KION GROUP AG

FY 2018 Update Call

Conference Call Transcript

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Speakers: Gordon Riske (CEO)
Anke Groth (CFO)

Gordon Riske

Yes, thank you. And welcome to our update call for the full year 2018. As a basis for this call, we'd like to use our full year 2018 presentation that's available on kiongroup.com under Investor Relations in the Presentations section.

We will, as usual, be presenting four parts today and then open up to the discussion, for your questions. I will begin with the financial and strategic highlights for the full year 2018, followed by a market update. Anke Groth will then provide you with a financial update, and we will close the call with the new outlook for the full year 2019 and our midterm targets for the group.

So let me start with the financial highlights on Page 3. We saw a very strong finish to the yearend. On this basis, we fully achieved our outlook. In other words, we delivered. We saw a strong order development with an increase of 8.5% for the full year 2018, and revenue grew strongly by 5.2%. We reached an adjusted EBIT of €790 million for the full year, and this represents an adjusted margin of 9.9% despite some supplier issues in our Industrial Truck segment and lower orders for our Supply Chain Solutions segment in the earlier quarters of the year, which led to a temporary underutilization for SCS.

Free cash flow for the group was a very strong €520 million. And we are therefore proposing to the AGM a dividend per share of €1.20. This is a 21.2% increase above last year's dividend of €0.99 and represents a stable payout ratio of 35%.

Moving onto our strategic highlights for the full year 2018 on Page 4, with our annual results in 2017, which we released in February last year, 2018, we also published our updated Strategy KION 2027. The strategy is the basis for achieving our mid- and long-term targets. Along the fields of actions, energy, digital, automation, innovation, and performance, we made strong progress in implementing our strategy during 2018.

We're showing some selected examples on this slide. Starting with innovation, at the beginning of 2018, STILL very successfully launched its award-winning compact, energy-efficient RX20 electric forklift family with load capacities from 1.4 to 2 tons. Our brand Linde launched among others its new digital application Zone Intelligence that makes the use of our trucks even safer.

Moving onto energy, Linde closed the last gap in the product portfolio and now offers the complete truck range with lithium ion batteries, including the load capacity from 6 to 8 tons, so the heavy duty load, a load category very few manufacturers offer electric forklifts for.

As mentioned, at the start of this year, we agreed upon a strategic and exclusive partnership with our Chinese EP Equipment partner. This exclusive strategic partnership will allow us to capitalize on growth in the global warehouse market and in particular in the entry-level warehouse equipment segment.

Digital. Digital is the next central theme of our KION 2027 Strategy. We introduced various new solutions enhancing our digital fleet management, which makes the use of the trucks for our customers much easier and more transparent. We launched the KION Digital Campus, a co-creation space, to foster digital business ideas.

And let me give you also some insight into the activities into the field of automation, Dematic's new versatile robot piece-picking module that delivers pick rates of up to 1,200 items per hour, ensuring on-time delivery of a wide variety of SKUs. Dematic IQ InSights is a new smart cloud-based asset performance management software that uses IOT principles to keep a warehouse operating at peak performance and maximum up time through real-time analytics.

Performance, the last strategic field of action. Operationally, we started production in Dematic's new European factory in the Czech Republic, which is located next to our IT&S factory, earlier in the year, and we continued the ramp up. To fully capture the growth potential in our markets around the world, we have taken the decision to expand our capacities. Number one, by building an additional plant in Poland, which is scheduled to come on stream in the year 2020. This plant will be used to manufacture mainly counterbalance trucks driven by electric motors and engines.

In addition, we are expanding our capacities in Xiamen, China adding a second factory for mainly use of warehouse equipment. And in India, where after seven years, we have approached capacity limits, we are adding a new facility, which will go online at the end of this year, 2019. In India, we have a market share of around 30%.

I'm moving onto the market update. This is on Page 6. Starting with Industrial Trucks, it shows the global market development by region for the full year 2018 and particularly in the fourth quarter. Western Europe, we saw a growth of 10% in the full year, driven in particular by small warehouse equipment. In Eastern Europe, we grew and the market grew by 20% in the full year 2018, again displaying growth in most key markets. China saw an increase for the full year of 15.2%, driven in particular by demand of E-trucks and warehouse equipment. North America had a solid growth of 4%. South and Central America remained volatile and increased by 5% in 2018. As a result of these regional developments, the global market grew at around 10.3% for the entire year 2018.

Looking at the quarterly development, all regions saw a slowdown in Q4 2018 to a global growth rate of 1.2%. And North America declined by minus 9.5% compared to a strong Q4 in 2017. However, based on order activity in January, we would today comment that we are seeing a normalization which is fully in line with our guidance. So far, so good.

