations in the Presentation section. As usual, as we have done in the past years, we will be presenting four parts, today's call, and then open up, of course, to your questions. I will begin with the strategic and financial highlights of the last quarter, followed by a market update, and will then hand over to our CFO Thomas Toepfer for the financial update. And then we will finish the formal part of the presentation with our confirmation of the outlook for the full year 2017.

So let me start here on page 3 with the key strategic highlights for the first quarter. In January 2017, we obtained first investment-grade rating from Fitch. They assigned KION a long-term issuer default rating of BBB- with a stable outlook. This does reflect our strong financial profile, very good and stable operating margins, and free cash flow generation. And only this week, we are very happy to say S&P raised its credit rating for KION from BB+ with a negative outlook to BB+ with a stable outlook.

In February, we successfully issued a promissory note with a volume of around €1 billion for refinancing the Dematic acquisition. We have made use of the favorable interest rate environment and significantly extended the maturity profile of KION's financing. In March 2017, we announced plans to expand the Dematic production with a new factory in the Czech Republic. This new factory is certainly a sign of the huge progress we have made in the integration of Dematic. It will serve the European market with conveyor systems. We plan to invest around €7 million in the Stříbro site, and the plant is expected to be completed by the end of this year, so Q4 2017, and we will create about 200 new jobs.

On page 4, we have summarized our financial highlights for Q1 2017. We saw a very good start, a very dynamic start to the year. And thereby, we can confirm our outlook for the full year 2017. On the top line, we saw order intake grow to €1.9 billion and revenue grow to €1.8 billion. IT&S, the Industrial Trucks & Services business, grew at double-digit rates. SCS segment, so our Supply Chain Solutions business, grew mainly driven by the Dematic acquisition. Regarding our profitability, our adjusted EBIT margin improved to 8.4%, up from 8.1% in 2016 Q1. The net financial debt of the Group remained at €2.9 billion, and free cash flow was very strong with €64 million in the first quarter of 2017.

At this point, let me move onto the market update on page 6, focusing on the industrial trucks, shows a global market development by region. Overall, the global market saw a very strong start almost across all regions in the first quarter of 2017, with a very dynamic growth in the emerging markets. Western Europe showed a persisting growth momentum with growth of 10.6% in the first quarter, driven mainly by the momentum in electric trucks and warehouse products. Eastern Europe showed again a very positive development with a strong growth of 42% across all markets, but certainly benefiting in particular from the continued recovery in Russia. China saw a surge in orders with a growth rate of 46.3%, driven among others, of course, by government spending. North America saw accelerated growth at 6.6% in Q1, and South and Central America stayed on a recovery course for the material handling industry in 16.6% in Q1, so very strong market in the first quarter.

Moving onto page 7, showing you a breakdown of KION's own growth by region. In Western Europe, a very strong start to the new year. Eastern Europe also ongoing strong momentum in line with the market. China, we had also a very strong start, slightly lagging behind the market, although when a market increases by 46%, that was primarily driven by the segment of economy IC-trucks. We did not quite keep up, but for us a very strong first quarter in China. North America, KION made further progress driven by the organic growth strategy and the launch of the new products that we have spoken about. South and Central America, also a good order level across the region. So overall, a very dynamic start into Q1 2017 with strong growth across all regions. We recognized a strong order intake in total for KION of about 50,000 units, so a very good quarter.

For Supply Chain Solutions, there are no official monthly or quarterly industrial reports like the WITS data for the industrial truck market. As you know, we estimate market growth to be around 10% over the coming years. And the strong growth certainly in this market is supported by the well-known and accepted megatrends around Industry 4.0, digitalization, and e-commerce.

With this, I would like to turn it over to Thomas Toepfer, our CFO, who will go into the financial update.

Thomas Toepfer

Well, thank you very much. And also, a very warm welcome from my side. If you turn to page 9, you will see the key financials for the first quarter of the year. And remember, for the first time, those numbers include Dematic for the entire quarter. So if you look at the left-hand side, you see the order intake grew by 45% to €1.9 billion. The FX impact was minimal in that quarter, and the order book stood at €2.3 billion, which is above the high level that we had seen at the end of last year.

If you look at the revenue, that number went up by 48.4% to €1.8 billion. Again, there was no FX impact in that number, and the order book was greater than 1. So that is also a very good sign. Then if you look at the adjusted EBIT, that number grew by 55% to €153 million, which represents a margin of 8.4%, so clearly above the level which we had in the previous year. And on the very right-hand side, you can see that the net income achieved €42 million. That is up 27.2%, despite the PPA effect from the Dematic acquisition, which are of course reflected in that number.

