KION GROUP AG

Q1 2018 Update Call

Conference Call Transcript

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Speakers: Gordon Riske (CEO)

Gordon Riske

Yes, thank you. Welcome to our update call for the first quarter of 2018. As a basis for this call, we'd like to use our Q1 2018 presentation. It's available to all of you in kiongroup.com under Investor Relations in the Presentations section.

Today, we will be presenting, as usual, four parts during the call, and then we will open up at the end to a discussion so that we can answer your questions. I will begin with the strategic and financial highlights of the first quarter 2018, followed by a market update, then provide you with a financial update, and we will close the call with the confirmation of our outlook for the full year 2018.

So let's start on page 3, where we have summarized our strategic highlights for Q1 2018. With our annual results, we published our updated KION Strategy 2027. It builds on the successful Strategy 2020 formulated before the acquisition of Dematic and sets the course for further profitable growth over the next decade, so lots of quarters ahead.

Key strategic fields of actions are energy, digital, automation, innovation, and performance. And we started implementing KION 2027 at the beginning of this year. And a few of the first results are that Dematic announced the formation of the Robotics Center of Excellence business unit dedicated to development and engineering of robotic automation. The new business unit is responsible for the application and implementation of robotic solutions that make order fulfillment operations more efficient, productive, and responsive to today's on-demand, omnichannel distribution environment.

Linde and STILL launched enhanced digital offerings for fleet data management with the Linde Truck Call app and with the STILL Next Fleet online portal Web applications and intralogistics consultancy service. To take our digital offering to the next level, we also launched the KION Digital Campus. The campus provides a co-creation space to foster digital business ideas.

And as announced earlier, we agreed upon a strategic and exclusive global partnership with EP Equipment, a Chinese company with focus on entry-level warehouse equipment. This exclusive strategic partnership will allow us to capitalize on growth in the global warehouse market.

Operationally, we started production in Dematic's new European factory in the Czech Republic next to the IT&S factory.

And finally, earlier this week and therefore not yet shown on this page, our STILL brand was awarded the International Intralogistics Forklift Truck of the Year Award in the category Counterbalanced Trucks. So the STILL RX20 electric forklift is a compact, energy-efficient, and extremely maneuverable all-arounder with load capacities from 1.4 to 2 tons. We're very happy with the announcement.

Turning to page 4, we have summarized our financial highlights for the first quarter. We continued our profitable growth into 2018, despite some of the headwinds. On this basis, we confirm our outlook for the full year 2018.

Regarding the top line, order intake for the group remained at strong prior-year levels for -- of €1.9 billion, and revenue grew by 2.4% to €1.8 billion in the first quarter of 2018. The Industrial

Trucks and Services segment, IT&S, increased its order intake by 5% to €1.5 billion and its revenue by 4.2% to €1.4 billion revenue. Supply Chain Solutions segment, SCS, with its project business, showed a slow start into the year and was significantly impacted by FX headwinds. It generated order intake €396 million, 14.1% below the previous level and a revenue of €471 million, 2.3% below previous levels. As I said, this is heavily impacted by FX headwinds. We'll explain that in the upcoming charts.

On profitability, the KION Group's adjusted EBIT margin improved to 8.6% compared to 8.4% last year, totaling €158 million for the first quarter. Both segments showed a margin increase of -- by 0.2%-points, so 9.9% in the IT&S segment and 7.4% in the SCS segment. We saw a margin expansion despite headwinds from material costs and from labor costs. Compared to the yearend 2017, net financial debt remained at around €2.1 billion as of March 2018. Impacted mainly by increases in net working capital, we generated a free cash flow of €13 million in the first quarter 2018.

And on a technical note, very important for comparing the numbers to last year, throughout this presentation, all of the key figures for 2017 have been restated due to the initial application of IFRS 15 and IFRS 16. So be careful when you make the comparisons to the old numbers, which you may have.

On page 6, let's focus on industrial trucks and show how the market has developed by region. Overall, the global market remained on its growth path with some normalization in Western Europe and in China in the first quarter. But thus, we saw a good growth and a good start into the year. In line with our expectations, Western Europe showed a normalized growth of around 4.7%. Eastern Europe continued with good momentum at plus 17.8% growth, again displaying a steady growth in most of the key Eastern European markets.

China saw continued growth, despite some normalizations, with orders growing by 15.2%, driven in particular by stronger demand for electric trucks and warehouse equipment. North America grew strongly by 19.2% in Q1. South and Central America stayed on its recovery path with a strong growth of 29% in Q1. As a result of these regional developments, the global market grew by 12% in Q1 2018.

Moving on to the comparison of KION's growth on page 7 in the industrial trucks by region, again, this is always in units. Western Europe, KION saw very good high single-digit growth of 7.7% in Q1, above the market. Eastern Europe, KION grew steadily with 9.5%, below the market, but very strong after the extremely strong outperformance of previous year.

