KION GROUP AG

Q2 2017 Update Call

Conference Call Transcript

26.07.2017

15:00 CET

Speakers: Gordon Riske (CEO)
Dr Thomas Toepfer (CFO)

Gordon Riske

Yes, thank you, and welcome, everyone, to our update call for Q2 2017. As a basis, we would like you to refer to the presentation Q2 2017. It is available, as always, at kiongroup.com under Investor Relations in the Presentation section.

As usual, we will be presenting in four parts during today's call and then open it up to questions. I will begin with the strategic and financial highlights of this past quarter, followed by a market update. And then Thomas Toepfer, the CFO, will take over on the financial update, and we will conclude with an outlook for the full-year 2017.

So let's all go to page 3 in the presentation, where we have summarized some of the highlights for Q2 2017. In April this year, we did release a broad new product lineup at the ProMat tradeshow in Chicago. In total, KION North America announced the release of five new Linde and Baoli forklift trucks specifically designed for the needs of North America. These new trucks are based on our global platform strategy, and it also highlights for the first time our brands Linde, Baoli, Dematic highlighting at this show, the first time that we jointly showed and jointly showcased the products together.

That means the offering that we showed at the Chicago show really does cover the entire supply chain of forklifts, beginning with forklifts to fully automated solutions. Overall, that tradeshow and orders received for the newly introduced trucks show absolutely -- and we will see that in a couple of charts ahead -- that our organic growth strategy is bearing fruit for the North American market.

In May this year, we successfully completed a capital increase, with gross proceeds of around €603 million. The proceeds were used to partially refinance the acquisition of Dematic.

On page 4, we have summarized the financial highlights for the Q2 2017, overall a continued profitable growth, and so we can very confidently say that we confirm our outlook for the full-year 2017. On the top line, we saw order intake and revenue grow to around €2 billion. The IT&S segment, our industrial trucks and services business, saw continued strong growth throughout the world. The SCS segment, our supply chain solutions business, grew mainly of course driven by the acquisition of Dematic.

Regarding our profitability, the adjusted EBIT margin improved again, this time to 10.6%, and is above the strong previous level of 10.5% this time last year. Following our capital increase in May this year, net financial debt was significantly reduced to €2.3 billion, with a strong cash flow of €101 million in the first half year, a good sign being driven by our operating performance.

Now let me take you a little bit more in detail to the market update on page 6, our usual graphic, focusing on industrial trucks, showing the global market development by region. Overall, the global market saw momentum continue with a strong market development across all the regions in the second quarter.

Western Europe was very solid with a growth momentum of 7.3%. Eastern Europe, again, very positive development with strong growth of 14.8% across all markets, benefiting in particular from the continued recovery in Russia. China saw a continued surge in orders with growth rates of 36.5%, driven among others by continued government spending, resulting in very strong demand for economy or so-called entry-level IC trucks. North America, very solid growth with 8.1%. South and Central America is beginning to recover with a growth of 28.2% coming from a much lower base in Q2 2017. So as a result, all of the global markets together grew at 15.5% in the second quarter of 2017.

So for KION, a very good market environment to participate in. On page 7, the breakdown of how KION's performance was in those regions, Western Europe good performance, and we outgrew the market in the second quarter. Eastern Europe also grew ahead of the market based on the strong position across this region. KION also in China saw a very good quarter, even though we slightly lagged behind the market. We have had stronger position, and we have a stronger position in premium electric and warehouse trucks, and the market grew quite heavily in the economy-level IC trucks.

North America Q2 was a very exceptional quarter driven by the new products that I alluded to earlier, the introductions that happened earlier this quarter. So our organic growth strategy with our platform product introductions is beginning to bear fruit in North America, and we do expect that to continue. South America, we have remained focused on profitable growth in a very competitive market, Brazilian market that is about less than half of what it was several years ago.

Overall, KION had a strong second quarter with global growth of 15.3%, and with this we were definitely in line with the global market. We recognize the strong order intake in the second quarter with 52,500 units in the second quarter alone.

And with this, I would like to turn it over to Thomas, our CFO Thomas Toepfer with the financial update.

Thomas Toepfer

Well, thank you very much, and also a warm welcome from my side to our update call. If you please turn to page 9, where you have the overview of our key financials for the first half of the year, on the left-hand side, you can see the order intake saw strong growth to €3.9 billion, and the order book stood at €2.2 billion and therefore remains at the high level that we had at the end of last year. And you can also see the revenue also grew strongly by 49% to €3.8 billion, and also, the adjusted EBIT grew over 50% to €367 million, which represents a margin of 9.6%. That is clearly above the previous year level and is not only driven by the growth, but also shows that our margin upside measures are really bearing fruit.

On the very right-hand side, you see the net income. The number came in at €150 million, again, strongly above previous year, despite the PPA effect that you are all aware of and which stem to the vast majority from the Dematic acquisition. So overall, we did see a very strong growth and a very good momentum in the first half of 2017.