So overall, we saw a very dynamic start into the year 2017. However, I think I should also say we did also see some headwinds on the material cost side, mainly form steel and rubber. And we do expect that those could become more significant throughout the course of the year.

So with that, let's move into the individual segments. If you go to page 10, you see the key numbers for the Industrial Trucks & Services segment. And those numbers include Industrial Trucks & Services and also the related Financial Services activities, with an order intake up by 12.5% to €1.4 billion and a revenue growth of 10.5% to €1.3 billion, with new business growing at

13.4% and the services at 7.2%. If you look at the adjusted EBIT, that number is up 15.4% to €129 million. That is an EBIT margin of 9.8%, so up 50 basis points relative to the last year, and we think that is not only a very good result, but also that shows that our measures for the margin improvement are bearing fruit, especially in that segment.

If you turn the page, you see the same set of numbers for the Supply Chain Solutions. Those financials include for the first time Dematic, Egemin, and Retrotech for all three months of the first quarter. The order intake was at €461 million, impacted by some project delays based on customer decisions. Revenue was at €483 million, of which roughly 53% were generated in North America.

And I should say that, similar like in Q4, Q1 is a seasonally somewhat weaker quarter in terms of revenue for this segment, while Q2 and Q3 are the stronger quarters. What is behind that, simply customers would like to have their systems installed before the Christmas season. And that drives that seasonality in terms of revenue in that segment. If you look at adjusted EBIT, that number was at €34 million in Q1, and therefore resulted in an adjusted EBIT margin of 7.1%, which we think is absolutely in line with our outlook for the segment and we said we wanted to bring the margin of the segment up to a high single-digit number. And as I said, we think the Q1 result is fully in line with that guidance.

If you turn the page to page 12, you see the reconciliation all the way form the adjusted EBITDA to the net income. And I would just like to highlight a couple of specific items. First of all, the non-recurring items result mainly from the expenses relating to the integration for Dematic and for the Monterey ramp up. On Monterey, I can say we are continuing to implement the necessary measures. And we are absolutely on track to complete the ramp up during the course of the year 2017. So as I said, a satisfactory progress, and we are absolutely confident that the ramp up will happen this year.

Second item I would like to pick is the PPA items. Those relate, of course, mainly to Dematic. And thirdly, the net financial expenses reflect the optimized financing structure following the refinancing, which we did in February 2016, but of course, the rates related to a higher debt level, which we now have after the Dematic acquisition.

So with that, please turn the page to 13, where you have the free cash flow statement. And as always, I would like to start with the last line of that page, where you see a very strong free cash flow of €64 million. That was mainly driven by our strong operating performance, but also by the stable net working capital, which is driven by Dematic.

Due to the Dematic integration, our net working capital definition has slightly changed. Remember that, in 2016, we looked at the trade working capital, which included inventories and trade receivables less trade payables. Now we look at the net working capital, which comprises also advances received and unbilled construction contracts. And as a result, the net working capital now fully reflects the project nature especially of the Supply Chain Solutions segment.

So with that, please go to page 14, where you have the net debt development of the Group. On the left-hand side, you can see that the net financial debt was slightly reduced to just below €2.9 billion relative to the December 2016 number, and that represents a net financial leverage of 2.6 times.

In the middle of the page, you see the industrial net operating debt. That number also decreased slightly to €3.2 billion, and the respective leverage was at 3.2 times, and therefore also below the level of 3.4 times, which we had in December last year. And you know that, in the medium term, we target to reduce this leverage to further to around 2 times.

The reason for this is we do have a conservative financial policy, and we want to maintain a strong corporate credit profile with reliable access to debt capital markets at all times. So on that note, you know that, following our capital increase in 2016, we always stated that we would ask the AGM to approve another authorized capital of up to 10%. And you have probably seen that we have published the agenda for the AGM in March, and we have added this request as agenda item number 9.

So while at this point nothing has been decided, if you ask me today, after the AGM and after the approval, we will consider issuing up to 10% further equity to achieve greater financial headroom for the Group after the acquisition of Dematic. And we think this is also in line with the level that is expected of a strong corporate credit. And also, we think that a further equity issue may also be prudent in order to safeguard against the potential impact of future political and macroeconomic uncertainties. However, as I just said, nothing has been decided at this point in time.