In China, we were able to confirm the high in absolute nominal levels from the previous year as well, and we are well positioned to benefit from the shift that will happen to electric trucks, where we saw steady growth. North America Q1 demand for KION trucks grew by 24.5%, even after an exceptional growth from new product introductions in the previous year. South and Central America at KION saw strong growth of 24.4%, supported by continued recovery in Brazil.

So overall, we saw a very good start in Q1, with global unit order intake growth of 7.3% for KION, benefiting from the strong global market. We recognized a total order intake for KION of 53,500 units in Q1. I think this is one of the best if not the best first quarter in order intake that we've ever had in the company.

So let me move on to the financial update on page 9. Page 9, you see the key financials for the first quarter 2018. Order intake remained at the high prior-year level of around €1.9 billion, impacted by a negative FX translation effect of minus €74 million. Normalized for FX translation effects, order intake would have grown by 4.1%. Revenue grew by 2.4% to around €1.8 billion, also impacted significantly with negative FX translation of minus €83 million. Normalized for currency effects, the revenue would have grown by around 7%.

Adjusted EBIT grew by 4.2% to €158 million, which represents a margin of 8.6%, so 0.2%-points above Q1 2017, despite the headwinds from material and labor costs. Net income was €68 million, is significantly above the previous year, reflecting lower PPA and nonrecurring items, as well as our improved financing structure. Overall, we saw margin improvement in the first quarter of 2018, despite the headwinds.

Now I'd like to comment on each of the segments separately, starting with IT&S, Industrial Trucks and Services, on page 10. Order intake grew hereby 5% to €1.5 billion in the first quarter, impacted by minus €32 million negative FX translation effects. Normalized for this effect, the order intake for IT&S would have grown by 7.3%, so very much in line with the unit growth. Similarly, revenue grew by 4.2% to €1.4 billion in Q1, also impacted by minus €30 million negative translation effect. Normalized for these effects, the revenues would have grown for IT&S by 6.4%. New business grew at 2.6%, and services at 5.6% in the quarter.

Adjusted EBIT grew therefore by 7% to €136 million in the first quarter, equal to a margin of 9.9%, which is 0.2%-points above Q1 2017, all of this despite the headwinds that we have on the material cost side, especially related to steel, as well as some labor cost headwinds. We increased our margin above the level of Q1 2017. Overall, we saw continued growth and a margin improvement in the first quarter for IT&S.

Now moving on to SCS on page 11, first quarter 2018, we did see a slow start to the year with order intake of €396 million in the first quarter, 14.1% below the prior-year level. But it was significantly impacted, since a lot of the business is in other currency, by minus €42.2 million negative FX translations. This is due on the one side to the lumpy nature of the project business, which we explained in quite some detail at our Capital Markets Day in March of this year. If I normalize the translation effects on order intake for SCS, it would have been only a decrease by 5%.

The revenue declined by minus 2.3% to €471 million, also impacted significantly. The negative FX translation effect was minus €53.1 million. If we normalize this currency impact, the underlying business in local currency would have seen a high single-digit revenue growth of plus 8.8%.

So the adjusted EBIT was €35 million in the first quarter, resulting in improvement in the adjusted EBIT of 7.4% in Q1 compared with 7.2% in the previous first quarter 2017. Overall, with this slow start into the year, we did see significant FX effects, but nevertheless achieved a good margin improvement.

Turning to page 12, the reconciliation, we'd like to reconcile the adjusted EBITDA to the net income for the group. Some of the selected highlighted items are: the PPA items relate mainly to the purchase price allocation amortization for Dematic. Net financial expenses reflect among others an optimized financing structure. And the effective tax rate decreases slightly from -- to 29.5% from 30.7% in the previous year, following the US tax reform.

Moving to the next page 13, some details on the free cash flow, I will start with the last line on this page, where you do see a lower free cash flow of €12.7 million, so for Q1 2018. This is mainly driven by changes in net working capital from higher business volume and increased inventory due to a very tight supply chain at the moment. We have experienced some delivery delays at some key suppliers for the IT&S segment. We also saw some higher tax prepayments due, of course, to better results. And the rental CapEx was driven by higher business volume.

On page 14, a summary of the net debt of our business, the net financial debt of €2.1 billion as of March 2018 is almost unchanged to December 2017. Net financial leverage at 1.4 of adjusted LTM EBITDA remains also unchanged to 2017 December. The initial application of IFRS 15 and IFRS 16 leads to a slight increase of €81 million in industrial net operating debt, bringing it to the €2.2 billion number.

The respective leverage of 1.9 is slightly above the level of 1.8 as of December 2017. This is fully in line with our target to reach a leverage of slightly below 2x. For our end customer financing or long-term leasing activities for the industrial trucks businesses, assets and corresponding liabilities increased mainly due to the initial application of the new IFRS rulings.