If you turn the page to page 10, you see the same set of numbers for Q2 of this year. Again, the order intake grew strongly to €2 billion, and the revenue grew also 50% to €2 billion again. If you look at the adjusted EBIT, that number came in at €214 million, which represents a margin of 10.6%. Again, this is above the strong previous year level, despite the fact that we did have some material cost headwinds and also some negative FX effects from transaction effects.

On the very right-hand side, again, the net income came in at €108 million, strongly above previous year, again despite the PPA effects from the Dematic acquisition. And also, for the quarter, we would say this is a strong set of numbers driven by continued momentum in the market.

If you turn the page to 11, we will turn to the segments and start with the industrial trucks and services segment. You will see the numbers for the first half of the year as well as for the quarter. The order intake grew by 9.9% to €1.5 billion in Q2, and the revenue was up 8% to €1.4 billion in the second quarter with the new business growing at 9.6% and our services business growing at 6%.

In terms of adjusted EBIT, that number grew by 6.9% to €167 million in the second quarter, which represents a margin of 11.8%. And again, that is despite the fact that we did have accelerated headwinds on the material costs side, especially related to steel prices and rubber as well as some FX headwinds, which we incurred in connection with the British pound, and so those were transaction effects that we had to face here. Nevertheless, we maintained our margin at the very high level of the second quarter 2016. And also, here, our comment would be that we view these numbers as a strong set of numbers, strong growth in the light of a good market.

If you turn the page, you see the numbers for our supply chain solutions segment, both for the first half and the second quarter. The order intake, as you can see, came in at €452 million in Q2.

So again, let me state very clearly the project nature of the business means that we do have some lumpiness in the order intake. Nevertheless, we are confident to reach our guidance for the full-year 2017. And this is based on the good visibility that we have into the pipeline. We actually did have project confirmations over the last weeks, which should materialize into written orders over the coming months. And therefore, this year, the order intake for supply chain solution will be backend loaded towards the second half of the year.

If you look at the revenue, the number came in at €596 million in the second quarter, of which roughly 55% were generated in North America, and the adjusted EBIT was at €61 million in Q2 and therefore resulted in adjusted EBIT margin of 10.3%. And that margin step up shows that the segment is actually benefiting from growth, but also from the fact that the Monterrey ramp up is progressing well, and we are definitely on track to complete the ramp up during the course of the year 2017 as we have always indicated.

If you turn the page to 13, that gives you the reconciliation all the way from the adjusted EBITDA to the net income for the group. And as always, I would just like to highlight some selected items. First of all, the nonrecurring items, you see we had €15 million in the first half. They result mainly from expenses related to the integration costs for Dematic and the Monterrey ramp up. And as I just said, we continue to implement the measures defined for the ramp up of the Monterrey plant. However, our guidance for the NRIs relating to the supply chain solution segment between €20 million and €40 million for the full year does remain unchanged.

Second item to be highlighted is the PPA item, €92 million. They relate mainly to Dematic, no big surprise. And the third item I would like to pick out is the net financial expense. They are supported by our optimized financing structure following the capital increase in May and the refinancing in February, so the promissory notes which we placed into the market in February of this year.

Please turn the page again to 14. That shows you the cash flow statement. And as always, I would like to start with the last line on that page. You see we had a strong free cash flow to the firm of €101 million in the first half of the year. And just to remind you, that is obviously before interest payments. So key driver of that is mainly the higher EBITDA as a result of the strong operating performance, as you can see in the first line of that page.

And the second item I would like to pick is just the net working capital. Just to remind you, due to the integration of Dematic, our net working capital definition now fully reflects the project nature of our supply chain solutions segment. And you can see the details on the right-hand side of the page. So advances and unbilled construction contracts are included in the net working capital.

If you turn the page to 15, you have the net debt development of our business. Let me start on the very left-hand side, where you have the net financial debt, which significantly decreased to €2.3 billion compared to the March 2017 number. And that is obviously driven by the capital increase, which we did in May. The net financial leverage is 2.0x relative to our adjusted EBITDA. And if you go to the middle of the page, you see the industrial net operating debt, which decreased to €2.7 billion with a respective leverage of 2.6x, and therefore below the level of 3.2x, which we had at the end of March. As I said earlier, we target to reduce this leverage further to around 2.0x over the course of the next year.

And as you can see on the right-hand side in the text for our end customer financing of our industrial truck business, the assets in the corresponding sale and leaseback liabilities grew roughly in line. And that reflects the flow-through nature of that financing.

If you turn to page 16, that shows you the maturity profile of our financing. So as stated earlier, we had the successful capital increase with gross proceeds of €603 million in May of this year. And we used these proceeds of the capital increase to further reduce the bridge loan for the Dematic acquisition. And we repaid the entire €536 million tranche, which was due in 2018. And the rest of the proceeds was used to reduce the €350 million term loan under our senior facilities agreement, which was due in 2019. So as a result, we have further improved our maturity profile. And I think we can say that the refinancing of the Dematic acquisition is completed.