So let us look back at the chart and finish with the pension liabilities. The number is €972 million, almost unchanged to the December level. And in terms of the long-term leasing business, the asset for the long-term leasing and also the corresponding sale and leaseback funding has grown in line, and that reflects the pass-through nature of that business.

So with that, I would like to turn it back to Gordon Riske, who will talk about the outlook for 2017.

Gordon Riske

Okay. Let us move onto page 16. On the basis of the very strong first quarter, we would like to confirm – I would like to confirm our outlook for the full year 2017. In 2017, the KION Group aims to build on its successful performance of the past year. Based on the forecast for market growth, we will be able to achieve further increases in order intake, revenue, and adjusted EBIT.

The order intake of the KION Group is expected to be between €7.8 billion and €8.25 billion. The target figure for consolidated revenues in the range of €7.5 billion to €7.950 billion. The target range for adjusted EBIT is €740 million to €800 million. And the adjusted EBIT margin is predicted to increase to between 9.9% and 10.1%, and thus above the margin of 9.6% that was generated in 2016.

Free cash flow is expected to be in the range between €370 million and €430 million, and the target figure for return on capital employed is in the range of 9.5% to 10.5%.

Going to the segments, for the Industrial Trucks & Services segment, order intake is expected to be between €5.45 billion and €5.6 billion, implying a growth rate between 1.2% and 4%. And the target figure for revenue is in the range of €5.3 billion to €5.45 billion, implying a growth rate of 1.9% to 4.8%.

And the target range for the adjusted EBIT is €605 million to €630 million, implying a growth rate between 3.1% and 7.3%, and that would come out as an adjusted EBIT margin which is predicted to increase to be between 11.4% and 11.6%, and thus slightly above 11.3% margin we achieved in 2016.

For the Supply Chain Solutions segment, order intake in Supply Chain Solutions is expected to be between €2.35 billion and €2.65 billion, and the target figure for revenue is in the range of €2.2 billion to €2.5 billion. And the target range for adjusted EBIT is €195 million to €230 million. That would mean the adjusted EBIT margin is predicted to increase to be between 8.9% and 9.2%, and thus significantly above the margin of 1.6% that was generated in 2016.

Of course, we have to note the forecast, as always, is based on the assumption that material prices will hold steady and current exchange rate environment will remain roughly as it is. Performance particularly depends, of course, on macro-economic and industry-specific conditions and may be negatively affected by increasing uncertainty or a worsening of the economy or economic or political situations.

With that, I would like to finish off here on page 17, a quick look at the upcoming financial calendar. Our General Assembly, the AGM, takes place on May 11th in Frankfurt. We will present the Q2 2017 results on July 26th, 2017.

And with this, we would like to close the formal part, as I said, of this update call, turn it back to 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.

Martin Wilkie

Yes, thank you. Good afternoon. It is Martin from Citi. Just a couple of questions on growth. Firstly, you mentioned about the seasonality in revenues in Dematic, which I think is quite clear. But on the order side, it does look like the orders were a bit low in the quarter. I understand it is lumpy. One order can shift quite easily from one quarter to the next. But if you could just give some sort of sense as to the underlying interest tendering and so forth, should we expect a sharp pickup in the second quarter in order for us to get some comfort in the full-year guidance for orders in Supply Chain Solutions?

And second one was just on the guidance in trucks, obviously a very strong quarter for you there and perhaps implies that your full-year outlook is a little bit cautious, a little bit prudent there. It sounds like you do want to reflect some political uncertainty and kind of things like that later in the year. But if you could just talk a little bit about how you think the growth of the trucks business is going to develop as the year progresses, given that you have had such a strong first quarter. Thank you.

Gordon Riske

Okay. Well, let me start with the first one, SCS. First of all, we did confirm our outlook for the year. So we are very confident about that. We, the first time we are publishing the full year at the beginning of the March. So we do feel confident to get that.

The SCS, as you correctly said, is a more lumpy business. We have seen some project order delays from some customers in the first quarter. We have not seen any activity drop whatsoever, so a good ramp up and a good order questions and inquiry pipeline.

One thing we would like to state, there are no related delays at all regarding Monterrey, but strictly related to customer decisions to push things out or delay a bit. It is a lumpy business. And as I said, we confirmed our outlook for the entire year. So we are very confident about it.

Now regarding ITS, yes, a very strong first quarter. To be honest, when you have things like China, over 45% growth, I do not believe that's sustainable for the year. But since we just published our first outlook and confirmed our guidance for the year, we see no reason to change any of the guidance at this point.