	With this, I'd like to move to the outlook section of our presentation today. This is on page 16. Based on the presented figures for the first quarter 2018, we can fully confirm our outlook for the year 2018, which you can see on this slide. Now taking you to our financial calendar, the next events happening on page 17, perhaps we may see some of you at our Annual General Meeting, which will take place soon, May 9th, 2018, in Frankfurt. On July 26th, we will present the Q2 financial update, and I will for the first time be joined by our new CFO Anke Groth at this presentation. And with this, we would like to close the formal part of this update call and turn it back to the operator so that we can take your questions.
Operator	Ladies and gentlemen, at this time, we'll begin the question-and-answer session. One moment for the first question, please.
Sven Weier	Yes, good afternoon, Gordon. Three questions from my side, please. The first one is just on the truck situation that you've mentioned in terms of supplier constraints. I was just wondering if you could quantify the impact on the truck revenue growth. And I was also wondering separately, didn't you also have maybe a negative impact this quarter from the working days with the timing of Easter I guess at least for your German operations that might have had quite a bit of an impact that should not repeat itself? That's the first question. Thank you.
Gordon Riske	Yes, to quantify the supply chain, all I'm saying is that we have some deliveries on a small number of supplier. As you know,

we've had four years now of almost double-digit growth, especially in Western Europe. I was at the Hannover Fair this week, as many others were. So we do have some suppliers that are slightly stretched. We have been working on this very closely with our suppliers. Everybody's working very hard. So it's difficult to quantify at this time. We certainly have a number of machines that are about 80% or 90% finished. So my main concern right now is to not disappoint customers with - you know - longer delivery times. But I'm sure, throughout the course of this year, we will have that worked out.

Regarding the days, there are holidays and so forth in every quarter, especially in Germany. Sometimes, I'm surprised that we could get anything done. But the -- I think one thing we had this year that does not and hopefully does not repeat every year in our big German factories, and you know the two big factories in Hamburg and in Aschaffenburg, is that we did have two strike days. And that was hurtful. That has certainly impact. But holidays, there's lots of holidays in Germany. So that comes every quarter almost. That's not really unusual.

Sven Weier

Yes, understood. And the second question is on the SCS order intake, which I guess has been again a bit below our expectations. What do you think is different this time Q1 from last year Q1? Is it that you certainly expect quite a stronger uptake in Q2, Q3, and not such a backend-loaded year, or what gives you the confidence today basically?

Gordon Riske

Well, first of all, the impact of the FX is pretty big. Being here the number of years, 10 years now, I have not seen one quarter with that big of an effect. So that is big time. And now we have a €1.5

billion or so US business. So that does make a difference. That's the first point.

The second point is it is a project business. We know it's lumpy. That's why we do not have a guidance per quarter that we -- at least a guidance externally per quarter. We're confirming our guidance for the full year.

If you ask me what's any big difference, what gives me more confidence this year is closer to the business, understanding the business better. In terms of our pipeline, it's very solid. And I think the biggest confidence is that we have really taken care of our factories that was -- Mexico is up and running. That's not causing us any issues. So we have the sales team comforting customers about something like that, and we've added the capacity in the Czech Republic, which is also very comforting.

Another thing that I think is important to understand, and I don't want to get too complicated on this call, and we can certainly take some of these things offline. Some of the things that happened in the first quarter of this year in terms of orders, I can explain it this way, those are pieces of orders. Some of the projects that we have been awarded in the first quarter, and I won't mention any names, but everybody can figure out who are the biggest customers on the planet. Some of these are somewhat larger projects. So you have to get pieces of them on -- in production and in the planning phase for engineering so that you can deliver it the rest of the years. And other shorter pieces of those orders or things that go quicker come in the second and third quarter. So some of these orders have been split up into different buckets. So if I already have the first bucket now, I'm pretty confident that the rest, because it's kind of hard to deliver a sortation system half and half to somebody else. So I'm pretty confident that will come.

Sven Weier: So this time around, no delays or cancelations. It's just basically the timing.

Gordon Riske: Exactly, and we do -- that's why we're confirming our orders based on what we know right now for the year, confirming our guidance. And certainly, everybody can do the math on their own. When we have a guidance for the full year of X and you have a quarter, then it means second and third have to be certainly higher than the first one. So that's the track that we're on. And that's why we can confidently say we're on that track at this point.

Sven Weier: The last question is just on pricing. Given what you said on the material costs, and I know that you usually only raise prices at the beginning of the year, but we've now seen also from other companies some extraordinary price increases. Is that something you would also contemplate at the moment?

Gordon Riske: We are already with the Linde and STILL brands kind of at the upper level of pricing in the entire global market. And customers respect that and give a high value for that. But at this point, we are not considering price increases. What we are looking for right now is, working so closely with our key suppliers, many that we've been working with for a long time, increasing their capacities to make sure that they can get through the year. A lot of people were surprised the last few years, double digit, and it kept going, kept going. And some of them have made some step investments now to make sure we can keep up with the capacity demands going forward.

Sven Weier — Okay. Thank you, Gordon.

