KION GROUP AG

Preliminary Full Year 2019 Update Call

Conference Call Transcript

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Speakers: Anke Groth (CFO)

Anke Groth

Yes, hello, to everybody. Welcome to the publication of our preliminary financial figures 2019. And yes, thanks for joining us on such a short notice.

As a basis for this call, we would like to use our preliminary full year 2019 chart. It is available on kiongroup.com under Investor Relations in the Publications section.

Turning to this chart, you can see an overview of our preliminary financial figures for 2019. Overall, in 2019, we have seized our opportunities and continued to press ahead with our KION 2027 Strategy despite the challenging market conditions. According to our preliminary unaudited results, we have achieved our group outlook for 2019 and in some cases comfortably exceeded it.

Despite a very difficult market environment, KION Group's order intake rose by around 5% year-over-year and is likely to have reached around €9.1 billion. This was attributable to a very good level of orders at the end of the year in both of our two segments. Order intake was above the level set out in the outlook for 2019.

Revenue jumped by almost 10% to reach around €8.8 billion and was also higher than in the outlook. Both operating segments contributed to the increase in revenue.

Adjusted EBIT is likely to have gone up by around 8% to stand at around €850 million. And the adjusted EBIT margin contracted slightly in 2019 to presumably around 9.6%. One of the main reasons for this was the disproportionately strong growth in the new truck business and project business, which have lower margins. You know that we mentioned this as a mix effect also before.

Free cash flow amounted to around €565 million, a year-on-year increase of around 9% and therefore significantly higher than in the outlook. The robust level of free cash flow was driven by a very healthy order intake in SCS and the resulting prepayments from our customers.

Moving onto our preliminary business performance of the segments in 2019, in IT&S, KION received orders for around 214,000 new trucks in 2019. Due to the market slowdown, the segment was not fully able to match the very high figure reported for 2018 and is down at around 1.4%.

Besides that, the total value of order intake increased by almost 2% and is likely to be around €6.3 billion. Total revenue for IT&S went up by almost 8% to around €6.4 billion and was thus higher than in the outlook.

Adjusted EBIT for IT&S is expected to be around €693 million, a year-on-year improvement of around 6%.

Looking on SCS, order intake in the Supply Chain Solutions segment at around €2.8 billion in 2019 was up around 14% from prior year and exceeding the outlook. Total segment revenue rose by around 16% to around €2.4 billion. The adjusted EBIT for SCS is expected to be around €228 million, resulting in a rise of around 27% and exceeded the outlook.

Building on our successes in 2019, we will be focusing on strategic investments for the future and the new financial year. We are thus setting the course for our medium- and long-term growth. In 2020, we will be investing in several markets in the expansion of production capacity. We are also broadening our range of products and solutions so that we can fulfill even better the specific needs of our customers across all industries and regions.

Furthermore, KION Group wants to step up the software development for automation solutions. At the same time, we will enhance our portfolio of energy systems and continue with the ongoing expansion of our global sales and service network as well as our digital transformation.

Let me therefore share with you our thoughts about the outlook for 2020. The KION Group anticipates that the global market for industrial trucks will remain fairly flat this year in view of the ongoing geopolitical uncertainties and the expected economic volatility.

By contrast, the demand for Supply Chain Solutions should continue to rise. Therefore, KION's adjusted EBIT and free cash flow will be affected by those investments along our Strategy KION 2027, aimed at further expanding the business mid and long term.

Finally, I would like to remind you that we will publish our final financial results for 2019 and our outlook for 2020 on March 3rd, 2020. On that date, we will give you much more insight and details for our outstanding results in this fiscal year. Please bear in mind today is the 17th of January. Our results are preliminary, and we still need to finalize and analyze in much more detail.

Nevertheless, I'm happy to 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.
Sven Weier	Yes, good afternoon. Thanks for taking my question, and happy New Year, Ms. Growth. Two questions, obviously, then. The first one is just on what you say positive for the market development in automation. So there, I would obviously be curious why the Q4 order intake was so strong. Was that just a handful of very large orders, or can you maybe comment on the mix? And then when you say you expect a further positive market development on demand, does it mean you expect the order intake to grow further? That's the first one.
Anke Groth	Yes, Mr. Weier, Sven, hello. Happy New Year also from my side. Yes, commenting on the mix, we had some large orders coming in, in Q4. That's absolutely right. And yes, I expect order intake to grow next year.
Sven Weier	Okay. That sounds good. And is it fair to say that the mix is increasingly then going to Europe? Is that the regional driver for that, or?
Anke Groth	No, that was not the driver for Q4. Let us give you more insights beginning of March when we publish our final results. But no, in Q4, that was not the driver.
Sven Weier	And then the second one is obviously what you say in terms of your investments in 2020. That's well understood. But then you obviously said it has a burden on EBIT, understandably. So I was just wondering. I know you give more details in March then of

course, but if you still could frame it a bit more because, with that order intake, I would obviously expect your revenues to grow pretty nicely in 2020. So should we look at that earnings burden more in a way that maybe the absolute EBIT is flat and the margin goes down, or should we also see it as sizable actually that the absolute EBIT goes down year on year and the margin goes down even more?

Anke Groth — So with respect to EBIT, Sven, of course, investments into R&D and digital, also ramp up of a new plant, the production of plants, that has an impact on EBIT. I would expect that our EBIT in absolute terms is slightly affected as well as the margin.

Sven Weier — Slightly affected.

Anke Groth — Yes, that is how much I can tell you today. You know that we are publishing --

Sven Weier — Okay. Yes, but slightly is helpful.

Anke Groth — Good.

Sven Weier — Thank you.

