KION GROUP AG

FY 2019 Update Call

Conference Call Transcript

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Anke Groth (CFO)

Gordon Riske

Yes, thank you, and welcome to our update call for the full year 2019. As a basis for this call, we'd like to use our full year 2019 presentation. It's available on kiongroup.com under Investor Relations in the Publications section.

We will be presenting in four parts today during the call, and we will then open up the discussion for your questions. I will begin with the financial and strategic highlights for the full year 2019 followed by a market update. Anke Groth will then provide you a financial update for the full year and the fourth quarter. And we'll close the call with our key investment projects in the current year and the new outlook for the fiscal year 2020.

So let's get started on Page 3 with our financial highlights for the full year 2019. We saw a very strong finish to the yearend, and on this basis, as already announced on January 17th, we reached or partially exceeded our outlook.

Our order intake grew by 5.3% to €9.1 billion, driven by both of our operating units. Revenue grew strongly by 10.1% to €8.8 billion. We achieved an adjusted EBIT of €851 million in the full year 2019, representing an adjusted EBIT margin of 9.7%.

Free cash flow for the group exceeded the already high prior-year level and stood at €568 million in 2019. And finally, we are proposing to the AGM a dividend per share of €1.30. This is 8.3% above last year's dividend of €1.20 and represents a payout ratio of 34%.

So in a nutshell, we saw a very strong performance despite the challenging macroeconomic conditions in 2019.

So let's move onto Page 4 for the strategic highlights for the past year. We continued implementing our KION 2027 Strategy with great success along its fields of actions: energy, digital, automation, innovation, and performance.

Starting with energy, in the summer of 2019, we announced our joint venture with BMZ for the development and manufacture of lithium ion batteries for counterbalance trucks in EMEA. This cooperation strengthens our position in the field of energy-efficient drive technology.

Besides that, STILL set new standards with the launch of the new RX60 electric forklift truck. With its high performance and agility for indoor and outdoor use, it is an e-truck with IC truck characteristics and allows us to further drive the industry shift towards electric trucks.

Moving onto digital, Linde introduced the new generation 12XX, a new truck generation with the launch of the 1202 IC truck as the first derivative. A key highlight of the new truck and the new truck generation is its full connectivity, making it possible to carry out over-the-air software updates to activate further digital services, much like a Tesla in the car.

Dematic launched with its IQ Virtual an emulation and simulation platform for the visualization and validation of automated intralogistic systems.

Another important aspect of our strategy is automation. After only 6 months development, Dematic launched its new microfulfillment solution. It will help retailers like our first installation at Maier address increased consumer demand for rapid online order fulfillment in a small footprint. Additionally, we are very proud that our STILL brand won the International Forklift of the Year Award in the AGV and intralogistics robot category with the automated LTX 50 electric tow tractor.

Looking into the field of innovation, our innovation lab for new digital solutions and business models, the KION Digital Campus continued to push agile developments throughout the group.

And finally, moving onto performance, during the last year, we started a groupwide optimization and efficiency program called Performance Excellence. The program drives cost reduction across various parts of the business and has already contributed to our 2019 financial results.

Besides that, we continue to work on our improved flexibility while expanding our production footprint in South China and in India. And moreover, we started construction of our new ITS plant in Poland.

So moving onto the market update, on Page 6, it focuses on the industrial truck market and shows the global market development by region in the fourth quarter.

In Western Europe, we saw a decline of minus 4.1% in the fourth quarter, mainly driven by Germany, and ended up with an overall decline for the full year 2019 of minus 6.7%.

Eastern Europe increased slightly by 0.5% in Q4, which was mainly supported by Russia. On an annual basis, the region showed a decline of minus 5.6%.

China saw a significant double-digit increase in Q4 with 26.8% growth, which was again mainly driven by high demand for smaller warehouse equipment. For the full year 2019, China saw a strong growth of plus 8.6%.

In North America, in the Q4 2019, we had minus 0.4%, nearly reached prior-year level. Overall, however, North America declined by minus 7.6% in the year 2019.

South and Central America saw an ongoing positive development in the fourth quarter with 11% growth, with Brazil being a growth engine in the region, ending up at a stable level for the full year 2019 compared to the previous year.

So as a result of these regional developments, the global market grew by 5.1% in Q4, mainly driven by China as well as South/Central America, and finished the year at a moderate annual decline of minus 2.1%.

Now looking at KION's development on Page 7 by region, Western Europe, KION declined by minus 2.7% in Q4, which was one of the best quarters that we had in history, finishing with a very strong December and still developed significantly better than the declining market.

Eastern Europe, KION declined by minus 20% in Q4 compared to a very high base in Q4 2018.

In China, KION saw an impressive growth of 25.4% in the fourth quarter 2019. However, KION was slightly lagging behind the market, which was mainly driven by an even stronger demand for smaller warehouse equipment.