As Thomas said, we have tailwind and headwind, I would say tailwind, the market being fine right now, and headwinds on the material side. So all in all, I think we are in a very well advised, we feel comfortable with our guidance this year, and we see no reason to change that at this point.

Martin Wilkie — Okay. Thank you.

Sven Weier — Yeah, good afternoon, thanks for taking my questions. First one is also relating back to Dematic. I was just wondering if you could give us a sense again about the kind of average big ticket sizes for the business and what a large order could be worth, which I guess could give us a better impression of what the impact of a slippage would be.

And then if I understood you correctly, the reason for the deal slippage is maybe more that customers are running maybe a little bit behind in their own planning, but it has absolutely nothing to do with their general plans.

And then if I may, you mentioned the specific factors, steel and rubber cost. Could you put that a little bit into perspective? Is that a tiny thing that you can compensate with price increases, or does that mean that we should expect lower margin increases for the truck business?

And then just on a housekeeping side, I was just wondering on the PPA if you could confirm the €150 million for the year because the Q1 was running a little bit higher and also on the net interest results what your full year expectation is there. Thank you very much.

Gordon Riske

Yeah, let me start with the first one. You are perfectly right. Not only is the business a little bit lumpy, but the order size can vary quite a bit. When the Amazons of the world or other big customers between €20 million and €50 million and more million, that can be a typical order, but we have lots of also small, so €10 million and below. So it is a good mix.

But I would like to reemphasize the point. At this stage, there is absolutely no sign of customers, especially in the e-commerce, being less bullish than they were a year ago. We see none of that. We do see on some of the big projects there are some delays, capacity in the markets, and so forth. And we are confident. As I said, that is why we gave the full-year confirmation for our outlook.

Thomas Toepfer

Maybe on your other questions, you asked steel and rubber. I would characterize this, yes, we do see some headwinds. As you could see, I think we were able to compensate for those in Q1. And also, going forward, we do not see any reason to change our guidance. I think this is part of the normal ups and downs that we have during the year. So as far as we can see, this is part of the headwinds and tailwinds. So we do not think this has any material impact in terms of margins and certainly not in terms of margin aspiration that we have communicated.

On your other point, PPA, of course, the PPA is not finalized yet, as normal for such a transaction. I think, overall, the guidance that we have given is still correct, with the €150 million.

And your third point on the net interest, we guided for €25 million to €30 million. Also, I would reiterate this. There is, of course, some fluctuation during the quarters. We had a refinancing in Q1 and some special effects that were moving the numbers slightly higher. But overall, that guidance should remain in place and is correct.

Sven Weier

Thank you very much.

Sebastian Growe

Yes, good afternoon, gentlemen. Thanks for taking my questions. It are three actually, two on SCS and one on ITS. Firstly, on execution in SCS, can you help us in understanding the sharp margin improvement in the segment in quarter 1 compared to quarter 4? So in my estimates, I would have seen revenues higher by about €60 million to €80 million, sequentially that is. And on that basis, your profit improved by about €25 million. So if you could break it down into operating leverage and just help us understand if there is also a similar rule of thumb as in the ITS segment, i.e. you always indicated 20% contribution margin on the first €100 million sales increase, that would be quite helpful. And other than that, if there is also, simply a good tailwind coming in from better process efficiency, at Monterrey for example, or lower transportation cost, etc. Just break it down in the various tailwinds that you have enjoyed in the quarter 1 at SCS.

And then secondly, on the orders and coming back to this one again, sorry for that, the delays, can you give us a sense on the volume that is behind because your guidance is obviously requiring something between €600 million, €650 million run rate? And over the last two quarters, we have seen something like €460 million, where that is obviously quite a discrepancy. That would be quite helpful and also to understanding what is behind it here.

And then lastly, on ITS and on China, as I said before, I concluded that, from your previous comments you gave on conference calls, that your exposure to economy IC-trucks via Baoli, via this brand, is about 20% or so of the total volumes that you ship in China. And as you have grown now roughly in line with the market at around 40% in quarter 1, I conclude that you either have taken share in the economy IC truck segment or that your Linde E-truck business has grown equally strongly to the IC-truck business. So can you just give us a better understanding what happened here in Q1?

And if I may finally ask a question, I understood from one competitor of yours that the very strong China development in Q1 was driven by a subsidy scheme especially supporting IC-trucks. Can you just give us an update on how long this subsidy scheme is going to last and, until – I'm sorry, and when it was launched and why it has been launched? Thank you.