Markus Almerud — Hi, Markus at Kepler Cheuvreux. So a couple of questions. My first is just to go back to the order intake. So just want to double check, so there's no change. So when you lowered the guidance in October, you talked about the three blocks of which one was hesitation and one was among some customer groups and one was the delay in orders that you had expected earlier on. There's no change in this pattern? That's my first question. So there was basically no surprise in these numbers to you as you went into quarter.

Gordon Riske — No, no. As said, the only thing that -- and I said the same thing to Sven is, to have a factory that's not performing coming out of '16, '17, that's what gives us much better confidence in our discussions with customers in this year. And so that's been the biggest help.

Markus Almerud — Okay. And then if I could just ask on truck markets, is -- you're releasing a number of new trucks in the US this year as well, right? When is that in time?

Gordon Riske — Yes, we have in the fall -- we started with the IC trucks, so counterbalanced trucks, and especially with some of our SCS customers, we're trying to get our counterbalanced trucks in there. But we need the warehouse because that's the main focus of Supply Chain Solutions. So we are releasing a couple -- two more warehouse products later this year. That will be in the fall.

Markus Almerud — Okay. But there's no --

Gordon Riske — I think we have one more to go next year.

Markus Almerud: That was in the trade fair in April last year, right? There's nothing of the similar kind this year that could give a boost.

Gordon Riske: Yes, we had ProMat. That was last year, that's right. We have Modex that just happened, but we did not release a new product at that point. But we will have special dealer meetings and make kind of a roadshow, especially on these new warehouse products because the warehouse-specific products are a little bit different in the US market than what you typically have in the European market. So we will make a -- at least for our relations -- a big splash with these new products at the end of the year.

Markus Almerud: Okay. Okay. Perfect. Thank you very much.

Felicitas von Bismarck: Thank you very much. Sorry, again, on your order intake in the SCS business, could you maybe give an indication of how the smaller and the medium orders developed here, so if the organic growth rate was larger than the 5% decline or smaller than that? And also, can you exclude that this is not market share losses to, for example, Intelligrated?

And the second question would be on your order growth compared to, for example, China, which as you mentioned was driven by electrical forklifts and warehousing, which is supposed to be your expertise in China. So why are you underperforming there? Same question, why are you outperforming in Western Europe? Is this also -- or is that product mix driven, or where is that coming from? Thanks.

Gordon Riske: Okay. SCS, the fundamental market developments, the growth trends are unchanged. We are by far still the largest pure Supply

Chain Solutions company in market. Market share, you can't look at that at a quarter-to-quarter basis. As I said, all these projects are related to each other. We did get some nice pieces of orders in the first quarter that will expand in the second quarter.

Unfortunately or fortunately, however you look at it, we do not have the same type of statistical market share data because the companies are quite different in what products are available. But I can confidently say, at least with the bigger orders, we have not lost market share whatsoever to anyone, especially in North America, where Intelligrated that you mentioned is mainly working.

On the warehouse and on the industrial truck market in China --

Felicitas von Bismarck — Sorry. So before you go, can you still comment on the order growth of the smaller and the -- so how your base orders basically developed in the SCS business?

Gordon Riske — Yes, I can't split it down at this point. All I can say is our -- approximately what we showed at the Capital Markets Day with that split, that has been approximately the split also in 2018, the first quarter. It could be in the remainder of the year, as I said, we have a number of larger projects from a particular group of customers that this year perhaps some of the bigger ones are a bigger piece of the pie than last year. That is what may come out, although I said it on a few roadshow occasions, my biggest effort developing the market, especially here in Europe is to hunt more rabbits. As nice as the elephants are, it's just too lumpy. And we are working very diligently, especially with our partners at Linde and STILL, to hunt more of the rabbits. But that takes time. And so my message is the mix could be more towards bigger projects for this year, if I kind of look at my pipeline.

Now on China, I'm quite happy with the performance this year. We saw the good growth in E and warehouse. We actually outperformed the market that we concentrate on. The IC market is down in China compared to previous quarters. The IC market only grew by 5.5%. That shows typically that construction and those type of big projects may be a little bit slower, could be Chinese New Year first quarter, I don't know. Also, we've had some discussions I think in this group. Baoli, we have increased prices there definitely to improve our profitability. And that has certainly had some effect.

So in the main segments where we have our strength, that is in warehouse and in electric trucks, we have grown nicely. And we're very happy with the performance. Another thing you have to remember, the warehouse was a big increase of 50%. More than half of that is the so-called Class 3. So those are the reasons we work with companies like EP that's introduction level, entry-level warehouse equipment, 1.4 tons, basically an electric hand pallet truck, $1,000. That's not really the strong suit of a high-tech company. Lots of numbers, but not too many euros.

Felicitas von Bismarck — Western Europe?

Gordon Riske — Western Europe, why did we outperform Western Europe?

Felicitas von Bismarck — Yes.

Gordon Riske — Because we're good.