North America, KION declined by minus 21.7% in Q4. Remember, due to the rather low market share, small changes in order intake can cause significant changes in terms of growth rate. Nonetheless, KION has still outperformed the market in 2019 with a slight decline of minus 1.3%, also including the first major cross-selling order.

South and Central America grew across the region, continued for KION, and we significantly outperformed the market.

So overall, KION order intakes in units slightly declined by minus 2.1% versus the record level of Q4 2018. For the full year, KION outperformed the market, especially in Western Europe, based on our strong competitive position with only a slight unit order intake decline of minus 1.5%. And we could therefore strengthen our position with an overall market share of 14.2%.

So moving on, Page 8, Supply Chain Solutions, as we're all aware, there is no monthly industry statistic for Supply Chain Solutions. However, you can approach the market via the growth drivers and related growth indicators. Especially for Supply Chain Solutions, ecommerce, automation, and digitalization are the key drivers for this market. And 2 of them are among our strategic fields of actions derived out of our KION 2027 Strategy.

Let us look on 2 related growth indicators. Capital expenditure on enlarging or modernizing warehouses and on the related technologies is assumed to have increased by around 11% in 2019. Besides that, the outlook for global ecommerce market anticipates an average growth of 11% for 2019.

Both growth indicators support that the market for Supply Chain Solutions sustained its growth trend in 2019. And we expect an unchanged high single-digit growth over the next few years.

With this, I'd like to turn it over to Anke, who will present the financial update.

Anke Groth

Thanks, Gordon. And also, hello from my side. Turning to Page 10, you will see the key financials for the full year 2019. Order intake grew by 5.3% to €9.1 billion, which was mainly supported by the very strong SCS development and the solid IT&S order intake.

Based on our strong order book, revenue grew strongly by 10.1% to €8.8 billion in the full year 2019. Adjusted EBIT showed a solid increase by 7.7% to €851 million. Thereby, the adjusted EBIT margin decreased slightly to 9.7%, in particular driven by a mix effect between our operating segments as well as slightly higher R&D investments.

Net income increased strongly by 10.7% to €445 million, driven by operating performance and lower PPA items in comparison to last year. Overall, full year 2019 saw a strong development, especially in light of the overall macroeconomic conditions. Therefore, our order book at the end of December 2019 was 10% above prior-year level and stood at €3.6 billion, which gives us an excellent starting point for 2020.

Turning to Page 11, you will see the key financials for Q4 2019. In the fourth quarter of 2019, we saw a strong yearend finish and reached a growth in order intake of 12.7% to €2.6 billion. This was mainly driven by the continued very strong development in SCS.

ITS performed well in light of the difficult market environment. Revenue in Q4 increased moderately by 2.6% to €2.3 billion, whereas adjusted EBIT declined by 10.5% to €226 million, resulting in an adjusted EBIT margin of 9.9%. I will comment on the impacts shortly within the segment sections.

Net income decreased by 32.9% to €106 million, among others due to a positive one-off tax effect in Q4 2018.

Let me continue with the key financials for the segment Industrial Trucks and Services on Page 12. Order intake rose by 1.9% to €6.3 billion in full year 2019 and to €1.8 billion in Q4 2019, which represents a growth rate of 1.7%. This was mainly driven by our solid growth in our resilient service business.

Revenue grew strongly by 8.2% in the full year 2019 to €6.4 billion and by 1.5% to €1.7 billion in the fourth quarter 2019 based on our strong order book at the beginning of the year.

As new business grew by 11.2%, service revenues increased by 5.2% in 2019. Therefore, the share of new business in IT&S has increased slightly to 52.2%, whereas services contributed 47.8% to segment revenues.

Adjusted EBIT grew significantly by 6.1% to €695 million in the fiscal year 2019, resulting in an adjusted EBIT margin of 10.8% versus 11.1% in the prior year.

During Q4 2019, the adjusted EBIT declined by 7% to €199 million, representing a margin of 11.6%, down from 12.7% a year ago, which was an extremely strong quarter.

The main drivers for the margin development in Q4 2019 were a reversal of the positive phasing effect from SG&A and R&D, which we had been commenting on during the first nine months of 2019.

Additionally, our short-term rental revenues declined due to a lower utilization within our fleet and therefore impacting the margin slightly negative.

Despite a market slowdown throughout the year, our IT&S segment showed a strong top line. We start into the year 2020 with an order book of €1.4 billion, slightly lower than the year before.

Moving onto Page 13, you can see the development of the IT&S service business over a longer term. The growth trend of our IT&S revenues continued. While the new business is fluctuating with the economic development, service sales offer a continued resilient revenue stream with an average growth rate of 5.6% at very attractive margins.