On Page 7, we compare KION's growth with the market growth in the Industrial Trucks by region. In Western Europe, we saw a strong growth of 7.5% for the full year, in particular in electric trucks. Eastern Europe very strong with 19%, in line with the market. And China a growth of 4.4% in the full year 2018. In North America, we declined by 12.2%. As you know, we have very small market shares in the US. This was due to the China-related tariff headwinds as well as an exceptionally strong comparison year 2017, which included one-time positive order intake effects from introducing new products. South and Central America, we grew by 10.2%, above the volatile market in Brazil in 2018.

Across the regions, we saw in Q4 a very strong finish to the year by KION, with order intake up significantly above the market, also in our core home market of Europe. Only in China, we saw a decline in Q4 due to the slowing IC market in the economy segment. But overall, we saw good global unit growth with an especially very strong finish, taking us with an order increase to

7.6% to almost 217,000 trucks for the full year 2018. And this provides us with a very strong backlog as an excellent starting point and starting position for the full year 2019.

Moving onto Supply Chain Solutions on Page 8, as you know, there are no monthly independent industry statistics for Supply Chain Solutions. You can, however, approach the market via growth drivers and related growth indicators. So besides the e-commerce, the supply chain solution market is driven by automation and digitalization, which are two main fields of action in our KION 2027 Strategy. And related growth indicators are the following: capital expenditure on enlarging and modernizing warehouses, and on the related technologies, it's assumed to have increased around 9% in 2018. The outlook for global e-commerce market anticipates an average growth of 14% in 2018. These indicators support that the market for Supply Chain Solutions sustained its growth path in 2018 and will show a high single-digit growth over the next few years.

And with this, I'd like to hand it over to Anke, who will present the financial update.

Anke Groth

Thank you, Gordon, and hello to everybody. Turning to Page 10, you will see the key financials for the full year 2018. Order intake grew strongly by 8.5% to €8.7 billion. The order book at the end of the year stood at €3.3 billion and thus at an all-time high. The prior year level was €700 million lower.

Revenue grew by 5.2% to around €8 billion. For both order intake and revenues, we saw negative FX translation effects. Adjusted EBIT increased to €790 million, which represents a margin of 9.9% and, thus, below full year 2017. You know that adjusted

EBIT was impacted by negative FX translation effects, and the margin was impacted by the ongoing headwinds from supplier bottlenecks, underutilization in SCS, higher material and labor costs.

Net income was €402 million, was minus 4.9% below prior year level. But please take note that the full year 2017 figures included a positive one-time noncash effect of €92 million from the US tax reform. And additionally, full year 2018 includes a positive one-time tax effect from a tax law amendment in Germany in the amount of €29 million. So adjusted for both effects, net income grew by 12.7% in the full year 2018. So overall, we saw a good growth momentum and a solid margin, despite headwinds.

Turning to Page 11, you will see the key financials for the fourth quarter 2018. Order intake grew slightly by 0.3% to around €2.3 billion, supported by a strong order development in IT&S. Revenue grew strongly by 13.3% to around €2.2 billion, supported by both segments. Adjusted EBIT increased on the basis of the strong revenue growth to €252 million, which results in a margin of 11.3%, and therefore slightly above Q4 2017.

We have seen a catch-up effect from higher utilization in production towards yearend. The higher production output was achieved with more resources due to the inefficiencies caused by the delivery delays. And additionally, adjusted EBIT was impacted by the headwinds in material costs as well as labor costs.

Net income of €158 million declined strongly compared with prior year level, despite lower purchase price allocation items. But please keep in mind what I just explained. Q4 2017 included the positive one-time non-cash effect of €92 million and Q4 the positive one-time effect of €29 million. Overall, we saw a good finish to the year.

Let me continue with the key financials for the segment Industrial Trucks and Services on Page 12. Order intake grew by 6% to €6.2 billion in the full year 2018 and by 9.2% to €1.7 billion in the fourth quarter of 2018. Revenue showed a similar growth momentum of 6.3% to €5.9 billion in the full year and by 9% to €1.7 billion in Q4 of 2018. This includes a volume catch-up effect towards the end of the year. The service business revenue showed a similar increase of 6.1% in full year 2018, representing around 49% of IT&S revenue and thereby contributing to our resilience.

Adjusted EBIT grew by 2% to €655 million in full year 2018, equal to a margin of 11.1%, and by plus 3.7% to €240 million in Q4. This represents a margin of 12.7%. The supplier bottlenecks we saw in 2018 have largely been resolved. So our countermeasures have proven to be effective. But there are some remaining spillover effects into 2019. And as order books at yearend were high, supply chains at our suppliers may remain stretched. So we need to keep an eye on this topic. Overall, we saw strong growth in our IT&S segment, while supplier bottlenecks accompanied us throughout the entire year.