Katie Self — Hi, good morning. My question is along a similar lines to that last one. But essentially, what I'd like to know is, what was behind your decision to prerelease numbers today. Given that the 2019 EBIT level, you know the earnings level is not too different from where consensus is, I'm not sure I understand what the sort of reason was for the prerelease. And obviously, under the German regulation, you are sort of expected prereleases if numbers are very different from consensus. Should we expect quite a significant change to 2020 consensus?

Anke Groth

Yes, Katie, regarding your first question, we exceeded order intake. And you know that, all our recent communications after Q3 has been that we expect for ITS order intake to be at the lower end of our guidance range. And for SCS, we always said we will be at the upper end of our guidance range. But ITS is coming in strongly based on the Q4 we had. December was a very good month for the company, for the business. So that is one reason.

The second reason is the free cash flow, where we're over exceeding based on the prepayments of customers in SCS. So those two reasons have led to the conclusion that we rather should go out ad hoc today to let the market know where our result is standing.

Katie Self

Okay. Thanks. So can I just clarify? So I understand that it's not based on where you see expectations for next year, which was a lot of the reason why one of your main peers decided to prerelease.

Anke Groth

No, not at all. It has to do with the very, very good development of our business in the fiscal year 2019.

Katie Self

Okay. Thank you.

Philippe Lorain

Yes, good morning. Just a quick one from me to understand why really like the margin was contracted that much in ITS in Q4 because it looks like you've lost close to 200 bps. I get your point that you were mentioning that there was a mix between new business and service, yet you seem to indicate at the Q3 call that the new business sales perhaps would weaken somewhat in Q4. So I'm just interested to hear your points on that.

Anke Groth: Hi, Philippe. Yes, you may also remember that, when we spoke about our margin improvement, we always spoke about SG&A and phasing effects. And in Q3, the reversal of those phasing effects already kicked in, especially for IT&S. And that was ongoing in Q4.

Philippe Lorain: Okay. That's a fair point. And can you talk about then the mix between new business and service in Q4 for IT&S? Is it right that perhaps the mix has improved slightly, but it was all disappearing because of the phasing of the SG&A and so on?

Anke Groth: Yes, you are right.

Philippe Lorain: Okay. Perfect. Thanks.

Denise Molina: Hi, I just wanted to clarify what you said earlier about the EBIT being slightly affected by the additional spend. It sounds like you're guiding for that -- I read that as being lower EBIT in 2020 versus '19 at the group level. I just want to make sure I'm not misunderstanding that.

Anke Groth: To make clear, I'm not guiding already for 2020. We have explained the investment program and that this will have an effect on EBIT and free cash flow. But we come up with our guidance ranges beginning of March, and then you will have a better picture.

Denise Molina: So slightly affected means a negative impact, but not necessarily a negative EBIT result for lower EBIT this year versus last.

Anke Groth	That can slightly be, but again it's not a major hit to our EBIT. One or the other has followed earlier publications of companies, of a company which is also active in our segment. So there is no comparison to what was published from that company. We are really talking about a slight effect, and we are talking about investments into our future along the KION 2027 Strategy. It's some kind of a transformational or bridging year to secure our mid- and long-term success.
Denise Molina	Okay. And just one follow up. In terms of pricing in the fourth quarter orders, did you see any pricing pressure on ITS or SCS in the fourth quarter?
Anke Groth	If the question is if we have been so successful on the basis of granting large discounts to our customers in either ITS or SCS, I can definitely say no.
Denise Molina	Okay. Great.
Anke Groth	Not the reason for the success in our businesses.
Denise Molina	That was the question. Thanks.
Jack O'Brien	Hi, thanks for taking my question. Just following on, on the investments comment, perhaps you can just help us quantify how 2020 investment at the group level is going to differ to 2019 so we can just understand the expected ramp up there. And secondly, clearly free cash flow generation was strong this year. What of that increase is a function of the advanced payments (inaudible) to the business, please?

Anke Groth	Jack, I'm very sorry, but the line is quite bad from a quality perspective. Could you repeat your last question, please? Your question was regarding advanced payment and free cash flow, but what is really bothering you?
Operator	Mr. O'Brien has left the call. We have a follow up question from the line of Sven Weier with UBS. Please go ahead.
Sven Weier	Yes, thanks for taking the follow ups. Sorry for that. But I was curious. Obviously, you say the truck market is going to be flattish. But obviously, in 2019, there was quite a big deviation between your performance and the truck market, and you've quite outperformed it. And given your ongoing investments, I would suspect that your guidance would also be that you continue to outperform a flattish market. Is that a fair understanding?
Anke Groth	Sven, I would like to answer your question slightly differently. You know the basis of our success this year was, of course, the quality of our products, the proximity to the customer, our sales and service network, the average size of the order. So we are not dependent too much on too many key account customers. And these success factors, of course, will continue next year. Plus, we have an outstanding new product out there in the market on the IT&S side, which will also support our ongoing success next year.
Sven Weier	That's good. And the second follow up I had was just on the announcement of Ms. Schneeberger, which I was a bit surprised to see her leaving after 1.5 years. And you've mentioned that there was different opinions on strategy. And so I was just curious if you could say or you could disclose more details behind that,

what those differences were and where you have a different view from her.

Anke Groth

Susanna Schneeberger did a great job to set up all the structures to start our digital transformation. She has also started a lot of different initiatives, such as a digital campus. I think we spoke about that when we had the Analyst Day, and Virtual IQ, for example, for Dematic. And the tasks of Supply Chain Solution and also the digital business transformation role will be integrated into the other executive board roles, but as you can imagine, these are so important tasks that it's also key focus area of Gordon Riske, but of all of us in the board as well.

Sven Weier

But you don't want to common where the differences of opinion were really.

Anke Groth

No, I don't want to common on that one, Sven.

Sven Weier

Okay. Thank you.