Page 14 summarizes the key financials for the segment Supply Chain Solutions. The segment saw a significant increase in order intake of 14.3% to €2.8 billion for the full year 2019 and plus 48% in the fourth quarter 2019 to €823 million.

In Q4, we saw a higher activity of pureplay ecommerce again as well as from the food and beverage vertical. Building on that, the order book for the segment reached €2.2 billion at the end of December 2019, representing an increase of 24.2% versus the prior-year level, which provides Dematic, our SCS segment, with an excellent basis for 2020.

Revenue increased by 15.7% to €2.4 billion in full year 2019 and by 6.4% to €567 million in Q4 2019. As business solutions grew by 17.6%, service revenues increased by 10.7%. Therefore, we have a minor mix effect.

Adjusted EBIT increased to €228 million, very strong by 26.6% in full year 2019, and resulted in an improved margin of 9.6% compared to last year's 8.8%. During the fourth quarter 2019, the adjusted EBIT in SCS reached €52 million and was thus able to show a margin of 9.2%.

The segment margin benefited from an improved operational performance in project execution. In contrast, a negative mix effect, due to a higher growth in business solutions, as well as a reversal of the SG&A and R&D phasing effect, overcompensated with positive impact.

In summary, SCS saw a strong order momentum, clearly confirming Dematic's leading position and, as already mentioned, starting into 2020 with an order book of €2.2 billion.

Slide 15 shows the 8-quarter rolling average order intake for SCS. The average annual growth rate across the shown 2-year period further increased to 11.3%. The segment continues to see strong growth rates in line with market trends.

Page 16 shows the reconciliation from the adjusted EBITDA to the net income for the group. Let me highlight selected items. As mentioned before, adjusted EBIT grew strongly by 7.7% during full year 2019.

Nonrecurring items, NRIs, have increased by €22 million and mainly relate to reorganization measures in Turkey as well as the preparation for the implementation of levers within our Performance Excellence program.

As a result, the reported EBIT grew by 11.5%. Higher earnings led to higher taxes in the reporting period. The effective tax rate increased to 28.4% in full year 2019, slightly up mainly due to a positive one-time tax effect in Q4 2018.

Overall, net income showed a strong increase of 10.7% in fiscal year 2019. This represents earnings per share of €3.86 for the year 2019, significantly higher than 2018.

Details on the free cash flow are shown on Page 17. Free cash flow during the full year 2019 was €568 million and exceeded the high prior-year level.

Our operating performance contributed significantly to this increase of free cash flow. The higher change in net working capital of €147 million was driven by lower contract liabilities from the SCS business.

The increase in rental CapEx was lower compared to the prior year, primarily as a result of our active fleet steering. Additionally, free cash flow was driven by a slightly higher operating CapEx due to our production capacity expansion in Poland, China, and India, as well as higher R&D investments.

And in 2020, we paid €10 million for the acquisition of the minority state in EP Equipment.

Overall, we saw a strong free cash flow development in 2019.

Page 18 shows the net debt of our business. As at yearend 2019, net financial debt of €1.6 billion decreased strongly versus prior-year level, resulting from a continued deleveraging from our free cash flow.

Therefore, our net financial leverage of 1.0 or 1x of adjusted EBITDA decreased compared to yearend 2018. Leverage on our industrial net operating debt at the end of December 2019 improved further to 2x compared with 2018, and finally, our net pension liabilities increased due to lower interest rates. Therefore, leverage on industrial net debt decreased to 3x.

And with this, I hand back to Gordon with our key investment projects in this year 2020 and our outlook for the full year.

Gordon Riske

Yes, thank you. I'm on Page 20 with an overview on our main investments in the current year. The full year 2020 will be characterized by strategic investments in medium- and long-term growth.

A key role in our growth strategy is the construction of a new state-of-the-art plant in Jinan in East China, which will manufacture counterbalance trucks.

Similarly, we are expanding our product portfolio in one of the still fastest growing and most important markets globally. With this, we are taking advantage of our growth opportunities in the value segment and benefiting even more from the increasing electrification of industrial trucks in China.

For this purpose, we and our anchor shareholder Weichai Power will form a joint venture with KION holding 95%. The investment volume is expected to be around €100 million, comprising the new manufacturing plant for counterbalance trucks of the brands Linde and Baoli, an R&D center, a training center, as well as an administration area.

The construction is scheduled for late 2020, with the full manufacturing start in the year 2022, so a big step for us in China.

We have also signed an agreement yesterday to acquire one of Dematic's longstanding partners Digital Applications International, called DAI. DAI offers logistics automation software, employs around 240 people, most of whom are software engineers.

With DAI, Dematic is significantly expanding its digital offering, which supports the movement, storage, and distribution of goods across the entire supply chain. Additionally, the new software offering can serve as an addon for existing or entry point for new Dematic customers, while DAI's customers can become new Dematic customers.