Page 13 summarizes the key financials for the segment Supply Chain Solutions. The segment saw a strong growth in order intake of 15.5% to €2.4 billion in full year 2018, a decline by 19.7% to €556 million in Q4 2018 compared to Q4 2017. But you have to take into consideration there have been high comps in Q4 2017 with, among others, a large order booked in the previous year. So overall for the year, we saw a very positive development. Given the strong order intake in the full year, the order book for this segment grew significantly. And that provides an excellent basis for the full year 2019.

Revenue increased by 2.3% to €2.1 billion in the full year 2018, still impacted by a lower order intake from quarters prior to Q2 2018. Q4 2018 revenue grew strongly by approximately 30% to €533 million due to a strong conversion of orders from Q2. The service business in SCS, the revenue there even increased by 9.2% in the full year, driven by the strong growth in our installed installation base. Service revenue now represents around 26.2% of the overall SCS revenue, up from 24.6% in the previous year, and thereby further strengthen our resilience.

Full year adjusted EBIT amounted to €180 million, resulting in a lower margin of 8.8% compared to last year's 9.4%. In contrast, Q4 2018 adjusted EBIT was supported by the revenue increase and therefore grew by 72.9%, which resulted in a strong adjusted EBIT margin of 9.4% compared to the 7% in Q4 2017.

Throughout the year, profitability was impacted mainly by the underutilization in Dematic's project-related capacity as well as project mix, but that playing a minor role. Overall, SCS saw a strong order momentum, clearly above market growth, which we would not expect to be repeated every year.

If we turn to Page 14, that shows the reconciliation from the adjusted EBITDA to the net income for the group. Let me only highlight selected items. Adjusted EBIT impacted by headwinds increased slightly with 1.6% in full year 2018. Nonrecurring items relate mainly to the integration costs for Dematic and the redirection of our IT&S sales activities in South Africa. PPA items relate mainly to purchase price allocation amortization for Dematic.

Due to lower non-recurring items and PPA, reported EBIT grew by 14.6%. Overall, net income was below the previous year, and I already mentioned the tax effects which have had an effect here. Pro forma earnings per share grew by 9% in the full year 2018.

Going over to free cash flow on Page 15. Free cash flow was €520 million for the full year 2018, so 9.6% above prior year level. Changes in net working capital resulted from higher business volumes. And on the other hand, we saw the stock level still impacted by the supply chain issues in IT&S. But major reasons for the lower change in working capital are higher advanced billings received and billings in excess from SCS customers.

Higher tax prepayments due to higher results in previous quarters negatively impacted free cash flow. And leasing CapEx was driven by a continued increase in our business volume, and operating CapEx was mainly driven by product development and the expansion and modernization of production and technology facilities.

Overall, we saw a very strong free cash flow development impacted by the prepayments from customers in the SCS business. These payments depend on the order intake and the timing of order intake and can lead to a strong year-on-year cash flow fluctuation.

Page 16 shows the net debt of our business. As at December 2018, net financial debt of €1.9 billion was below the €2.1 billion as at yearend 2017, resulting from a continued deleveraging from free cash flow. So all KPIs improved therefore. Net financial leverage of 1.2x of adjusted EBITDA, and the leverage on our industrial net operating debt is now standing at 2.3.

And with this, I hand back to Gordon for the outlook for comparison portfolio 2018 and the new outlook for the year 2019.

Gordon Riske

So thank you. I'm on Page 18 with our outlook comparison for the full year 2018, so the past year. This is the picture that we showed you in March. And for those of you that have the old picture, the difference between this one today and the one we showed you last year is that there are green checkmarks on every category. In other words, we fully achieved across all KPIs for the group in both segments. In other words, we delivered. So it was a great year of achievement for the year 2018.

Moving onto 2019, which also happens to be on Page 19, for the full year 2019, the market and then our view of our performance in the market. Let's start with the market environment. The overall market for industrial trucks and warehouse systems will remain a growth market in 2019 as well. The regional development will depend, of course, largely on the economic prospects in our most important key markets. Fundamental growth drivers, particularly the global fragmentation of value chains and the increasing preference for e-commerce are intact.

In view of the largely stable macroeconomic prospects at KION Group, we do anticipate that the worldwide market for industrial trucks and warehouse systems will continue to expand in the year 2019. However, the growth of new industrial truck business is likely to normalize compared with the exceptional rates of expansion that we have seen in the past years, 2017 and '18 in particular, returning closer to the long-term trend of around 4%.

The demand for Supply Chain Solutions is likely to be underpinned by the strong inclination to invest seen in the main customer industries in connection with multichannel and e-commerce strategies. In the medium term, the market growth is expected to be in the high single digits. So overall, we have a good market to work with.

For the KION Group, we do aim to build on our successful performance in 2018. And based on the forecasts for market growth, we aim to achieve further increases in revenue and adjusted EBIT. The order intake of the KION Group is expected to be between €8.25 billion and €8.9 billion, approaching a €9 billion company. The target figure for consolidated revenues is in the range of €8.150 billion to €8.650 billion. And the target range for adjusted EBIT is €805 million to €875 million. And our cash flow is expected to be in the range between €380 million and €480 million.