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

Gordon Riske

Yes, let us go to page 18. In a simple word, we confirm our outlook for the full-year 2017. If you look at all the numbers on this chart, all the figures for the KION Group and the segments remain unchanged so that, for all industrial segments and the entire group, exactly as we have said before, we confirm our outlook.

On page 19, finishing up here, our financial calendar, we will present Q3 numbers 2017 on October 26th. And during the course of September, so coming up soon, we will be attending a number of conferences and also going to several roadshows. So if you are interested, please reach out to our IR team, Investor Relations team, to arrange for a personal meeting, which we are of course happy to do.

With this, we would like to close the formal part of this update call and turn it back to the operator so that we can 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.

Markus Almerud — Hi, Markus Almerud from Kepler Cheuvreux here. Can I just start by asking about Europe, where you seem to be gaining shares? It is just a normal change, this swing back and forth, or is there a trend that is going on here? That is my first question. And if you can bake into that comment on pricing if we have seen anything on pricing for you or for peers. Thank you.

Gordon Riske — Yes, I am not such a big fan of quarterly numbers, but so yes, of course, you do have ups and downs in quarters because different industries of course have a little bit of ordering background, food and beverages more tendency in the first quarter. So I would say it is a normal change back and forth. What we do, however, see is we are making some progress with all of our initiatives, whether it be electric trucks, remaining market share leader, or warehouse trucks, which have made some good progress.

In terms of pricing, you know we have the price increases always towards the end of the calendar year. So the price assertion is basically in line with our expectations. We will see how robust the market in Europe remains throughout the coming quarter. But at the moment, we do not intend to make any changes there.

Markus Almerud

Okay. And then if I can go onto SCS and the order intake here, so first of all, what is the size of an average order in SCS, just so I can get an idea of what the swing factor here is? You have referenced 37% you are confident that it will reach. But just to give me some color, you are quite confident that you can reach the target, if you could talk a little bit about that. And also, is this any surprise, or is it completely transparent how this will turn out?

Gordon Riske

Well, completely transparent - Our pipeline is completely transparent. And as Thomas said in his section, we have a number of project confirmations from customers. That is also the typical way. You get a confirmation from a customer, and then you go into the detailed engineering phase. And that can be a couple of weeks, or it could be a couple of months. So it really does depend on the type of customer and if it is a repeat order, a new order, or a different region. So we have good visibility, as Thomas said. It is a lumpy business. We have to get used to dealing with that. So we are very confident. That is why we said make our guidance for the year 2017.

Now the average size of order intakes, that is an extremely difficult one because that also is a variable target. If it is 100,000 for a small retrofit or a double-digit million system, we have everything in between. And then the nature in general of the systems business is certainly a higher average than the forklift business because you are selling two or three forklifts per order. But I cannot give you a -- if it is a double-digit of a high single-digit order, that really is not a pattern that we have throughout the year.

Markus Almerud: Okay. Thank you. And then finally, if I can ask Thomas just on currency, so you have a currency headwind. Is there any chance that you could quantify that? And also, if currencies would stay where they are today, what should we expect for the second half? Thanks.

Thomas Toepfer: Well, again, I think in terms of currency, you have to distinguish between the translation and the transaction effect. Translation, we had almost no effect. I think we indicated that on the slides. What we are talking about is the negative transaction effect that stems from the British pound. And as an order of magnitude, I think in our earlier call we had said that could hit us with roughly €20 million this year, and it is largely locked in through our hedging policy. So therefore, again, it is almost independent on where the currency will move in H2.

Markus Almerud: Okay. Thank you. I will leave it there. Thanks.

Philippe Lorrain: Good afternoon, gentlemen. Philippe Lorrain from Berenberg here. Thank you for taking my questions. I will have a few actually. The first one was to bounce back actually on this FX effect. I get that, at group level, you had nearly no translation effect. However, I was wondering if you had any kind of translation effect separately in the industrial truck segment and in the supply chain solutions segment. That would be the first question.

Thomas Toepfer

Well, I think the answer is no. We do not split that out specifically. Again, on the group level, it is really a minor item. So I think digging into this deeper does not really give you any further insight. And therefore, we do not think this is helpful. Again, as we said, on group level, it is almost negligible.

Philippe Lorrain

Okay. Thanks for this answer. Then the second question was more on the margin in the industrial truck segment. You mentioned that you had, of course, some efficiency gains, raw material headwinds, and some FX transaction effects as well that came in negatively in Q2 and in H1, with an acceleration actually on the raw materials side in Q2 versus Q1. I was just wondering if you would draw a bridge to explain how you come to these results this year, or let's say, if the bridge is not quantified, but please to give us a direction, how would you put the arrows here in order to quantify raw mats, mix effects, FX, and perhaps as well the efficiency gains? Is it fair to assume that, probably on the mix side, you had a bit of support due to the fact that the IC truck segment seems to have been performing quite well in H1 so far?