The overall investment volume will be around €120 million. Due to the favorable transaction structure, only €97 million will be cash effective, while further payments will be made over a period of 3.5 years.

Based on the preliminary management accounts of DAI for the 2019 financial year, we expect an EBIT margin of more than 25%, resulting in a transaction multiple of less than 11x 2019 EBIT. This compares favorably to KION's trading multiple.

After we have had a closer look on the 2 main strategic investments, let me present to you the outlook for the full year 2020, which you also find in our Annual Report 2019. And I'm on Page 21 here. And afterwards, I'd like to share with you our thoughts circling around the coronavirus topic.

So for the market environment, the overall market for industrial trucks and warehouse systems is likely to see further growth in 2020 if economic conditions stabilize slightly, as expected.

The ongoing expansion of the Supply Chain Solutions market and a stabilization of the global market for industrial trucks are primed to be engines of growth. Overall, the global material handling market is once again expected to grow at a much faster rate than global GDP.

At KION Group, we believe this is primarily because of the fundamental growth drivers that still remain in place, particularly the fragmentation of value chains and consumers' increasing preference for ecommerce.

Growth at a regional level, particularly in the markets for industrial trucks, will again depend heavily on the economic conditions in the main sales markets.

Following the market correction in 2019, we at KION Group are expecting new business with industrial trucks in unit figures to hold steady in 2020, which will be below the long-term market growth of around 4%.

In 2020, demand for Supply Chain Solutions in the form of warehouse automation is likely again to be underpinned by the strong inclination to invest, seen in the main customer industries in connection with omnichannel and ecommerce strategies. In the medium term, market growth is expected to be in the high single digits.

For KION Group, we can see detailed ranges on the slide. And we believe that we will continue along our growth path and aim to further improve our market position worldwide in 2020.

The higher level of strategic capital expenditure will adversely affect adjusted EBIT and thus profitability in 2020. Please keep in mind that the outlook for the fiscal year 2020 does not take into account possible effects from global pandemics or comparable events, as a valid estimate of the resulting effects is not possible at this time.

Order intake for the KION Group is expected to be between €9.050 million and €9.750 million. The target figure for consolidation revenue is in the range of €8.650 million to €9.250 million. The target range for adjusted EBIT is €770 million to €850 million.

Free cash flow is expected to be in the range of €270 million to €370 million. And the target figure for ROCE is in the range of 8.5% to 9.5%.

All in all, in 2020, we will invest, for example, the DAI acquisition and the new Jinan plant, into future growth to reinforce our position as an industry and technology leader. While this will negatively impact our margin in the short term, our strategic initiatives pave the way for future profitable growth. And that means we have no change to our midterm targets, which we announced last year. Those were €10 billion revenue in 2022 along with the 10% to 12% EBIT margin in 2022.

Now as already said, on Page 22, the corona impact, due to the coronavirus outbreak, we are facing several risks, such as the infections in our workforce that could lead to closures of production sites as well as sales and service locations.

Additionally, global supply chains may be challenging. Moreover, Chinese GDP is expected to be impacted in 2020. And consequently, we expect a high single-digit decline for the ITS market in China in the full year, whereas the market for Supply Chain Solutions is marked by long-term strategic decisions and therefore less cyclical.

As of today, we do expect that the situation will start to normalize during the second quarter of this year. So what does it mean for KION? Until today, until this moment, we are not aware of any employee among our 34,500 employees being affected by the coronavirus. Therefore, all of our plants globally are running.

As of today, our Chinese plants do run slightly below our originally planned capacity, in a large part due to foreseen closures within our supply chains in China. For the first quarter, we assume that top and bottom line will be slightly impacted in China negatively, but we anticipate a catchup until yearend. It does seem feasible, of course, depending on the further development of the epidemic.

We've also intensively analyzed our supplier situation for Europe. And as of today, we see only limited risk for our European factories, as we have already have started with the implementation of supply chain mitigation efforts.

Additionally, we have installed a KION-wide taskforce to be able to address the overall global risk situation permanently and followed up daily.

As the overall impact as of today is not accessible, we do not consider at this moment any effect of the coronavirus in our 2020 guidance.

So moving onto Page 23 and our financial calendar, the next big event will be our Capital Markets Day in 2 days, so on Thursday this week, where we will take a deep dive on how KION continues to lead the material handling industry and how we will keep the world moving into the new decade.

If you are interested to attend our Capital Markets Day, please contact our Investor Relations team. We welcome everyone joining us here in Frankfurt. Due to the current situation, we will also offer a live Webcast. For some technical reasons, it may not be able to answer questions from the room. We will certainly do our best.

On April 28th, 2020, we will also be presenting our first quarter results for Q1 2020, followed up by our AGM, the Annual General Meeting, which will take place on the 12th of May in Frankfurt.