The cash flow depends very much on the timing of customer prepayments in our SCS segment and will therefore most likely be slightly below 2018. The target figure for return on capital is in the range of 9% to 10%. All in all, we will invest into strategic initiatives around our fields of action, energy, automation, and digital, to prepare for the future. While this could slightly limit margin expansion in 2019, it will pave the way for a continued profitable growth and the reaching of our midterm and long-term targets.

For the segment Industrial Trucks and Services, order intake in the Industrial Trucks and Services segment is expected to be between €6.250 billion and €6.450 billion. The target figure for revenues in the range of €6.05 billion to €6.25 billion. And the target range for adjusted EBIT is €685 million to €720 million.

For the segment Supply Chain Solutions, order intake in the Supply Chain Solutions segment is expected to be between €2 billion and €2.5 billion. Our SCS business is lumpy, as you know, strongly driven by customers in the pure play e-commerce vertical, and growth momentum can therefore vary year to year. On average across several years, we do expect that the continued growth grows at least in line with the market. The target figure for revenue is in the range of €2.1 billion to €2.4 billion. And the target range for adjusted EBIT is €190 million to €225 million.

Let me move to Page 20 and present our midterm targets for profitable growth based on our updated Strategy KION 2027. With respect to revenue, KION targets to reach €10 billion in revenue by 2022, growing above the material handling market. We're also targeting profitable growth with an adjusted EBIT margin in the double-digit range. In the medium term, we intend to grow into the range between 10% and 12%. This midterm target clearly assumes a continued market growth and no crisis. This will support us to achieve a steady increase of our share of the global material handling market while continuing to have the highest profitability in the industry.

So that is a recap of the year 2018, our clear targets for the year 2019, and our growth terms and midterm targets and our aspiration for the company.

On Page 21, our financial calendar for you, our next event is the Analyst Day in March and the presentation of our Q1 numbers 2019, 25th of April 2019. In the meantime, of course, we're presenting at conferences and roadshows in the coming days and weeks ahead and looking forward to our continued personal dialogue with you on these occasions.

And with this, we'd 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.

Sven Weier

Yes, thanks for taking my questions, first one being on your Supply Chain Solutions order guidance. Appreciate what you said on the order lumpiness. But if I take the lower end of that guidance, obviously would be pretty significant decline. Is that something you see evidenced by your pipeline, or is your pipeline on SCS more steady than that, and you're just not so certain about the timing of the orders and given the global macro environment? That would be the first question. Thank you.

Gordon Riske

Yes, Sven, thanks for the question. The fact is that 2018 was an exceptionally strong year in order intake. And we do expect the Supply Chain Solutions to grow in the medium term in the high single-digit percentage rate. And KION will grow at least in line with that. But as you know, there can be fluctuation in quarters and over the years. And it clearly shows the lumpiness of our business. That's why we do have a wide range in our guidance, €2 billion to €2.5 billion. But I can't repeat enough the 16%, and

	if I even take it FX adjusted, 20% growth in 2018 was a very strong year.
	Our pipeline is strong, absolute. We were at LogiMAT last week. I was there myself. It's one of our biggest industry conferences. There was no room on our stands, filled with customers. So I'm very confident. But I think in the prudence, as we always do, we have a little bit broader guidance range for the year 2019.
Sven Weier	So the pipeline is more stable than what the guidance would suggest at first sight.
Gordon Riske	We have a good pipeline.
Sven Weier	Okay. The second question, if I may, is just on what you said in terms of additional spending on CapEx. So what should we pencil in for this year and next year in terms of your total CapEx spending? I think you had about €258 million last year. So what amount should we see for the next 2 years?
Anke Groth	Yes, hi, Sven.
Sven Weier	Hi.
Anke Groth	We usually have guided you for a 3% CapEx, of group revenues in the past. And for 2019, we are guiding for a 4% of group revenues for CapEx.
Sven Weier	And is that going down to 3% then in '20 again, or is it staying at 4%, given the timing of the project you've mentioned?

Anke Groth — We are giving a guidance for the year 2019 here. But from today's visibility, it's a peak.

Sven Weier — Okay. Thank you.

Anke Groth — So we would expect to come down again. If it is then the 3% level or 3.5% level, I will talk about that next year at the same time, but the 4% is a peak.

Sven Weier — Okay. Thank you, both.

Philippe Lorrain — Yes, thanks for taking my question. I had one on the market. You say that you see, based on January numbers and also generally speaking, a normalization in growth in lift truck orders at global level. Could you elaborate what kind of regions you are really seeing a normalization already right now? Is it Europe, or is it more like other regions such as China that you had seen that in Q4?