Felicitas von Bismarck	Well, that doesn't -- well, that would mean you were bad in China. So I don't want to make that argument.
Gordon Riske	Yes, but Western Europe, again, Western Europe, as we know from a type of product, premium products, heavy duty products, products made for efficient operations, total cost of ownership is a much bigger part of the overall market in Western Europe as it is in China. China, you have people for the first time using forklifts. In Western Europe, the forklifts -- especially warehouse equipment is invented here. So we do have a different thing. And what our performance is, especially STILL has recovered or has done a great job in the first quarter in electric trucks. That's always been our strong suit. Truck of the Year was not for any reason. But we have good trucks. Warehouse, we've made some very good improvements with our products. And those are the two main ones we focused on. Also, for us, surprisingly, some of the IC was not a bad performance. So we have very heavy duty IC trucks. So all in all, we had an outstanding first quarter for the truck business.
Felicitas von Bismarck	Yes, thank you very much.
Gordon Riske	Yes.
Martin Wilkie	Thanks. It's Martin from Citi. So the first question then is just on the larger projects. You mentioned that there may be a tilt towards more larger projects this year. Obviously, you're not going to tell us who the customers are, but in general, larger projects often means more pricing power for the customer. Is that margin mix negative for you if you have more of these larger projects coming through? That's the first question.

Gordon Riske	No. Larger projects are more engineering. This is true. But the type of projects we're doing, there's not so many companies that can offer the type of efficiency that we can offer. I had one of our biggest customers here last weekend. And he was just amazed at our sortation system. We're the only ones on the planet that really can move 400, 500 packages per minute through a sorter. And that still remains the same. So really, the big projects, it's efficiency and most of all reliability.
Martin Wilkie	So I could then ask a follow up to it. Obviously, you know the business for enough time to sort of understand the different dynamics of different projects. Relative to when you first bought it, the software side of it, is that as big a driver as perhaps you thought back then? We've heard some of your competitors winning more large orders, but they're actually more tilted towards hardware than perhaps they are on software, with some customers wanting to take software either in house or to software specialists. Just to get some sort of sense as to whether that part of the business is as fast growing as perhaps you'd originally thought when you bought Dematic. Thanks.
Gordon Riske	No, there's no real change to what we saw when we did the due diligence and what we have with the experience of the full year 2017. There are particular customers where there's lots of software, and there are other ones where there's little software. And we're lucky to be established in some of the bigger pure E-commerce customers around the world. So what we do see in those cases is a lot of repeat business, at least conceptually. Every warehouse is slightly different because the city that they build the warehouse has different rules or different land allocated, which has a different configuration. But if I look at some of our top

three, four customers, we manage to do repeat business. And that's really the key to being efficient. But this software focus has not changed at this point in the first quarter.

Martin Wilkie — Okay. Thank you very much.

Ben Uglow — Good afternoon, and thank you for taking the question. I feel bad for laboring the point. I think we're all fairly bored of SCS orders by now. But I did want to make sure I completely understood what you were guiding to, Gordon. In terms of this issue of winning parts or orders from large customers in the first quarter and being able to see the follow-on impact in 2Q, 3Q, and 4Q, if I look at the run rate that's required to hit the bottom end of your guidance over the rest of the year, that's basically about €568 million per quarter. Is what you're trying to say that, based on orders in hand, i.e. what you have already, that minimum range is achievable? Is that the message that we're supposed to take away?

Gordon Riske — Well, I'm glad everybody's calculator works the same. That's the first good thing. Sometimes, the currency is not so easy. But yes, we confirm our guidance. And of course, we should see higher-level orders in Q2 compared to Q1. I'm not bored at all actually. This is an exciting business, and it's part of how this business works. And that's why we do release our guidance information on a yearly basis because it's simply impossible to do it on a quarterly basis. Our customers unfortunately don't behave that way.

Ben Uglow — Understood. Understood. But -- and again, sorry to labor the point, but that's based on what you've already got in hand. It's not about new prospects that you need to win.

Gordon Riske

Again, we have a continuous tracking of our prospects. We have a so-called pipeline that's much bigger than our order. And within this pipeline, we have a constant running through all the projects and what we see in terms of our visibility. That's why we're able at this point on what we have on information able to confirm the guidance.

Ben Uglow

Okay. Very clear. Thank you. And just a quick follow up, just so we understand it, roughly -- and again, sorry to labor the point, but on large orders, how many prospects are out there at any moment in time? Is it one? Is it five? Is it 10? Is it 20? You had a huge €100 million plus order in the fourth quarter. What I want to know is, how many elephants can you go after at any moment in time?

Gordon Riske

You ever been in the Serengeti, Africa? We don't have a herd of elephants out there. This is not true. When it's 100 and above, there are not that many of them. There are some. And we do have some in our prospect pipeline. However, when you get to the 40, 50, 60, which is already a very substantial order, and then you may have a customer that has a number of these 40, 50, then it turns into a very big deal.