And until then, we look forward to seeing you at conferences and roadshows and hopefully as part of the Capital Markets Day on Thursday.

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'll begin the question-and-answer session. One moment for the first question, please.

Sebastian Growe

Thanks for taking my questions. Hi, Anke. Hi, Gordon. First one is around M&A and the portfolio and specifically on DAI. Can you provide more color regarding the business plan that is behind this very asset and if management will stay onboard?

And can you also help us understand how this acquisition fills the so far existing gap and to what extent it gives you an edge over competition?

And related to it, should we expect any more such deals? Does this 2027 Strategy require any further bolt-on deals similar to DAI, or would you say this is it for the time being? That's the first question.

Gordon Riske

Yes, thanks for the question. First of all, Dematic is a long-time partner with DAI or the other end DAI a partner. So we've been working with them for almost 20 years, and we have 150 installed sites, so very familiar thing.

Logistics automation covers WMS, so warehouse management systems and warehouse control systems. And the fact is, a lot of times, we do have to buy this in from companies like Manhattan, and sometimes, we use DAI, etc.

So it does help us offer the complete range of projects. As these projects get more complex and the projects get bigger, customers don't really want to have any finger pointing when it gets to what's working, the hardware, the software. And so that is a big driver. It simply gives us much more coverage and a much broader software offering than we had. And it fits perfectly into the Dematic IQ since we have been using them for a long time.

The management, part of the unique thing on this deal and the payout structure, we do have a big part of it that does go to employees as a long-term retention program. That's why the later part is paid over 3.5 years. So we do expect the entire management team, which again is supported by a retention program, to stay in place. Everybody knows each other. We've been working a long time together.

I outlined a little bit of our – you know we have the China project going. We have the DAI integration. We have our own running business to take care of. We have the BMZ joint venture coming up. Basically, we're not running out of things to do, to be quite honest with you. So bigger acquisitions we don't have on the pipeline right now. However, as always, and it's been pretty consistent at KION, if there are opportunities in ways that we can technically upgrade our skills or regionally upgrade our coverage, we will always take a serious look at it.

Sebastian Growe

Okay. That is very helpful. You mentioned China already. So the second question that I do have is around the free cash flow going forward and the more structural CapEx needs that are related to fostering and hosting the sales growth going forward.

So how should we simply read this capacity buildout in China, in Poland, in India? So if the growth rate was to settle at the envisaged 4% CAGR over time in IT&S, how much headroom do you have? How many years would it carry you? And put differently, would you expect that CapEx will return to about 3% of sales by, say, '22, so once the CapEx step up is done?

Gordon Riske

Yes, I'll hand it over in a minute for exactly the year and perhaps the month when we'll get back to normalized - just kidding. But the fact is, as you know, in our industry, I've had many serious, serious customer discussions in 2017, '18. We can't put our customers and ourselves in that position ever again to always be running at the limit of capacity and suppliers and all those things.

And yes, we are taking a larger step, but in China, for instance, we have less than 10% market share. This will boost our ability to dramatically increase our position in China. We have a long time already for the last 10 years had a strategy of our footprint to be where the customers are. And Eastern Europe is a big market. We have very good cost advantages. So Hamburg, Aschaffenburg, Châtellerault have all been running on capacity limits. So we have no real place to grow.

	And yes, 2020 may be sideways, but we do expect the market to continue to grow globally. So I think, with these investments, we should be able to handle the market growth, at least for the next 3 to 5 years. And after that, then we have to see where the market comes to pass.
	Now on the normalization of cash flow, please.
Anke Groth	Yes, let's talk about CapEx here. We think we will peak in 2020 with the CapEx for the capacity enhancements we are doing. So the years thereafter, you will see again a slightly lower rate. If we think in percentage of revenue, we are geared towards more 5% in the year 2020. We think we reach the peak there. Afterwards, it will be lower. And if we think about 2022 - that was your question - so 2022, 2023, it will be more in the range of 3% to 4% again.
Sebastian Growe	Okay. That's helpful. Thank you.
Sven Weier	Yes, good afternoon also from my side. Thanks for taking the questions. The first one is on your EBIT outlook for 2020. I was just wondering if you could kind of attach a price tag to the individual measures you're taking, what it costs you incrementally on the EBIT side for the R&D, for the startup costs for the factories, so that we have a kind of a EBIT bridge for 2020 and maybe also tell us how those expenditure breaks down for the 2 segments. That's the first one.
Anke Groth	Hi, Sven. Yes, thanks for your question.
Sven Weier	Hello.

Anke Groth

Hi. We can break it down without giving you the specifics for all and every number. But a high portion is related to the R&D spend. So we said we are increasing the R&D spend. And it will be roughly 3 percentage points plus additional depreciation. And that is based on the new product launches we are just doing. Gordon has mentioned the fabulous 12XX, which we have brought into the market, which is the first derivative. So those product launches are coming with slightly higher depreciation. And also, we see a lower capitalization. So that is one main effect.