Gordon Riske — Yes, thank you for the question. It's pretty tough to take one month, you know there are the big swings in month to month. All I'm seeing is January and here with just a few weeks of February, we do see a little bit of a normalization in the markets. You saw the Q4 numbers in particular. As you mentioned, China was slower in Q4 than some of the others. Europe was still robust. So that's okay. But all these discussions with tariffs between China and US, the US being the biggest customer of the Chinese economy, that certainly has some effect. So I think our positioning with mainly electric trucks and warehouse, it puts us in a great setup for China. So I don't expect so much effect for KION in particular. But I do believe the markets will this year differ slightly than '17 and '18. That is more like a 4% growth rate.

Philippe Lorrain	Okay. Thank you. And then the second question is actually around the rental fleet and also the financial services activity. Could you remind us how big your rental fleet is right now in terms of 1,000 units, and perhaps as well share with us what's the share of the long-term leasing contracts that you have with customers that might have flexibility clauses, i.e. where customers could possibly send back unused trucks to KION in case of an economic downturn and contraction of their activity levels?
Gordon Riske	Yes, our short-term rental fleet is 80,000 to 90,000 trucks around the world. So that is a very sizable fleet with an excellent utilization. The long-term rental, which is kind of a lease agreement basically for 4, 5 years, that's much more. It's more than 240,000 trucks. But I think you're particularly focusing on the short-term rental, which reacts quickly. So we do have a big fleet. As I said, the utilization is very well underway. Bringing back the trucks, we also have a huge used market penetration around the world. So that has never been an issue to take the trucks back, even short term, and put them into the used truck market. We have not seen any problems, even in bigger downturns, which were in the year 2008 or even 2013, which had slight market downturn in the first half year. So we see no problem with that.
Anke Groth	By the way, we also don't see any kind of problems with default rates or something like that. So that's really, really a very low percentage. It's not even 1%. So there aren't any problems on that side.
Philippe Lorrain	And you can confirm that, typically, if the rental fleet has very low utilization rates, as might be the case in a year like 2009 or so,

typically, you will then sell these trucks as used equipment rather than really keep them on inventory at your own locations.

Gordon Riske

Right. They go back into the market. Don't forget, in the several years now, as I talk about the IT&S business, the forklift business, our revenues after the sale of the truck are approaching 50%. That's 49%. So we've really extended our capability to react to downturns into the market with a very, very robust and stable business after the sale of the truck. And part of that is our very huge efforts with the used truck markets, short-term rental services businesses to stabilize that. And that has really paid off in the last few years.

Philippe Lorrain

Okay. Thank you very much.

Markus Almerud

Hi, good afternoon. So my first question is on the midterm targets. Thank you for those. The 10% to 12% margin range that you're setting, is there any change to your previously talking about 12% margin for the whole business in that both business areas should contribute to that. Is there any change here? And also, how should we think about the different businesses contributing to those 10% to 12% and also the €10 billion? Thank you.

Anke Groth

Yes, thanks for the question. The target of 10% to 12%, how should you think about it? You should think about it that we are the most profitable player in the industry. That's the first point. And our target is an adjusted EBIT margin that is permanently in the double-digit range, so between the 10% to 12%. And we intend to grow into that corridor.

So what we said in 2019, we will be investing into our strategic fields of action. The new factory in Poland is one example, new technologies, and so on to better position KION for the future. And so based on our implied adjusted EBIT margin guidance for 2019 of around 10%, our midterm target is within the range of 10% to 12%.

And your question with respect to the segments, so ITS and SCS are both contributing to it.

Markus Almerud — Okay. But nothing has changed from previously because you've been talking about 12% for the whole business, and now that's the upper end of the 10% to 12% range, so with midpoint of 11%. So is there anything that has changed in your assumptions with regards to any of the businesses?

Anke Groth — Yes, you have to see 2018 was somehow flat. Now you look at our 2019 guidance. And we had to be realistic. So we are growing into the 10% to 12% corridor.

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

Sebastian Growe — Yes, good afternoon. Two sets of questions from my side. The first one is on Supply Chain Solutions. And sorry for bothering you again with the order guidance. But I think you have been talking in the past about elephant projects playing a very important role. And given that order growth has been so strong at the 20% organic, could you just share with us if there has been an unusually high share of those big, big projects in the 2018 accounts, or has there been a certain pull forward eventually of projects that you otherwise might've expected to only come in 2019?

And then second question's on SCS, just on the end markets. I guess, early morning, you said in a Bloomberg interview, Mr. Riske, that you see strong growth opportunities in food. Are there any striking findings or changes by verticals, or is it, for example, the case that the temporary slowdown at e-commerce or so at big customers is the key reason for flat order guidance at SCS in 2019?

And then lastly, on free cash flow for 2019, Sven already touched upon the CapEx point. I would be interested then in working capital because, if I look at the operating improvement and on the profit side, then I would say that the CapEx uplift and the increase that you are guiding for on the profit is more or less at least netting each other off. So I would assume that the then lower free cash flow guidance compared to 2018 is very much related to working capital. So if you could just comment on any particular changes, prepayment changes, etc., that would be much appreciated. Thank you.