Gordon Riske

Okay. Let me start with the last one, China subsidy scheme. I would just simply put it in the political situation that the government is at this point of the year, we have the big congress in 2017 September, that there has been a lot of government spending, which is driving things like construction. If I look at Weichai Power and others, construction, bulldozers, heavy trucks, all those things are growing, which also means that low-cost IC-trucks are growing faster than other parts of the market. So that is the reason. How long that goes, let us see what happens in September in terms of the perspective of the government.

And regarding our low-cost segment with Baoli trucks, yes, we have performed very well in terms of order intake, both on the Linde side and Baoli side. I would say Baoli gained a little bit of market share, but as I said, probably driven by this heavy focus on low-cost IC-trucks.

Back to order delays and so forth, as I said, we have confirmed our outlook for the year. I think that is the biggest confidence I can give you. It is kind of difficult to talk in this round about individual customer orders because exactly those orders are not signed yet, and these are confidential negotiations. As I say, we have a great deal of activity with our customers, so big project pipeline, and that is why we are able to say here in April, end of April, we are fully confident in the full year.

Thomas Toepfer

Exactly. Maybe on the margin uptick, remember when we looked at the Q4 numbers, Dematic was only included for November, December, and the margin was quite low with 3.9%. And the explanation that we gave is that we are simply missing the month of October. And therefore, it is an incomplete quarter impacted heavily by the Christmas business or by the fact that no customer wants installation going on during the Christmas time.

So that obviously is not the case in Q1. So I think the main driver is we are just in a back-to-normal quarter, which contains three months. And the margin that Dematic has achieved or the segment has achieved in this quarter is in line with our expectation of part of the guidance that we have given for the overall yearly margin that we want to achieve. So basically, Sebastian, it is a back-to-normal movement.

Sebastian Growe

Okay. Just to get that right, so you did not enjoy any greater savings from either better process efficiency or savings on transportation cost, etc. It is solely operating leverage in the first place.

Thomas Toepfer

I mean, I did not even say operating leverage. What I said is that there is an intraquarter seasonality in Q4. And when you miss out October, you are only looking at the worst two months of that quarter. And that, of course, did not happen in Q1. So that is the key driver that happened here.

Sebastian Growe	Maybe we can take that offline because my numbers were more like upscaling the two months of November, December, i.e. kind of simplifying things to just put it at two parts, and then if the third month included here the €15 million that I calculated as a comparable basis, for that reason, I came to the €25 million profit increase number in Q1 over Q4. But yeah, anyways, I think we will see and learn more about the year. If I may ask one follow up on the overall competitive situation in the SCS segment, we have seen obviously the Vanderlande transaction recently coming through. Do you see any change in the overall competitive landscape in the sense that kind of there is a different way to manage the business on behalf of the new owners, or just way too fresh and way too early to talk about?
Gordon Riske	Yeah, it is April. We own the company since November 1st. The Vanderlande, I do not even know it is closed. I do not think so. So let us see how that goes. I think, this time next year, everybody will be a little bit wiser.
Sebastian Growe	All right, yeah. Thank you.
Markus Almerud	Hi, good afternoon. A couple of questions from my side. So firstly on Supply Chain Solutions, any chance that you can help us with any performer numbers for Q1 for last year, that is, if you would have owned Dematic for the full year and especially on the margin? What would that been comparing to? That would be very helpful, any color you could give us. That is my first question.

	And then if you can talk a little bit about pricing on the truck side, what you have planned there, and what is in the market right now, if you could quantify any of that would be very helpful.
Gordon Riske	On the pricing on the truck side, we did have a slight price increase towards the end, so in December of 2016. That has been done. And we have a price assertion that is about half of that. So that is baked into our full-year guidance that we have given you. As Thomas has stated, we have tailwinds and headwinds. At the moment, we have a solid market, and we have material prices to be monitored. At this point, we have made no decisions or no discussions about any kind of price increases throughout the year, so midyear price increases versus a year-end price increase, but we are monitoring very closely the development of the material cost.
Thomas Toepfer	Yes, and I think, to your first question, just to give you some guidance here, if you look at the Supply Chain Solutions segment and try to make it as much as like for like as you can and look at Q1, what I can tell you is there was a double-digit percentage growth on the revenue side and a very nice uplift in EBIT margin. So we are very pleased with the segment – with the performance of the segment, also if you take out the acquisition effect and look at it on a purely operational and organic perspective.
Markus Almerud	Okay. And maybe a little bit also on Egemin and Retrotech, which at least combined was loss making last year. Is that improving as well, and when do you expect those to kind of become profitable? Is it – you wrote somewhere that they will be

– you expect for them to be consolidated fully or integrated fully during 2017. Is that how we should see it ?