And just look at who are the top companies in the world in E-commerce. Everybody knows them. And the beginnings -- the first letters of all those companies are from A to Z. And those are who are our customers are. So in that range, there are quite a number of them. Above 100, absolutely correct, there are not too many. And it's simply the fact that these customers rely on strategic suppliers. We have some of these discussions with them about 2019 and about 2020. That's already in my pipeline, but I can't put it into the order book until we really have the physical order.

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

Sebastian Growe — Yes, good afternoon, gentlemen. Two questions on Supply Chain Solutions, just starting with the Czech plant. Can you just give us some indication where you stand in terms of utilization? The background of the question is simply that I want to get an understanding regarding the potential headwind that you might have seen in the first quarter from the plant not being fully loaded yet. And then I would have unfortunately some more questions on the pipeline again.

Gordon Riske — Okay. We built the Czech plant as an assembly factory. So if you've been to Aschaffenburg and Hamburg, where we do have some machining and welding, some other welding and stuff doing in two shifts, sometimes even three-shift operations right now, that's a different animal. So it's an assembly shop that's meant for fine assembly, so a lot of parts that are either purchased or manufactured or outsourced come together and are assembled. So it's not the same when I talk about a machine tool shop that has to run at 80% utilization in order to be profitable. Here, it's really assembly. So it's a different case.

The factory is done. We are running our first orders through there we and first -- at the end of last year, we started with some test projects, specifically conveyors. And we are routing orders that we got in the first quarter already through the factory. And we're within the schedule of our ramp up. So we said we'd commission the factory this year and ramp it up slowly. And so by the end of the year, we will be at the utilization that we expected because the thing was not only for being closer to the customer to the -- especially the European customers. And that's a price and delivery benefit. It was also to take some pressure off the Mexico facility to concentrate mainly on North America and the customers there because that was also the Mexican factory delivering to Europe, which is a long ways and quite a different situation there. So that was a twofold purpose.

Sebastian Growe

Okay. Okay. Thank you for all that. And then sorry if I have overheard it before, but you referred to these pieces and buckets orders, where you had received a certain piece of that already in the first quarter of the total value. Can you just help us understand to really what extent (inaudible) orders are still required to make the guidance? So is it more just doing the business, getting the remaining bits and pieces in as we speak, so to say, because there's simply contractual agreements in place, or what was the answer to the question? Sorry, I didn't get that before.

Gordon Riske

No, my point was that that's why we can confirm the guidance. That's the main point. And to give a little bit of understanding on some of these bigger projects, especially single customers with multiple sites around the world, not just in one geographic location or even one continent, you have to split these things up a little bit. Otherwise, you just overwhelm two organizations. So that's -- a good part of that, that gives us the confidence.

We still have, however, what we call internally “win and do”, so some things that have to come in, in the second quarter at least to be able to get them out the door in 2018. And don't forget we have the 25% of the total revenue is services. That's a continuous stream. That's been a steady stream. That's a very nice thing. We have a huge installed base. We are making huge efforts to increase. Dematic does not have yet the split that we have in the IT&S business, over 40%, 44%. It's about 25%, 30%. And we are working diligently on that to increase that part of it, too. We have 5,000 systems installed. So that steady stream of revenue is also a big factor to be developed in the coming quarters.

Sebastian Growe — Okay. And the final question on the regional split with all the uncertainty that is clearly around it. But I was under the impression at least that, for the 2018 order intake growth that you had in mind planned and budgeted, that business to a not small extent coming from especially the non-US American market. That's the right way to think about it? And if that was right, can you just specify a little where you see the better and bigger growth potential? Is it rather in the European market or rather in the Asian-Pacific market?

Gordon Riske — No, it's across the board, across all continents. We have some nice projects in Europe, especially here with the ability to deliver out of Europe. So that's a part of it. But the North American market is still the larger part of the entire system at this point. The potential is greater in Europe. But simply because we have a bigger setup in North America, we have a bigger salesforce, a bigger engineering force, that will still be a larger part of the business at least for '18 and '19.

Sebastian Growe — All right. Thank you very much.

Omid Vaziri — Yes, hi, Gordon. I want to move on to the forklift side of the basis, if I may. In Q1 '18, what's been the most material shift in your customer segment exposure year over year from this quarter last year? And then related to that, in China -- in Western Europe, your main customer and market exposure is wholesale, retail, logistics. You're quite heavy with respect to that exposure to those markets. But what about China? What main end markets are you selling to in that region? And I've got a second question, which I'll ask later.