Then additionally, we have the startup costs for Poland and for China, which are not as pronounced as the effect coming from R&D spend and the product launches. But they are also having a part of the overall decrease in margin.

Sven Weier

So is it fair to say both items combined is roughly €50 million in total, give or take?

Anke Groth

So both items together are a significant part of the range we guided implicitly for, if you look at our guidance range, if you calculate the EBIT margin. So those items mentioned are a significant part of that. We also have some other bits and pieces, which we will also comment on during the Capital Markets Day. So we also see some spend to generate further efficiencies, which also come with small startup expenses, and we will go into those details on Thursday.

Sven Weier

Yes, and then it's probably fair to say that the real - the like 90% of that is probably in trucks, right, so it's really just a fraction for SCS of those expenses.

Anke Groth	That's absolutely right, yes.
Sven Weier	And you confirmed the 2022 outlook. So should we also expect you to give us a more proper EBIT bridge than how you will get there to the 10% to 12%, or on Thursday or?
Anke Groth	I think you will understand it very well after listening on Thursday to Gordon's and my part of the presentation.
Sven Weier	Okay. And lastly, just on your revenue guidance, just to square that up, especially on SCS, the lower end of the revenue guidance is only €2.5 billion. The lower end of your order intake guidance is €2.8 billion. Last year, you had €2.8 billion. So is it really the lead times of the orders that you have won in the second half of last year that stretch into '21 that is causing this, or why do you have such a low end of the revenue range for SCS?
Gordon Riske	Certainly the lead times, big projects, yes.
Sven Weier	Okay. So they stretch - the things you got in Q4, they stretch also into '21, yes?
Anke Groth	Yes, definitely. We have seen our order intake is also geared towards larger orders throughout the year. I think we spoke about that also during Q3. So we have a higher percentage of larger orders, which of course also then do spread over a longer period of time.
Sven Weier	Okay. So you're not really taking any provisions here for potential delays in the execution. So it's just the itinerary of those orders that you have.

Anke Groth	Yes, absolutely.
Sven Weier	Okay. Thank you. And see you on Thursday.
Akash Gupta	Hi, Gordon and Anke. Thanks for your time. I have 2 questions, please. My first one is on China. Can you help us understand, how big is China for you in 2019 in orders and sales? And maybe if you can give us some idea of segment breakdown between SCS and IT&S. And within China, a follow up from your earlier remark that IT&S or IT&S demand could be down high single digit, is that comment for the full year or for Q1?
Gordon Riske	Yes, the China revenue - not units. Units are higher. The China revenue is about 7%. About 80%, 90% of that is ITS. So that is the bigger part of it. The high single digit we do expect in the full year. Well, we know it's going to be that way in the first quarter. I think, for the full year, we'll have to see how quickly that can be recovered. We do know in China things can go up pretty fast. I'm amazed that our own factory now is working and so forth after this period of being closed. So that is for the first quarter. We'll definitely be at double-digit negative impact in units of order intake for the market in the first quarter.
Akash Gupta	Thank you. And my second question is on SCS. I think one of the key surprise today for me at least was your guidance on SCS order intake. And given 2 very strong years of double-digit

organic order growth, you are still targeting a very healthy level of growth in 2020.

So question is that, how much visibility do you have from existing pipeline? And maybe if you can talk about whether you expect more orders to come in first half versus second half and also potential risk from customers might be delaying their plan if this coronavirus-related uncertainty increase, particularly in Western markets.

Gordon Riske

Yes, order pipeline, coronavirus, that's a little bit difficult at this point to calculate. Don't forget we have a big part of the business in North America, so more than half. And that's still going strong. In Europe, not too much effect at this point.

The fact is that the level of projects that we have in the project pipeline are very strong at this point. So we feel confidence with our year 2020. Certainly, our biggest factor is making sure we have enough people to manage all this stuff because we - as you said correctly, we have grown double digits since we bought the company in 2016. But from - strictly from the market, from the market behavior, customer behavior at this point, project pipeline, we're very well filled up.

Akash Gupta

Thank you.

Anke Groth

And yes, maybe to add on Gordon's remarks, additionally, we haven't seen any slowdown in activity during January and February. So there were 2 good months for SCS. And we also haven't seen, of course, up until now customers dropping out of the pipeline. So it still seems that the market is very healthy and not affected, but let's see how that goes forward, of course.

Akash Gupta — Thank you.

Martin Wilkie — Hey, this is Martin from Citi. The first question's just to clarify the coverage here around the coronavirus. You mentioned earlier in the call that no impact from a pandemic could be included, which is obviously very understandable.