Thomas Toepfer

No, I would not say that specifically. I think if you look at the numbers in terms of order or growth in terms of unit versus growth in terms of value, you will see that there is even a slight gap. So the order value is not increasing with the same speed as the unit value. So the average order is actually slightly lower per truck. That is not so much driven by product mix between

IC, E or warehouse. This is more driven by a regional mix because we are growing stronger in regions where the average order size or the average truck value is slightly lower. I would not say that this is a major driver, Philippe. So again, our view is we maintained our strong margin in Q2, despite some ups and downs, but there is no specific driver that really sticks out as one that we would specifically highlight.

Philippe Lorrain — Okay. Thank you. The third question was actually then on the margin at supply chain solutions. You mentioned that you had already, let's say, some improvements, of course, coming from the successful ramp up in Mexico and that you had as well, of course, a positive effect coming from, let's say, increased business volumes. I was just wondering if you have seen already any kind of synergy coming through the combination of KION and Dematic. And if yes, was it a significant effect or not?

Thomas Toepfer — Well, I think on the synergy side, what we clearly said is, this year, what we are expecting is the cost synergy side to come in. And we have always said cost synergies we would quantify between 1% to 2% of the Dematic sales. I think we can fully confirm that and had already confirmed that earlier that those savings will come through, roughly half this year, half next year. And I think that is what we are also seeing. So this comes from savings in the usual SG&A items and then also from purchasing, which specifically will come in probably in 2018. But therefore, to your question, yes, we do see some positive effects also in the margin which come from synergies.

Philippe Lorrain — Okay. Thank you. And then the last question is more about the market development in Europe and what probably you are seeing right now. We have noted that the development actually

	in the past quarters was still very positive in Europe as a whole, both regions contributing to that, with Eastern Europe coming back and Russian volumes coming back as well. I was just wondering if you could make a statement on how you see things actually going forward in terms of volume development in the two key regions, Western Europe and Eastern Europe, and perhaps as well just mention if we have still significant countries that have to catch up in terms of volumes to come to previous peak levels.
Gordon Riske	You have followed us for a while now, and you see that we have had a solid market backdrop in Europe for the past quarters. In our call today, we are confirming our guidance for 2017. We are not trying to make any new predictions for 2018. We will do that in due time when we have our budget discussions, etc. But I think in general, you can say driven through e-commerce the need to be more efficient, efficiency drives from our customers, we still do see a good backdrop at the moment in Europe to make the numbers. And we do not see any signs that is coming down at all.
Philippe Lorrain	Okay. Thank you. And just to follow up maybe on that one, do you see now through the combination with Egemin an accelerated uptake for your AGVs?
Gordon Riske	We have basically four AGV departments in the company. So of course, we have more than what we had this time last year. But that is more of a customer-driven thing. We are seeing more and more customers asking for automated vehicles or AGV-type vehicles, whether they be the typical traditional AGV or an automated forklift truck. So that activity is picking up, but I would

not say it is affecting our numbers at this point yet in any way that we would report it separately.

Philippe Lorrain: Okay. Thank you very much.

Omid Vaziri: Yes, good afternoon, gentlemen. Omid Vaziri here from Jefferies. Most of my questions have already been answered. So thanks for that. Two other questions, first one being, on page 7, you mention that the country allocation for WITS and FEM is in accordance with new governance. Would you mind just elaborating a little bit more as to what has changed in this allocation?

My second question is in relation to how much -- what portion of your order intake today is roughly from automated or for automated trucks versus -- and has this changed perhaps since last year or three years ago? Thank you.

Gordon Riske: Yes, and automated trucks, as I said in the other statement before, we do not break that out. Initially, of course, we keep some unit tabs, and that has not been a huge increase from 2015-16 to this point in 2017. But most of the time, these trucks, or 99% of the time, these trucks are part of a larger system. And of course, we count the system. But if you want to call it an automated system or automated truck, that line gets somewhat straight. So bottom line is it is not a number that is significant enough to start reporting it separately at this point. What was the other question on country?

Thomas Toepfer: The first question I think was this little footnote on page 7, the allocations. I think that is purely internal. You may remember we did not break out North America in last year, but we feel it is now necessary and meaningful because we are launching those new products. So against that background, we allocated Mexico to North America so that you have the full picture because the North American team is also covering Mexico. It is a super minor number, but it is just for those who want to compare the numbers we are presenting today with those we presented maybe two years ago, where we had Mexico in South and Central America. I think that is the point here.