Gordon Riske	You mean the segment that we deliver to, just so I understand?
Omid Vaziri	Yes, the end markets, the customer segments of being in retail, wholesale.
Gordon Riske	No, no. That's the wonderful thing about this industry. We have no segment that's more than 20%, 25%. Logistics being 15% to 18%, metals 11%, food 10%, chemicals 10%, construction 6%, that maybe varies from quarter to quarter, but that's the wonderful thing about this industry is that we really do have -- not dependent on one customer type nor on one customer segment. If you look at a report -- it was the full year 2017. We gave a truck order by industry, and that's -- hasn't changed in the first quarter at all.
Omid Vaziri	But have you noticed what's been perhaps the most material shift in -- I don't know -- maybe metals and mine, a bit less in steel, cement, and a bit more in retail, or what's been the one that stood out for you in terms of a shift in exposure?
Gordon Riske	Yes, if I look at China, certainly, if you look at the change in moving from IC trucks, although IC trucks are still 70% of the total market, but certainly the highest growth being in warehouse and then electric trucks, that's being driven not only by customer segmentation. That's certainly the one big one is the E-commerce, so the Alibabas, jd.coms of the world. That's certainly the biggest shift that we've seen.

	But the other one is simply the Chinese government and the surprisingly strict enforcement of emissions regulations inside of the big cities, forcing suppliers to change to emissions-compliant or electric trucks. So it's not just the customer segmentation that has changed in China, but also the stricter enforcement of emissions regulations.
Omid Vaziri	Sure. And what sort of customers are you selling to mostly in China?
Gordon Riske	Across the board, logistics companies, chemicals, construction. jd.com is one of our biggest customers. So it's across the board.
Omid Vaziri	Okay. My second question is back onto SCS. Would you be able to give us a rough idea of your order book for this segment?
Gordon Riske	We have an overall order book of €2.6 billion. So it's at yearend level. That was last year. That's what the order intakes that have come. So we have a very solid order book, but we've never split it out into different categories at this point.
Omid Vaziri	Okay. Thank you.
Glen Liddy	Good afternoon. You mentioned in your opening comments about wage inflation and raw material prices rising. When does the German pay rise kick in for you? And do you think you'll be able to recover that from your customers?
Gordon Riske	Yes, Germany. It's April. The IG Metall did agree, or we agree for some reason -- sometimes not to understand. But anyways, it was agreed the 4.3% is across Germany. And we reflect that wage agreement in our guidance. So we don't have any cost in

addition to what we've been saying now. But the fact is that's at the -- definitely at the absolute upper end of anything we imagined in 2017 when we discussed the whole topic.

Glen Liddy — And are there any other countries where you see those pay increases coming through in Q2 or 3 rather than at the start of the year?

Gordon Riske — No, not at those levels. Of course, we have pay increases across the board and in every region, some more, some less, China, which is at a low base. So when you have a small increase, percentage wise, it's bigger. But we are normally able to compensate that in two ways. One is our price adjustments that we look at through the year as what needs to be done. And the other is through our productivity improvements.

Glen Liddy — Okay. On your raw materials, are you locked into any price contracts for any of the things that you're purchasing? And if so, how long for?

Gordon Riske — Well, we have some contracts, not for everything, but there are some longer-term supply contracts, sometimes for steel and so forth. But some of these do have step-up clauses. So if the market price for steel that may go into a gear, let's say, increases by so-and-so many percent, then it does come back to us, down and up.

Glen Liddy — How quickly there?

Gordon Riske — That's six to -- six months or so.

Glen Liddy	Okay. And final question, on your guidance for the full year, you've got ranges for margins and for revenue orders. Relative to when you started the year, are you still tracking in line with what you expected to deliver for this year? I appreciate your ranges are unchanged, but the point for your budgets, are you still on track for your budgets, whatever they may be?
Gordon Riske	Yes, the Q1 is early. It's only the first quarter, but we have April now. We confirmed our guidance very clearly today. But we didn't narrow it, or so we confirmed our guidance. So we're on track.
Glen Liddy	Okay. Thank you.
Alexander Hauenstein	Yes, hello, Alex Hauenstein. Also from my side, two questions please. First of all, could you give us some guidance here about the sales impact or, let's say, the spillover effect from FX also going into Q2 compared to Q1, maybe on a segment level, just to get a better feeling how big the FX impact could still be in the second quarter? And it'll be -- if we say on a current level of the spot rate, it'll be probably the last quarter to see this effect, or is it probably also spilling over into Q3? So that would be the first question please.
Gordon Riske	Okay. Well, as you all know, we are comparing Q1 '18 with '17. So in the context of 2017, the Q1, if I talk about dollars and euros, where this was the lowest, and towards the end of the year, where it already started to creep up midyear, was high, and now it's much higher. So perhaps we have the biggest gap or the biggest effect in the first quarter. However, all of the analysts, you guys look at this much more than I do and have 1,000% more smartness than we do in terms of predicting exchange rates going forward. So it's almost impossible to give a sensible thing

on what will happen with the dollar. It's a political thing that's happening. So we don't have -- we can't predict what it is. All I can say is, at the starting point of 2018, we showed clearly what the numbers are in terms of revenue and in order intake. And we're comparing it at a relatively low rate for dollar-euro at this point last year. So we're going to have to see how it works out. We can't predict the exchange rates going forward. It's a different business.

Alexander Hauenstein — Yes, sure. But so the biggest impact has been in Q1 clearly. And there should be a much lower impact when we predict going forward. That's how I understand it. Is that correct? For both segments, maybe on Dematic side, there's still more to come, but on the truck side maybe a bit less, right?