Gordon Riske

Yeah, we should look at it as an integrated company because these two companies, although they have a legal, let us say, representation as a company, these have been divided into or installed into three different departments: Retrotech basically into the services department of Dematic, Egemin in two parts, one focusing on AGVs. We combined all the AGV activities around the world to be one of the largest AGV suppliers in the world. And the third part is the sales arm of Egemin, which is integrated into Dematic Central Europe. So you cannot really look at it anymore as a separate company. There have been changes made that are now fully integrated into Dematic.

Markus Almerud

Okay. Okay. And then finally, if I may, if we can just talk a little bit about you introduced a number of new trucks in North America in April at the fair in Chicago. If you can just talk a little bit about the reception of that and if that part of, you are outgrowing the market from very, very small numbers. But are a lot of the new trucks you are selling from the new introductions and if you can just talk a little bit about that, or have they not, no they have not been starting to sell yet. But what was the reception of your new truck fleet that you have introduced?

Gordon Riske

Well, as I said, ProMat was only a few weeks ago. We are taking orders for certain of these trucks. They will, some of those will be delivered. And we introduced something last year. But the, basically, the reception to the new products from the North American dealers and customer network has been standing ovations. So they are very happy with the product, with the pricing, with the quality. We are very upbeat about it.

And you are right. It is smaller numbers as a baseline, but I think this first step in a big product launch has been successful. And I anticipate that will have a positive impact for the year 2017.

Markus Almerud — Okay. Excellent. Thank you very much.

Omid Vaziri — Most of my questions have been answered you would be glad to know. I do have one final question to ask, however. Could you please help us size the market opportunity for the KION Group with respect to Egemin automation's AGVs? You state in your report that it will become the largest supplier worldwide of AGV's together with Dematic. Would you just help us to maybe get a feel for how you are thinking about the market opportunity here, the size of it, location, and so on? Thanks.

Gordon Riske — Well, AGVs have been around a number of years. And what we have simply done is taken three or four different independent parts of the company, one at Dematic, one at Egemin, and one in Australia, and put them into one force. And if we look at all the competitors around the world, and you are talking -- I do not know – 500, 600 units a year, we are certainly one of the largest if not the largest one.

AGV's, automated guided vehicles, are somewhat related to autonomous vehicles. Those are two different things, but the technologies are merging. And that is where we feel upbeat about in the future, as these technologies develop in warehouses, where you have a much greater use of driverless technology, either with AGVs or completely autonomous vehicles. We have the necessary expertise in-house, software, and market and sales channels to be able to leverage that. That is our main point.

Omid Vaziri

Yeah, thank you. And just a quick follow-up question on that. So in terms of unit count in your order intake, for the legacy forklifts business prior to the Dematic acquisition, am I correct in remembering that KION STILLs AGV's used to always be counted in the order intake figure, that now is Egemin and its AGV products order intakes will be accounted for under the Supply Chain Solutions. Could you just confirm that? And so they will be clearly be counted as part of the order value that you will be reporting for Supply Chain Solutions going forward. Is that right?

Gordon Riske

Yeah, it will be in the revenue numbers of Supply Chain Solutions. What we report in the Industrial Trucks & Services segment is trucks according to the global definition of WITS, World Industrial Truck Statistics. That is an official, semi-official reporting system that all the manufacturers around the world report into. That is Class 1 through 5 trucks. And these AGV's or so-called autonomous vehicles are not part of that counting system.

If in 10 years from now we have a different thing, I do not know. But right now, in the numbers 2017 and past numbers, the WITS are really the classical industrial trucks, electric trucks, warehouse, and intradriven trucks, and not AGV's.

Omid Vaziri

Okay. Thank you. And so how did you used to account for AGV sales prior to the Dematic acquisition in terms of reporting, how you used to report to us?

Gordon Riske — Just in revenues as part of a system.

Omid Vaziri — Okay. That are all my questions. Thank you.

Ben Uglow — Thanks. It's actually – it's Ben. It's Ben Uglow from Morgan Stanley. Thank you for taking the questions. I had a few, and I guess sorry to draw out the margin questions on supply chain. But, Thomas, could you maybe give us a sense of whether there is historic seasonality in that margin profile from Dematic?