Gordon Riske

Okay. Starting with the first one, the order intake guidance, the project mix is roughly comparable to the previous year. So there has not been a big change. We gave some information at one of the capital market days that the so-called elephants are about 38%, the medium ones between 15% and 20%, and the smaller ones are also about 40% to 45%. So that has not significantly changed.

End markets, interesting question. The food and beverage industry is starting to automate more. We see interesting projects coming down the line, the whole concept of having these city shops that have to be fed every day from very sophisticated central automated warehouses is an opportunity for us that we think is an interesting part. E-commerce is still the strongest driver around the world. No change there. But you're right. The same companies don't have the number of big orders every year. It's not so much a fact that they don't want to order. But some of our big customers, when they build a 50 million or 60 million, sometimes 70 million warehouse in one year, it takes some time for them to make this thing work and get it running smoothly and everything is working. They just simply don't have the capacity to do it every year. So there are some bigger swings from year to year.

The third question?

Anke Groth

I think -- hi, Sebastian. You asked for free cash flow and if that is also connected to working capital. Of course, it is. You're absolutely right. It has not only to do with the increased CapEx and the investments, but it has also to do with working capital. We have explained that our high free cash flow this year is driven by the SCS prepayments now based on the order intake we have seen in 2018. So we don't expect that in this order of magnitude in 2019. So that is also going into cash flow, of course.

If we look at ITS, so inventory levels are still a little bit high at yearend. So we expect working capital in the IT&S segment to be slightly better than we have seen it in 2018. But the big swing is really coming from the prepayment of customers in SCS segment.

Sebastian Growe

Okay. Understood. Thank you for that. And if I just may follow up on these inventory levels at IT&S, obviously, this is a function of the supplier issues that we have been talking a lot about in 2018. Is there any spillover still, or would you really say this almost negligible looking at the 2019, or do you see any other smaller guys struggling now with the still I think pretty decent volume that you have in front of you?

And if I may also come back to your Quarter 3 call commentary that you're expanding and building the supply chain with new suppliers, can you just give us an update where you stand here?

Gordon Riske

Yes, well, first of all, you saw our delivery in Q4 as a basis point. That would not have been possible had we not solved most of the issues, just as a general frame of where we stand. We have a huge order backlog. That's right, a huge order book. So the pressure to get things out in terms of revenue is still on, but with much less problems.

Realistically, I don't know if you've been in our factories. I think you have. Any factory in the world producing that high level of products will always have issues which I would call more in the normal day-to-day stuff. And certainly, there's some spillover that we had. We didn't get everything out that we would like to get out at the end of the year. So there's some spillover, but by no means the severity that we've had in 2018. We're getting also there into a more normal situation. So I'm very confident with the development into our supply chain for 2019.

Anke Groth

To give you additional information, Sebastian, on that point, as we are talking about that we are seeing, of course, spillover effects into 2019, we have always said that not with the change to the 1st of January 2019 all issues are gone. You can imagine that we have also taken a little bit of a cautious approach and have incorporated some spillover effect into our guidance as well. So we have taken that into consideration.

Sebastian Growe	That's helpful. Thank you.
Omid Vaziri	Yes, good afternoon. Thanks for the overview. Very much appreciate it. Could you please help us understand what sort of operating margins you're targeting for the Supply Chain Solutions business over the medium term? So is it in the same sort of 10% to 12% range now?
Anke Groth	It's the same target, 10% to 12%.
Gordon Riske	For the group.
Anke Groth	For the group. It's our overall.
Omid Vaziri	So the same in Industrial Trucks and Services and Supply Chain Solutions?
Anke Groth	Oh, no, it's not the same margin, but for the KION Group overall, we target the 10% to 12%. We don't break it further down.
Omid Vaziri	Okay. Thanks. And my second question was in relation to that interesting figure of 9% that you quote in your presentation today from your sources with respect to the global warehouse CapEx in 2018. Do you have the equivalent figure for 2019? And also, was that 2018 figure also broken down by region into Europe and the US?
Gordon Riske	Yes, first of all, the 2018 figures, that's on Page 8 of the presentation. Those are projected expenditures from the Peerless Research Group. We don't have actual numbers precisely yet for 2019. We're working on some of those. But we

don't expect too big of a change for 2019 for global warehouse investments because we are close to most of our customers and know what their plans are in the coming 12 months, as that's part of our budgeting process. So we're comfortable with that number for 2019 at this point.