Omid Vaziri	Great. Thanks very much. Can I just follow up with a related question? Back in Q1, some had speculated that perhaps some of the Chinese volumes, as reported by WITS/FEM, might be double counted with the European volumes. Have you come across anything as such, or have you looked into this at all?
Gordon Riske	No, that -- and even if it was, it would be a very minor detail on some particular segment. No, we do not have any reason to question our WITS statistic.
Omid Vaziri	Okay. Thank you, Gordon and Thomas.
Peter Murdoch	Yes, hi there, Gordon. Hi there, Thomas. If I can start, Gordon, with you, I am just wondering. Your numbers in for the first half I think are quite impressive and ahead of where most of us had our expectations. How come you did not -- or what stopped you from raising guidance today, especially in the truck business? That is my first question.
Gordon Riske	Well, 12 months is a long time, and yes, a very good half year the first half year. But all in all, we see a solid market backdrop, but we do not see any reason now to change our guidance at

this point other than to say that we have very good confidence to confirm our full-year guidance for 2017.

Peter Murdoch: Okay. Very clear. Then if we -- on the supply chain solutions, Monterrey I think is still impacting the business. If you were -- could we do the exercise where, if you would exclude Monterrey or if you think -- if you were to assume that operations were as normal, what -- how much higher would the EBIT margin in SCS be compared to where it is today?

Thomas Toepfer: Well, I think that is a very detailed question. It is very difficult to assess. The way I would look at it is you know that we are having a 12% EBIT margin target for the group, and we said both the segments should contribute to that target. So that means both segments will expand their EBIT margin. And I think the fact that Monterrey should be in full swing starting in 2018, this is one of the things that should give us some tailwind for the SCS segment. I think that is the truth.

Peter Murdoch: Okay. All right. Thank you, Thomas. And then just a couple of housekeeping, Thomas, the tax rate I think was a bit lower than I had. What is the guidance for the full year, and what should we assume going forward?

Thomas Toepfer: I think I would still maintain our guidance, which was that it should come in between anything between 30% and 35%. We might be -- I think it is fair to assume that we will probably come out at the lower end of this range.

Peter Murdoch: Okay. Very clear. And then just, sorry, on net financials just per quarter, I think it was €20 million, was it, that you said before. I just wanted to check that.

Thomas Toepfer — Well, we said it would be between €25 million and €30 million per quarter. Multiply that with four and then deduct €10 million savings for the improved financing costs that we had through the capital increase and also the refinancing with the promissory notes earlier this year. So that I think gives you a number between €90 million and €110 million. And I think we are still on track to achieve that number for the full year.

Peter Murdoch — Okay. Very clear. Thank you very much, both.

Gordon Riske — Thank you.

Sebastian Growe — Yes, good afternoon, gentlemen. Thank you for taking my questions. It is three in total all on SCS. And maybe we can take them one by one. Firstly, on the seasonal pattern in the business, can you help us understanding how good really normally quarter three is? I just want to get the sense of the sensitivity or for the sensitivity that we should expect here for the quarter to come after we have seen a pretty strong increase, obviously, in the top line by about €110 million quarter on quarter. I am just curious to hear your thoughts on what a normal pattern would eventually imply in the quarter three. Yes, maybe we start with that one.

Thomas Toepfer — Well, first of all, yes, there is some seasonal pattern, but I would say there is always some fluctuation because it is a lumpy business. So first of all, let us distinguish between the sales and the order intake. The order intake, I think there is no specific seasonality, but there is just pure lumpiness because customers may postpone their orders, whereas Gordon said, all our confirmations will have to go through engineering because --

before they can be confirmed in a written order intake, while the revenue does have some seasonal pattern. Remember that we said, especially the months of November and December are weak months because no retailer would like to have their systems installed in that quarter. And the same is true for Q1. So I would say Q3 by seasonality should be a stronger quarter. And I think we are confident that you will see some good improvement as we move into Q3.

Sebastian Growe

Would it be fair to assume a similar step up? So I know it is difficult to provide specific guidance on a single quarter. I am fully aware of that point. But just looking at other plant engineering businesses, more project-related businesses, you often find that, say, 40% of the full-year sales are made and generated in the strongest quarter, in that case, usually the quarter four. And would it be fair to assume that there is eventually a similar pattern behind that for your business at SCS and Dematic?

Thomas Toepfer

Quite frankly, I cannot be much more specific because I think that would be then not precise enough. So again, what I can say is that, in terms of sales, Q2 and Q3 are the stronger quarters. And I think we are very confident that this will materialize. And in terms of order intake, there is no specific seasonality. But specifically this year, we will see that the order intake will be backend loaded into the second half.

Sebastian Growe

Yes, fully understood. And specifically on that point, can you just give us a sense -- and obviously, the question was asked in a different way on similar project size, etc., but is there any really very sizable project in particular that you have in front of you? Could a single project be as big as, say, €200 million or so? And if that was the case, would you feel the need to also make a public announcement, a press release, on such a big ticket?