What I am kind of curious to understand, at the moment, we are at 7%. Your guidance implies roughly 10% margin over the remainder of the year. And what I am so curious to understand, should we see that level coming quite quickly, i.e. does that go up in 2Q, or do we have to kind of wait for a bump the fourth quarter? So just a kind of sense on the trajectory of the margin improvement there would be helpful.

Second question, and again around supply chain, is your sort of confidence on the Dematic improvement, is that simply based around Monterrey? So if we fix Monterrey, you kind of get to that level automatically, or is there something separate that you see in the project backlog that suggests that the margin on an underlying basis ex-Monterrey should be going up? So that was question number 2.

And finally, question number 3, the gross margin has obviously come down. It is down from 28.5% to 25.2%, roughly 330 basis points. I am assuming that nearly all of that is mix. But what I wanted to know, have you got a number, or can you give us any sense on how much from a percentage standpoint the raw material impact was in the bridge this quarter? Thank you. Those are my questions.

Thomas Toepfer

Yes, thank you, Ben. Let me try to go through it one by one. So first of all, supply chain margin seasonality, the way I would look at this is, if you look at the order intake, there is no specific seasonality. There is just lumpiness. And I think this is what we try to explain. And this is what drives the order intake.

If you look at revenue, there is some seasonality with Q4 and Q1 being the weaker quarters and Q2 and Q3 being the stronger quarters in terms of revenue. Now in terms of margin, there is maybe not such a one-to-one relationship. Simply because of the percentage of completion accounting, there might be some shifts, but I think it is reasonable to assume that there is also a margin seasonality with the margin being higher in Q2 and Q3. And this is also what we have seen last year. So I think this is how far I can go because, again, percentage of completion is not a one-to-one relationship.

Ben Uglow

Understood.

Thomas Toepfer

On your second point, Monterrey, I would say it is just one factor. I think we said clearly there are several measures that Dematic has – I mean, will put in place over this year, but also the upcoming years in terms of more software sales, more efficiency in terms of the setup. So I think there are structural margin drivers. And that is also in line with the guidance that we have given, where we said we want to bring both – both segments should contribute to the 12% market target of the Group. So it is not only Monterrey which is well underway, but there are several other measures in terms of efficiency, but also some operating leverage that, of course, will kick in.

And to your last point, the gross margin, I think what you should keep in mind is that – two things. First of all, Dematic has a different margin profile than the IT&S business. So if now in Q1 you add Dematic, it is simply a structural issue that Dematic has a lower gross margin, but then also lower functional costs. That is one driver.

And then secondly, of course, a quite significant portion of the PPA is also reflected in the gross margin. And so over 50% of the €46 million is reflected above gross margin. So that is the second effect. I would say raw material prices are in there, but are not the big driver that we see here.

Ben Uglow: Okay. So raw materials are effectively a very small portion of that margin change. I mean, I assume –

Thomas Toepfer: Yes.

Ben Uglow: – that Dematic was hands down the biggest. Okay. And then just sort of final question, you mentioned at the opening that you were monitoring raw materials. Do you normally put – do you normally sort of adjust your prices throughout the – or during the course of the year in response to higher raw materials? Is that standard practice, or would this be unusual?

Gordon Riske: It would be unusual. I think we have done it once before in the year 2007.

Ben Uglow — Okay. Okay. And how was that received in 2007? Was it easy, or?

Gordon Riske — Well, increasing prices to anyone is never easy.

Ben Uglow — Okay. That is super helpful. Thank you very much.

Denise Molina — Hi, thanks for taking my questions. I just have two questions. The first is on the Czech Republic expansion. Given that it is supposed to be online next year and it is for the multi-shuttles, which are pretty – also the conveyor belts, I understand that. But they are pretty premium products. I am just wondering if you have a sense of what the utilization rate should be next year, given that your guidance implies a pretty strong pickup in the book-to-bill for the supply chain systems by the end of the year. It seems like you are expecting a pretty good utilization rate to start.

And then the second question is on if you have had any successful sales of actually integrating the forklifts with the logistics systems equipment, if you have been able to sell them as one product to any of your customers yet. I think that you mentioned before that you had had some inquiries on that.