Omid Vaziri

Thank you. So then if I could just bring it onto the guidance you've given for the Supply Chain Solution order intake again. And apologies for picking on this one more time. It's just that it stands out from the guidance you've given today at group level. The range is heavily skewed towards a material decline. At the midpoint, it's 7% decline year over year. At the lower end, it's about 17%. And the upper end is just a small positive. So what is it that you're looking at, where we are today sitting -- looking ahead? What indicator or number of multiple indicators that you're looking at is making you want to skew it more towards a decline rather than the midpoint being stable at least?

Gordon Riske

I would just kind of repeat what I said before. 2018 was extremely strong. FX corrected 20%, to handle that, to get that through, to get all these things running is a major task. And going all over our order pipeline and project pipeline, that's the guidance that we feel comfortable with, between €2 billion and €2.5 billion.

Omid Vaziri

Okay. Yes, understand the lumpiness nature of it and tough to get the timing right. So yes, I don't want to sit on that point. So my final question really is on what sort of FX assumption are you assuming in your SCS order guidance for this year?

Gordon Riske

Yes, we use the FX rate environment applicable at the time when we defined the guidance earlier this year. And that's it.

Omid Vaziri	So, is that a tailwind you're expecting in 2019 from SCS, or is there North American exposure there, or is it more of a headwind?
Anke Groth	Unfortunately, I have to disappoint you again. We don't comment further on that. So it's the FX rates we are seeing at the ticker at the point of the guidance. And we have to see how FX is really developing throughout the year. We have further questions. There are other people waiting on the line. So the IR team is happy to pick up your questions afterwards.
Omid Vaziri	Thanks very much for your responses.
Anke Groth	Okay.
Alexander Hauenstein	Yes, Alex Hauenstein. I have two questions, first of all coming back to the SCS growth going forward and, let's say, not only looking into 2019, but beyond, and taking your midterm guidance into consideration. Should we still think about roughly 10% annual growth, or what you mentioned for SCS in 2019, let it be maybe a high single-digit growth number? Is that maybe also the new normal going forward here, or should we take the 10% going forward still in our models?
	And if we take the 10%, is it then fair to say that you probably take into consideration for IT&S the normalized, let's say, 4% to 5% growth rate, or is this way of thinking something which you want to comment at?
	And maybe coming back on this bottleneck supplier issue, did I understand you correctly that, apart from the usual stuff in supplier issues, you're not seeing anything at the horizon for this

year, like the electronic parts things which you had last year, or is anything maybe on the agenda which might eventually have some impact on your full year development? Thank you.

Gordon Riske

Yes, the first one, SCS, as we said in the call, high single digit is the medium-term market growth rate that we expect. So and we do expect to perform with the market, so high single digit.

On the IT&S, we do believe for this year it's more in line with the long-term average of around 4% globally. Again, globally, there will be differences. China normally will be more. Europe will be less. So globally, for the entire industry, about 4%.

The third question, supplier issues, as I said before, we have some spillover, but those topics are largely taken care of. Again, I can't repeat it enough. We would never have made the fourth quarter deliveries that we did with the type of issues that we had beginning of the year. So we're through the major stretch of that.

Alexander Hauenstein

Okay. Thanks. But coming back to SCS, so high single digit. I thought initially that you're maybe targeting also only this in 2019 due to the very strong base. But when I look into what you said right now, it seems to be a bit of a more structural thing. Before, you spoke about 10%. So anything which has changed here in your way of thinking or customer behavior, or is this only some, let's say, some cautious factor that you put into the midterm target?

Gordon Riske

No, no change in the customer factor. Again, we grew by 20% in 2018. And so high single digits is a very good target for us for the guidance of 2019.

Alexander Hauenstein	Yes, sure. But I'm more looking for 2020 and beyond. I just want to get why it's maybe 7, 8, or 9-ish compared to something like 10 going forward and beyond 2019.
Gordon Riske	Yes, I can just repeat it. We do believe that the market will grow at least at a high single digit in the coming years.
Alexander Hauenstein	Okay. So it's at least. Okay. Thank you.
Ji Cheong	Hi. Ji from Citi. Thanks for taking my question. I just have one. So can you give us some more detail on your embedded macro assumptions for your 2019 outlook on IT&S that would lead to the upper end and lower end of the range, respectively, for your guidance? Thank you.
Gordon Riske	Yes, again, 2019, with our 9% or the high single-digit numbers that we're assuming, is simply based on, number one, our great performance in 2018. And when you talk about the macroeconomic environment, you have read probably everywhere more than we do about the anticipated growth rates in GDP around the planet in all different markets. And the official forecast from every government, from every bank is certainly less in 2019 than it has been in 2018. And so taking that into consideration, I think we have a very good guidance outlook between €2 billion and €2.5 billion on order intake. That's in the longer-term perspective in the high single digits. We feel very comfortable with that.
Ji Cheong	Thank you.
Jack O'Brien	Hi, good afternoon. Thanks for taking the question. Just want to focus on the Western European truck market. If we look in 2018,