Gordon Riske: No, we would not make a press release on -- €200 million would be a very large order, but there are some customers that maybe through the course of a year or two give you some visibility on what is coming down the road, and that could be certainly in the €200 million range, but we would not make a specific press release on it.

Sebastian Growe: Okay. Fine. And the very last one on SCS, and then that should go, is just on the EBITDA bridge. You said before that you want to complete the ramp up in the second half of the year. If you should index and pinpoint the overall process that you have made at the Monterrey fab so far and you should index it on a scale from 1 to 10, where do you stand currently? And put it differently, can you give us a sense of how much sort of is still lying around and sweating out the inefficiencies that you had been confronted with when starting the year? Thank you.

Gordon Riske: Well, if I am an optimist and I say eight, somebody says they are a pessimist and they say seven, and a real optimist is 10, but we are certainly at the upper third of -- if you want to try to do it that way on a scale of 1 to 10. Considering, Sebastian, where we were when we had our Capital Markets Day talking to each other and where we are today, I would say it is definitely at the upper range of confidence and results and sweating out the details. But life goes on. And we have to continue to make it perfect. And I think we have announced and we are trying to expand some of our capacities in Europe on this topic. So we will have challenges going forward. But with this particular so-called mystery in Monterrey, it is no mystery anymore.

Sebastian Growe

Yes, fully agree with that one, and congratulations indeed on the great progress you achieved in that particular plant. Thank you.

Alok Katre

Hi. Thanks for taking my questions. It is Alok Katre here from Soc Gen just filling in for Sebastian Ubert. One housekeeping question and then one little bit on the guidance on the industrial trucks. Firstly, on the housekeeping, just sort of trying to understand the big swing in the net financial expense income item within SCS, so I think it was negative €10 million previous quarter, and then it is now plus €8 million in 2Q. So if you could just help us understand what is sort of happening there, that was my first. And then I will follow it up with the industrial trucks bit later on.

Thomas Toepfer

I hope I got your question correctly. I think in terms of net financial expense, you are asking for the swing between Q1 and Q2. I think the fact that there is some FX effects that are driving that swing, I think that is 95% of the explanation here.

Alok Katre

Yes, just wanted -- could you just sort of help me with understand what the FX -- is it just hedges that matured, and therefore you take some bits over there, or is it just working capital items, and then therefore how we should sort of think about this going forward as well?

Thomas Toepfer

Well, it is not one single effect. You know that our net financial expenses relate to a multitude of things, not only the financing of the group, but there is also leasing business in there. There is also pension payments in there. As we are now a much more international group with Dematic being mainly in the dollar space, that is driving our net financial expenses in a multitude of single items. So I think it would be difficult to explain from one single item.

Alok Katre

Right. Would you expect massive sort of change again, given where the dollar is today?

Thomas Toepfer

No, I think, as I said in one previous question, we fully confirm our guidance for the full year for this line item. There may be some intra-year fluctuations, but I think, for the full year, we feel that we are absolutely on track.

Alok Katre

Okay. Fair enough. And then just quickly on the guidance for the industrial trucks business, if I back out the lower end of your guidance range on the top line, then it seems that, effectively, you would not have any growth or any major growth in the second half of the year, although clearly the environment in terms of the market environment is quite solid. So just wondering, are you just being conservative? Having known and followed you for some time, is just being conservative, is just the lack of visibility that you have, or is there something that keeps you a bit worried to keep that guidance range where it is, given how strong sort of the first half has been and the backlog that you have over there? Thanks.

Gordon Riske

It is not our nature to be worriers. It is more of our nature to try always, when we make a statement to the markets, guidance and maintaining guidance is then to fulfill our commitments to our investors and shareholders and everyone, and that is what is behind it. And right now, we have mid-July. We had a great

	first half year. And that gives us more confidence at this point to really stand here and say we confirm our guidance for the 2017 and no reason to artificially make statements that it is going to be much better or whatever, not at this point.
Alok Katre	But there is nothing in terms of what you see in the markets that --
Gordon Riske	No, not at all.
Alec Ketry	Are you sort of seeing a falling off? No, not -- okay. Good. Thanks.
Denise Molina	So on the supply chain solutions segment, I have two questions on that. First is on the integrated solutions. So you talked about in your statement about starting to offer integrated solutions I think with the industrial trucks. So I was wondering if you could tell us about what kind of solutions those might be, if it is software driven, what the benefits are to the customers. Like just walk us through an example.
	And then the second is on the Dematic IQ. I think you said before that you are planning to sell that on a standalone basis beginning next year. So just wondering like if you have had any indications from customers already that they are willing to buy that on a standalone basis and who your biggest competitors are on the software side.
Gordon Riske	Okay. Integrated solutions, that could be a system for Customer XYZ for the first time bidding a warehouse solution, including forklift trucks and, most importantly, including all the service support to have one contact for the normal site. Today, if you go

into a site, you may have five or six different contractors, one for forklifts, one for AGVs, one for controls and software, and maybe construction site and so forth. And our advantage is to have one person, one project leader, for the entire thing. So that would be one example.