But just in your slides, you have said that there's no impact included, but you have obviously assumed that China will be down. So I just wanted to double check that China unit and market unit's been down for the year is the base case that's embedded in your guidance. And it's just anything that's sort of washed in that that won't be included. So that's the first question. Thanks.

Anke Groth — Yes, we haven't included any effects from coronavirus into our guidance. That is absolutely correct. And we said that we expect China to be affected in the fourth quarter, but also, if during Q2 the situation normalizes, we expect to catch up with this.

Martin Wilkie — So effectively, a catchup over the course of the year is sort of what's reflected in the guidance. Okay. No, no, that's good.

And the second question, you talked about getting a pull-through order I think from IT&S because of Supply Chain Solutions. I think, in the past, you've mentioned these are relatively rare because it's only certain customers that could do this. If you could just talk about, how big was that? When you do get some of these orders that come from customers of Supply Chain Solutions, how important is it either as a percentage of quarterly order intake or so forth? How big can that be for the IT&S division? Thanks.

Gordon Riske	The one that I mentioned, I think we've mentioned in a prior report, was Menards with around €35 million or so, so very substantial order and hundreds of forklift trucks and fully automated trucks and everything that goes with it. So there are some important cases, and we do have a number of offerings we're working on at the moment in North America for combined offerings with trucks and automation.
Martin Wilkie	Okay. No, that's great. Thank you very much.
Felicitas von Bismarck	Yes, thank you very much. I have a follow-up question. So you mentioned on SCS, but could you also mention if you have seen any impact so far in any investment decisions in ITS outside of China, so mainly in Europe, of course?
Gordon Riske	Yes, not due to coronavirus, so forth, as I say, our sales and service teams are out there. But with the products that you can deliver in six weeks, so the visibility is quite a bit shorter. But as I say, so far, so good. January was an okay month. I don't have February numbers yet. And we don't report on monthly basis. So but so far, it's okay.
Felicitas von Bismarck	Just you don't have the feeling that people are – you know German angst and scared to invest at this moment in forklifts in any kind.
Gordon Riske	Every 24 hours, the picture, if you watch the German news and so forth, it's a little bit - yes, let me get off of that. Yes, it's probably a bit overreact, but we do have to be careful, especially with our employees and so forth. So as I said, this situation is developing rapidly in Europe.

If I look towards China, though, seeing our region in Xiamen in the last 2 weeks taking the danger level from Level 1 then to Level 2 and, just 2 days ago now, to Level 3, which is absolute low risk, no new cases in Xiamen, where we have one of our main factories, that's pretty encouraging.

Felicitas von Bismarck: Yes, thanks. And the second question, are there any like specific parts or components that you are watching very closely and are concerned that they might run into shortages once the inventory of your suppliers or your sub suppliers is worked through? Is there anything you're watching specifically?

Gordon Riske: We have a daily corona update call with all factories. We have a taskforce for purchasing at 14:40, so that's not so long ago. We have 80 part numbers that are on the list and being monitored and are now covered until May. We have 10 part numbers where we don't have full confirmation, but we have all mitigation efforts. We have only one single supplier right now in the so-called band zone in Italy. And there, we also have a mitigation on it. So I would say we're pretty well covered throughout.

Just as an aside, we had a topic last week of windshield wipers missing 250 pieces. We got those back in from another supplier. So we do have teams working around the clock scanning hundreds of suppliers. As I said, that was 80 critical parts that have now worked down to 10 critical parts. So I do believe, at least as things move on, we're able to reallocate part sourcing to other suppliers because we generally have dual sourcing strategy, or we can make some of the parts ourselves. So I think we're pretty well set up now.

Felicitas von Bismarck	Okay. Thank you very much. Just one clarification. What does reorganization measures and preparation for implementing levers within efficiency program mean actually? What kind of things is it?
Anke Groth	Yes, that's specific for we are implementing as one of our performance measures a shared service center, a shared service center for finance and accounting services, which will be established in Poland. And therefore, we have reorganization restructuring expenses. And in addition, we have mentioned Turkey, where we have some leasing restructuring expenses which are also part of our NRIs. But specifically, for Performance Excellence, it's the establishment of a shared service center in Poland.
Felicitas von Bismarck	Okay. Thank you very much.
Katie Self	Good afternoon. Just 2 from me. Firstly, I wanted to ask around the short-term rental fleet. I know you'd mentioned, Anke, that in Q3 and I believe again in Q4, a slight mix impact from a decrease in revenue from the short-term rental fleet. Just wonder whether you could give us an update on how that's been faring early into Q1 and also what measures you've been taking around the utilization of that fleet or the investment levels in that fleet. And then just the second question I had was around pricing, whether you could just confirm to us that KION has gone ahead with its standard sort of implementation of a new pricing level through December, how that was received by the market, whether there's any changes related to the current kind of macroeconomic conditions.