Gordon Riske — Okay. Czech Republic, of course, we do expect the factory to go – to be completed at the end of this year and then to be fully online and good utilization in 2018. The main use of the factory at the first stage will be for conveyors and that type of equipment. The multi-shuttles, as you say, they – it is a fairly complex project – product. We would not do that initially. We will look at where the demand goes. But as a first step, we are not planning the multi-shuttles in the Czech factory, but with the conveyors.

On the second one, the integrated sales, we have had – as I say, we have a number of quotations that we are working on where both are included. We have had some small projects in Brazil, where we sold it together. It was a few million, and a couple of projects here in Europe, nothing I would say out of the ordinary, but that process is starting. We have a number of go-to-market teams working together on projects and go-to-market strategies. But yes, we have seen a couple of wins where we have combined forces and been able to take some orders.

Denise Molina And can I just follow up on that? Are those projects where you have actually integrated both the forklifts and the logistics equipment on a software basis, like through iQ, or are they just sold together as two separate products?

Gordon Riske On those particular projects that we have, one, they are systems that have then KION forklifts versus other forklifts, or the other way around, customers that we have had with the opportunity of Dematic then to put in additional equipment, software and solutions equipment in addition to the forklifts that we have sold.

We have not yet completed the full integration into Dematic iQ of all the software components. That is a project we are working on that all pieces of the warehouse, including the forklifts, are then integrated into the Dematic iQ.

Denise Molina Great. Thanks very much.

Alexander Hauenstein

Hello, Alex Hauenstein, DZ Bank. Thanks for taking my questions. I have to come back to Monterrey, please. First of all, with regard to the ramp-up progress, you targeted about €20 million to €40 million fixing costs for the full year, if I remember correctly. Is this still the target range, or could this be precised a bit? Can you disclose how much occurred already in Q1? And I was wondering whether it is a linear development or if we should – how we should think about it.

And the follow-up question on that would be, if we model the EBIT increase probably for Q2, are we talking potentially an increase quarter-on-quarter about plus 30% or even much higher, or is that too aggressive, given that Monterey still weighs on margin on the H1 quarters?

And the last question is on the leverage. Your leverage multiple on historical industrial net operating debt is currently 3.2 times. Can you remind us about your target range which you would feel comfortable with and what kind of timeframe you would like to see this? Thank you.

Thomas Toepfer

Yes, let me start with the Monterrey NRI's. As you correctly said, we have said €20 million to €40 million. That guidance is still in place, and we think it is the right range. You have seen that we had €10 million of NRI's in Q1. Monterey is less than 50% of that number.

Why is Monterrey stretched a little bit? Because what is behind those NRI's is that, potentially, we will require express freight at some point in time in order to make sure that we meet all the customer deadlines. And therefore, even after implementing the measures, it may well be that, also in the second half of the year, we will still see some NRI's occurring simply because they are not directly related to the field work in Monterrey, but to the freight and installation costs and the speeding up of those processes, which is after the production process. So therefore, we stick to the guidance.

And then in terms of leverage, as you correctly said, 3.2 times, and we said our objective is to bring that leverage down to around 2 times in the medium term.

Alexander Hauenstein — Okay. Thank you. And medium term means like three or five years or – ?

Thomas Toepfer — Less than three.

Alexander Hauenstein — Less than three. Okay. Perfect. Thank you.

Martin Wilkie — Thank you. It is Martin again. Thanks for taking the second question. Just to come back to the question on the potential issuance of additional equity, you obviously are seeking authorization at the AGM. Even though you say no decision has been made, it does seem and people are inferring that your wording has changed slightly. And it looks like you are more likely than not to use that.

And I wondered if you could just confirm that there had been sort of a shift in the sort of probability, if you like. And related to it, obviously, as you say that you have had an increased rating, credit rating from S&P, and just if I could find out if that essentially presumed that you would have the equity issuance, and in essence, that is part of this decision in terms of the credit rating. Thanks.

Thomas Toepfer	Well, in terms of our communication, I think I can – I would just reiterate what I just said. But of course, our thinking process has evolved over the last number of months. And I think that is reflected in the communication that we have given you today. We have given actually the same communication, of course, to our rating agencies. I think they base their assumptions based on exactly those same communications. And I think anything further would be speculation in terms of what they have in their models.
Martin Wilkie	Okay. That is very helpful. Thank you.
Operator	I hand back to Mr Gordon Riske for closing remarks. Please go ahead sir.
Gordon Riske	Yes, thank you, all, for participating in the Q1 call 2017. We look forward to either the General Assembly coming up or the next Q2 call. Thank you for participating.