Another example, as you pointed to with the integration into Dematic IQ, the data, fleet data and so forth, movement data of the forklift truck itself, and that would also make an easier interface to the customer's overall warehouse data management system than today. So that would be two examples.

Now Dematic IQ standalone to third parties without our system, I am not sure if I understood the question correctly, but we do not have Dematic IQ we are selling today with our system. Some people use it. Some people also buy a system from us, where we use similar systems, let's say, from a company like Manhattan that may be established in their factory already, and then we would implement that into our overall system.

Denise Molina

Okay. I am sorry. It was my impression I think in last quarter that you mentioned that you might be selling software on a standalone basis starting next year, so sort of a competitor to Manhattan. But maybe I misunderstood that.

Thomas Toepfer

Yes, I think, to this, you are absolutely right. I think what is behind it is that, while in the past the software was most of the time part of the overall package and not priced separately and split out separately, I think what we are clearly aiming to do, and this will start soon, is having Dematic IQ as a separate item to be sold to the customer, where the customer, like normal for software, pays a license fee and then also an upgrade fee when a new software release is being released. And that is definitely a model that will start. But as Gordon said, in the vast majority of the cases, we will still sell that software together with the hardware of Dematic.

Denise Molina

Okay. So is breaking out the software as a new line item, is that going to be a challenge versus your competitors because you are -- are you trying to premiumize the software, or why are you doing that? What is the value to the customer? Why would they pay you separately for that?

Gordon Riske

Well, it is definitely a value to the customer, and it is also easy for the customer. These systems, again, just an example of many of these systems, can last up to 20 years. And within these 20 years, we will probably do several retrofits and so forth. But with the available technology today to do things like over-the-air software upgrades, it is easier sometimes for the customers to make a longer-term license agreement with a software maintenance package that we do automatic upgrades. And there is a certain infrastructure cost for that. So it is I think for the customer a value to be able to sell that to have the system. I bought it 10 years ago, and I can still keep it fairly modern with new interfaces, with new technologies that come up.

Denise Molina

Okay. Great. Thank you. And then in terms of software that Dematic IQ, in terms of the peer group in that, and I think Dematic IQ does -- you call it WS, but a lot of people have a blurred definition of that. But would you say that your strongest comps or peers in terms of WS, would that be Intelligrated and

	Manhattan, or are there several out there that are comparable to Dematic IQ?
Gordon Riske	No, there is -- you go to every country in the world. There is small houses. There's little houses. Even Egemin has a small software package that they did and Retrotech, a really small company that we have had, also had some -- so no, there is an extreme wide band of different products out there.
Denise Molina	Okay. So just a last question on that, why would someone take the IQ and not Manhattan then, especially if you are breaking it out? Why would they take yours instead of Manhattan's?
Gordon Riske	Well, if you had, I would say, a €30 million system and then you have a license fee for that, it makes it easier for the customer to do business with one company because, in the general case, we will have people in there anyways over the years to come instead of having two or three or four.
Denise Molina	Okay. Okay. Great. Thanks. And can I just add one last question? This is on the commodity price increases. You talked about that in the statement as well. Do you have a sense of how much that impacted your margins this quarter?
Thomas Toepfer	Well, we have not specifically quantified it. But just as an order of magnitude, I think what you can put it or what you could put into your model is a high single-digit million number for the second quarter. That is about the order of magnitude that we are speaking about.
Denise Molina	Okay. Great. Thanks very much.

Gordon Riske — Thank you.

Alexander Hauenstein — Yes, hello, Alex Hauenstein from DZ Bank. Thanks for taking my questions. I am not sure whether I have missed it, but maybe you could give us a hint how much you booked in terms of Mexican ramp up costs for this quarter. I see a number here in your statement saying about €3 million in one-offs for the supply chain solutions. Is that the number we should look at? Overall, it seems like you booked about €9 million for the first half. And given your guidance is unchanged to €20 million to €40 million, I am wondering what could be any further things to come here, especially when I take into consideration your answer to the question of the score, how much you have finished, and whether it would be 7 or 8 out of 10. So is there still something major coming up here? I just want to get a better feeling on that please.

And another clarification please, the former question, I think it was on interest expenses, where you guided about €90 million to €100 million and gave us some ideas how to calculate that, was that on interest expenses only I think, so not on net interest, right?

And last question, a bit of housekeeping on the PPA guidance side for this year, I had something in mind about €100 million to €150 million PPA. Is that still valid because, currently, you are running at about €45 million per quarter? Please give me some help here. Thanks.

Thomas Toepfer — Sure. Let me start with the last one PPA. Again, our guidance was roughly €150 million. I think that is still valid. It might be a little more than that. As you correctly said, we are running a little bit on the high side. But I think I would not change my guidance at this point because, again, the order of magnitude is absolutely correct if you put the €150 million in your model.