	about 435,000 units sold, which compares with a preceding 5-year average of more like 325,000, so it was up about a third on the 5-year preceding average. And I suppose, as we look into 2019 with growth slowing, I just want to understand the sort of structural drivers. Of course, European economy is larger. There's also the structural growth from increased warehouses. But is there not a risk, given slowing growth, that actually we could go and see a minus 10, minus 20 year, given how strong 2018 was, or do you now think that sort of a 400-plus annual volume is the kind of today's run rate?
Gordon Riske	We've had 4, 5 years now extraordinary growth, driven by e-commerce mainly, warehouses, the move from diesel trucks to electric trucks, topics like mobile automation, so to get more automatically driven trucks, and that trend will continue. All we're saying that, in total economic context, for the year 2019, that we do see it coming back to the more normal growth rates between 4% and 4.5%, which has been the case, let's say, before these last 3, 4 big years. We do not see some kind of drastic decrease because the underlying growth drivers, e-commerce, complex delivery cycles, very complex supply chains, that is actually increasing. So we do see the underlying growth drivers of our business fully intact. But after 4 or 5 years of very high growth, we see it normalized for 2019.
Jack O'Brien	Okay. Thank you.
Frederik Bitter	Yes, thank you very much. Good afternoon. Two, and we can take them one by one is probably easier. Just on SCS, I was trying to understand a bit more why 2018 was so strong and 2019 supposedly a bit less so. And obviously, I expect that obviously

to level out in the more medium term to go to your target or indicated growth rate.

And just I noted that the Americas region has increased in share of the total sales for SCS quite a bit, and particularly e-commerce. Is it fair to assume that that has to do with one particular large customer in the e-commerce base in the Americas or North American region? And if so, is it fair to assume then what you perhaps also indicated a bit earlier that this is like sort of a 2018 effect, and 2019 will be, because of that, a bit more a normalized level, and then it might pick up from the years after?

Gordon Riske

Yes, the 2018 share of the pure play e-commerce players has increased. This is true. Let's get the numbers, 47% compared to 32% the year before. So it was an exceptional high order level on the e-commerce players, the big players, especially the US big players. And I just don't expect that to repeat every year. They have to also consolidate all these wonderful warehouses that they're building and make everything work together.

Frederik Bitter

Okay. No, that's fair enough. It's basically, yes, as I thought it might. And then the second one I had, please, was on your 2022 targets. Could you explain a bit more the underlying growth drivers, say, if you could break it down into like underlying market growth, perhaps also market share you might want to take, and also if that sales guidance at least includes M&A as well?

Gordon Riske

Good. M&A, it's not going to happen. We purchased Dematic. That was a big deal. A big transaction like that is not built in. We continue look on the M&A side for small opportunities, whether it's buying dealers to increase our service, technologies that we don't have, or regions in the world where we're not present. That's always been for the last 50 years part of our strategy. And that will continue in the year. But to go from within our guidance this year for 2019 to almost €9 billion to get to a €10 billion company, it's easy to calculate that that's not considering any major M&A transaction. So the main point is certainly organic growth in all of our regions.

And if you look at the IT&S business, it has been growing. But there are certain markets in the world, whether it's India, whether it's Eastern Europe, China, that will continue to grow probably at a higher rate. So you see by some of our investments into new capacities or extending our existing capacities, those are important steps to be able to handle the growth.

On the SCS side of the business, the Dematic business, e-commerce in all segments that we focus, it is not just the pure play e-commerce players, but every vertical that we address, whether it's pure manufacturing, or as I stated earlier, the food and beverage industry, all are incorporating more and more e-commerce into their business. And for that to work, you need highly integrated automated warehouse equipment, and those are the things that drive our business.

Frederik Bitter

Thank you very much for the explanations. And then, please, if I can add on the 2022 targets, the 12% margin, that's obviously been in the room for a couple of years, since 2013 exactly. But just to understand a bit better, what would need to happen to you reaching the 12% target?

Gordon Riske

Well, first of all, we have, through our entire process of manufacturing setup, we've done quite a bit of work in flexiblizing and making our capacities more cost efficient, whether it's in the

Czech Republic or Poland or India. The second one is our product development. A lot of the products coming online are based on the new platforms that we have developed over the years. They're coming into the markets this year, next year, and the year after, and of course, volume growth going forward, taking the scale effects. All of those are part of our earnings improvement programs that we have continually going at the company. So we're confident to grow into that. We're very close today to the 10% to 12% range, and that target, we're fully confident that we can get in, and we continue to grow into this corridor.

Operator: Ladies and gentlemen, we have no further questions at this time. I hand back to Mr. Gordon Riske for closing remarks. Please go ahead, sir.

Gordon Riske: Yes, thank you, all, for attending the call today. And we will see you in our upcoming call in April for the first quarter of 2018 and perhaps on the one or the other roadshow as we move along. Thank you very much for participating.