Anke Groth	Yes, thanks for your questions. With respect to short-term rental, indeed, we spoke about that in Q3 and the slide impact in margin. And same is true for Q4. And what we did, we adjusted our fleet. So that's the reason why we have a lower short-term rental CapEx if you look at our cash flow statement. So therefore, we expect utilization rates to normalize during 2020, which will then have a slight positive effect again. Due to coronavirus, of course, the situation is a little bit more unclear with respect to short-term rentals because we are renting out trucks to trade fairs and big events. So if more of those events are getting canceled, of course, it could have an impact during 2020. So we have to further observe that. But again, we have taken action. We have reduced the short-term rental CapEx into our own fleet. So normally, utilization should go up again during 2020. Your second question was with respect to pricing. Yes, we have put the normal price increase into place. You know that we normally do have a range of 1.5% to 2%, which is our normal price increase. And I can confirm that also for the year 2020.
Katie Self	Great. Thank you.
Daniel Gleim	Yes, hello, good afternoon. Thank you very much for taking my questions. The first one would be on the global end market outlook. I understand you guide for flat industrial truck market in 2020. You shed some light on the Chinese end market assumption informing that. Could you also talk about your European end market assumption to make it a little bit more clear

what you think will happen to your most relevant end market in industrial trucks?

Gordon Riske

Yes, we said part of our guidance is that we would be below the average of 4%. So we do expect it to be a somewhat slower year than prior years. It's clear. And one of the biggest effects certainly is everything that has to do with automotive and automotive supply.

This transformation of moving from cars driven by engines to cars driven by batteries and many companies exiting out of engine and diesel engine manufacturers, especially in a problem in Germany and slightly less in France, and that is a customer segment that we're not fully dependent on, but it is a big market that has a lot of small companies that are attached to that in one way or the other. So that is the one that will certainly affect the market the most.

All the other ones, being ecommerce, food and beverage, fashion, chemical, and so forth, are also affected by the automotive industry, but to a less degree than the effect of automotive. That would be the single biggest one that affects us.

Daniel Gleim

And if you think about the overall impact on the European market for forklift trucks for 2020 over '19, would you assume a slight decline or more flattish year-over-year? What is your basis assumption that informs the global outlook being more flat year-over-year?

Gordon Riske

Yes, European market, we've assumed more flattish. This is absolutely the case for 2020.

Daniel Gleim	Very clear. Thank you very much. Maybe one question on the margin dilution from investments in 2020. Do you expect a steady phasing throughout 2020, or will it be more backend loaded in the second half? Is that something you could provide a little bit more color on?
Anke Groth	Yes, I would rather say it's a flat phasing honestly. There can be some deviations, but generally, it's more flattish phasing.
Daniel Gleim	Very clear. And lastly, and apologies for belaboring the point. I understand it's really tough to make any assumptions about the coronavirus impact. But do I summarize your statements correctly that, at the moment, you're monitoring this situation, making precautionary actions with regards to the supply chain, but you yourself, you haven't engaged in any measures to prepare for potential corona impact? So the reduction of the rental fleet would have happened all else anyway. So all the statements you made are not related to corona.
Gordon Riske	No, we have taken great measures to prepare our supply chain because, in China and other areas, Italy and so forth, there were potential disruptions. We have mitigated most of those. As I said, we only have a low number of suppliers which are affected or which we have not fully mitigated. The other thing is, of course, our own employees. We have released travel guides and restrictions and how to do things, service engineer trainings, Q&As for our people, communication all over the world. So all of those normal measures through providing enough face masks and disinfectant materials, especially to our Chinese employees, that has been going on for weeks now.

Daniel Gleim	Okay. So ask the question maybe more specifically. You haven't started any capacity adjustments in the European plants. That is not something that is in the making.
Anke Groth	No, we haven't.
Gordon Riske	Matter of fact, we're working on Saturday to still catch up on some things.
Anke Groth	Yes, and you also asked with respect to the short-term rental fleet. Yes, that was in the pipeline anyhow. That is not due to the coronavirus. So we have reduced in 2019 our CapEx into the short-term rental fleet in order to increase the utilization rate. So that was done already. And we expect corona more to affect us during Q1. And as we said at the beginning, so we do expect for normalization during Q2. So supply chain was really the greatest act in order to secure our supply chain. And China will or is affected during Q1. But as we also said, we expect that we can catch up during the full year 2020 again. So that's in summary the coronavirus for us at the moment.
Daniel Gleim	Very clear. Thank you very much to the both of you.
Operator	In the interest of time, we have to stop the Q&A session. And I would like to hand back to Mr Gordon Riske. Please go ahead.
Gordon Riske	Yes, thank you, all, for participating in the call. We look forward to seeing hopefully many of you in the Capital Markets Day and

then our next report for the April date of releasing Q1 numbers. And thank you for attending.