Secondly, interest expense, the guidance that we have given relates to the line item net financial expense. So it is exactly on – it is the full-year guidance relative to the €45 million that you see on page 13 of our update call.

And your last question was with respect to the NRIs. Again, on that same page 13, you can see first the €15 million for the first half or €6 million for Q2, respectively. That I would say to a -- well, more than half of that is related to Dematic. And again, within Dematic, most of it is related to Monterrey. So I think that gives you the order of magnitude.

The fact that we are saying we still believe that our guidance of €20 million to €40 million will hold true is due to the fact that, yes, as Gordon Riske correctly said, all the operational measures are largely implemented irrespective of where you put it on the scale of 1 to 10. But the cost of that is mainly then driven by expedited freight and additional resources on the site so that we can catch up some of the delay that Monterrey was still causing in the beginning of the year. So this is why we still stick to our guidance of €20 million to €40 million for the entire year.

Alexander Hauenstein — Okay. Thank you. That was very clear. Thanks a lot.

Richard Schramm — Yes, good afternoon. Two quick ones. On the industrial trucks market, what is your estimate for the full year after having seen this 17% increase in the first half? So what do you think can be your achievement here?

And second point, clarification on the SCS, you mentioned that you have already a lot of commitments for orders, but not yet fixed contracts because they are still to be negotiated. So do I understand this correctly that a customer just says, yes, you will receive the order, but we have to go into details, and even the financial details are not fixed yet? So it is not clear what the volume will be and what the margins, for example, you will make on such an order. So how is this working here because it seems to me a bit unusual? Thanks.

Gordon Riske

So second one is not unusual at all when you have a system like that, especially if you have customers where you work with over many years and that you are awarded a certain amount of projects with a certain guideline on what the cost will be. However, then as it gets closer to putting it all in writing, there are some engineering tasks that have to be done in detail. Every building is a little bit different, and there are changes along the way until it is fully engineered. And that is a typical process that we go through. Sometimes, it is easier. Sometimes, it is more work than others. So that is nothing unusual.

On IT&S for the full year, yes, we have said and we have already seen that in Europe. Europe is -- for the quarter was 7.3% for the second quarter. So we will see I am sure some leveling off of growth. China, let's see how that goes. That is a huge number with a huge effect, 36% in a market that is 25% of the global market. I think, there also, we will see some leveling off of the growth. And that is why, again, I can only repeat it. We have a good market background, and based on where we are in July, very confident that, overall for the group, for both segments, IT&S and SCS, we can fully commit to our guidance.

Richard Schramm — Yes, that is clear. But just for the global market, any estimate around there from your side?

Gordon Riske — No, none that I would give publicly in any case at this point, other than we have our own numbers and those we have analyzed, and we know our customers, and that is why we have the confidence to meet our guidance.

Richard Schramm — Okay. Thanks.

John Buckland — Thank you. It is great news that you are finally getting to grips with the Dematic and Monterrey and what have you. Just wondering whether, looking further out and across the market, whether you feel you have got all the capacity, the technology, the geographic spread, whatever it is that means that Dematic is all you need to fulfill your ambitions. The market still is quite fragmented. There may be still a lot to do in sort of artificial intelligence, automation, digitization, all that stuff. I wonder if you could just talk a little bit more about that, given that you have now perhaps got confidence that you can deal with these new acquisitions.

Gordon Riske — Well, again, it is less than a year old. We closed in November. So regarding the capacity, if I understood the question correctly, we have already announced that, based on our projections for European growth, that we are installing a site that is currently under construction in the Czech Republic for the purpose of building SCS systems for Dematic for the European customers and no longer having to take all of that mainly from Mexico or sometimes even from China. So we are trying to balance our manufacturing capacity based on where our customers are. So that is a big point.

And the other ones, whether it is robotics and artificial intelligence, that is part of our normal R&D process that we are going through. And as we have new innovations, of course, and on the market, we will introduce them. But you can rest assured we have always set standards that those topics are deeply embedded in our R&D roadmap.

John Buckland: So you do not -- so you can do all that you need to do organically. That is what you are saying to me, as you look further out into -- these needs are getting bigger, not smaller, aren't they?

Gordon Riske: We always look right and left for smaller opportunities. That is normal. But our plan right now is to, as we have done in the past, grow organically, and when there is an opportunity, we look at it. That is normal way of running KION and most other businesses.

John Buckland: Okay. Thank you.

Operator: Thank you. I hand back to Mr Gordon Riske for closing remarks. Please go ahead, sir.

Gordon Riske: Yes, thank you very much for all the questions, and we look forward to giving you the update for Q3 on October. And as I said earlier, we will have a number of roadshows and events.

Please contact our Investor Relations, and then we will get in line to have a personal discussion. Thank you very much.