Gordon Riske — Hopefully. That's assuming that there are no changes, but we don't know for sure what happens in the world of exchange rates.

Alexander Hauenstein — Okay. And a technical one with regard to tax. On full year basis, can you give us a guidance here for 2018 tax rate and maybe even some indication whether, after the US tax reform, things might head to for next year in a normal world, let's say, and maybe a quick comment on the higher tax prepayment which you had and which you pointed out on -- I think it was on page 13 of your presentation. Anything special we should take into consideration here going forward? Thank you.

Gordon Riske — Yes, okay. So over the years, we've guided for EBT, so tax rates of 30% to 35%. But then came this wonderful tax reform. So it will be lower. And our first estimate of tax ranges are between 27% and 31%, so slightly lower than what we've guided for in the past.

And the tax -- yes, okay. And the taxes paid as due to the higher tax prepayments, that's simply due to the fact that we have higher results, higher earnings. So we have to make some prepayments.

Alexander Hauenstein — Okay. Thank you.

Denise Molina — Thanks so much. So I just wanted to go back to Europe and the skew in SCS towards North America revenues, which I think you had 68% of the revenue base. I'm just thinking about your business model growing with the customer. You start with a brownfield, and then you grow as they grow. So if you're skewed towards North America right now and you're not really as involved I guess with the rabbits and maybe with some of the elephants in Europe, just wondering if you're losing some of that first-mover advantage of growing with the customer and if other players are actually taking that share in Europe and taking away the long-term opportunity for you to grow with the market in Europe.

Gordon Riske — In Europe, first of all, there are many more competitors for smaller systems than for larger systems, no question. For the bigger systems, we are simply a strategic partner with many of these customers on a global basis. But we're not losing the -- not at all the first mover because some of these smaller customers, as we've seen over the past years, Linde and STILL have also been delivering small systems, €5 million and below. And so I think that's what the magic is of SCS and IT&S. And what we offer to our customers, especially in Europe, is such a broad service and sales network that, combined with some of the skills and products that Dematic brings, that we have a huge opportunity there in these smaller customers. And that's what we're working on.

Denise Molina	It sounds like you were saying earlier that you're underresourced or understaffed in Europe that you don't -- you were talking about not having so many sales, sales presence there being smaller, and that that would be the case through '18 and '19. So it does sound like you're not really as well sourced there or positioned there as you are in North America.
Gordon Riske	Yes, North America has been a stronger developed business over the year. That's why Americas is 60%, and EMEA is 30%. But you also have to remember that the biggest E-commerce players, E-commerce traditional business is in North America. So a lot of it does start there, and it's still the bigger market. So that's why we invested in Dematic is to have the relationship with some of these global players. And if the business is bigger, of course, you have more people. And as it grows, and we are growing the business, you see our investment into Europe with the factory that we put into Stříbro. We have Linde and STILL here with leading positions, so customer connections. And we will build this business as we go forward.
Denise Molina	Okay. Thanks very much.
Jasko Terzic	Yes, question from me, most are answered, but maybe again on FX. So I assume your guidance is based on a constant currency rate for segments as well as for the group. So can you give me an indication what was the level you budgeted in 2017 to have a feeling what we can expect in a deviation in 2018?
Gordon Riske	Well, again, we have stated our guidance based on the rate in which we saw at the time that we did the guidance and worked on the budget, so last year. And we used the rate that, at that time, was kind of the normalized rate. Everybody can basically

look it up what was done at that time, and that's what we used. And now we have a different rate. I can't give you the exact number. I think everybody can look back in history and see what that was at the time.

Jasko Terzic

Okay. That helps. And maybe just to understand that because, in March, you gave the guidance, is it really hard to say what the FX effect will be? So you need to look in the final figures to get a feeling regarding mix and so on to have a real impact, or is it also likely to have a rough assessment to look what is the average rate for the quarter and then take a year-on-year comparison and the weighting of your regional exposure, and then you could have a good approximately of your FX exposure, or is it much more complicated than that?

Gordon Riske

Well, first of all, it starts with the predictability of currencies, which is not so easy, and that's not our business. Of course, we do different modeling when we do the budgets and when we make our guidance. And that's why we're confident today when we say we confirm our guidance. And more information to looking -- forward-looking currency rates or exchange rates I can't give you.

Jasko Terzic

Okay. And my last one is on PPA, housekeeping one. Could you give us a guidance what will be the run rate on PPA? Will it be on the Q1 level, or will we see further decreases quarter on quarter?

Gordon Riske

Yes, the PPA for '18 is around €100 million pretax relating to Dematic. Thereafter, it goes to about €80 million.

Operator

We have no further questions. I hand back to Mr Gordon Riske for closing remarks. Please go ahead, sir.

Gordon Riske

Okay. Thank you very much, everybody, for participating. We look forward to the next call in July for the second quarter.