KION GROUP AG

Q1 2019 Update Call

Conference Call Transcript

25.04.2019

15:00 CET

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Anke Groth (CFO)

Gordon Riske

Okay. We will be presenting in four parts during today's call. And we will then open up the discussion for your questions. I'll begin with the financial and strategic highlights for our first quarter 2019 followed by a market update. And Anke Groth will then provide you with a financial update. And we will close the call with a confirmation of our outlook for the full year 2019.

So let's get started here on Page 3 with the financial highlights for the first quarter of 2019. We saw strong order development with an increase of 12.4% in the first quarter of 2019, mainly driven by our segment Supply Chain Solutions. Revenue grew strongly by 13% to €2.1 billion, with both segments contributing nicely. We reached an adjusted EBIT of €182 million in first quarter, which represents an adjusted margin of 8.8%, up from 8.6% in the first quarter of 2018. And free cash flow for the group was a solid €82 million. If I were to use the analogy of American baseball, I would say we not only hit a home run, but we knocked it out of the ballpark.

Coming to Page 4, the strategic highlights for the first quarter of 2019, in line with our KION Strategy 2027, we continued to expand and flexibilize our product portfolio to open new opportunities, and we took some decisions to grow and flexibilize our production footprint to capture future demand.

I visited the Promat trade show at the beginning of April and was impressed by the record number of exhibitors and attendees and the intensity of discussions. I think it was the highest number of visitors that we've ever had at such a show.

At the show, Linde and Dematic introduced new process solutions and technologies to close gaps for our customers, providing them with new options on the respective paths to Industry 4.0.

Linde presented a new full warehouse line of forklift trucks specifically designed for the North American market. And this will provide companies with operations in the Americas with not only options, but solutions to close important gaps in their intralogistics strategies.

Dematic introduced a new micro-fulfillment solution which improves processes for businesses that are looking to optimize their omni-channel distribution strategy by more effectively using existing retail stores or urban service centers for their e-com order assembly.

Dematic also introduced a merchandise returns system to maximize operational flexibility by effectively accommodating the daily and seasonal fluctuations in returns activity.

Also during the first quarter for the European market, Linde broadened its fuel cell range by extending one of the most promising energy systems to the roadster, a forklift truck with high standards in terms of visibility and safety.

Earlier in February, at the LogiMAT trade show in Stuttgart, Dematic presented its concept test “PackMyRide”. It will enable a fully automatic loading of parcels into a mobile load carrier, so into the truck for multiple delivery tours. The aim is to achieve significantly higher productivity and efficiency in parcel handling.

Performance on theLlast Mile, the final step from the logistics center to the customers' home, is a key factor to success. And it's one of the last frontiers to be automated. And so we're very excited to be in front of this new development. Linde's subsystem is currently being tested in the distribution center of our cooperation partner on this project, DPD.

And finally, we announced that we are expanding our industrial truck footprint with new factories in Poland, India, and in China to capture future demand and to give us additional flexibility going forward. All three facilities are planned to come online during 2020.

With that, I'd like to move over to the market update. This is on Page 6 and focuses on the industrial trucks and shows the global market development by region in the first quarter 2019. We saw a decline of minus 4% in Western Europe for the first quarter 2019, with different developments across key countries.

In Eastern Europe, we saw a decline of minus 4% in the first quarter, mainly driven by a decline in Russia.

China, on the other hand, we saw an increase for the first quarter of 11%, driven in particular by demand for electric and warehouse equipment.

North America displayed a sharp decline in the first quarter of minus 21% due to a very strong prior-year first quarter. The prior year, so first quarter 2018, was particularly strong due to frontloading of many customers anticipating the effects of the upcoming imposed tariffs.

South and Central America showed a decrease of minus 3% in the first quarter 2019.

So as a result of all of these regional developments, the global market declined only slightly by minus 2.7% in the first quarter 2019 coming off of a very, very strong first quarter -- record first quarter in 2018.

Now comparing on Page 7 our market development compared to the market, so KION's growth in the industrial trucks by region, in Western Europe, we also saw a decline of minus 3.9% in the first quarter but performed better than the market.

We also performed better than the market in Eastern Europe at a rate of plus 2.8%, mainly driven by warehouse trucks.

And in China, we saw a growth of plus 2.9% in the first quarter, lagging behind the market, which was driven by smaller entry-level warehouse equipment.

In North America, just the opposite, we grew by plus 21% in the first quarter 2019, significantly above the market. But I do put this in the good development which was mainly driven by the product launches that we introduced at Promat and completing our full line of warehouse equipment.

In South and Central America, we also had a very strong first quarter with 28% plus, mainly driven by the strong Brazilian market.

Overall, we saw a stable unit growth for the first quarter order intake of almost 53,400 units or trucks in the first quarter 2019, nearly reaching the same very strong level as we had in Q1 2018, which was 53.5, so only 99 trucks less. And I do believe this provides us with a strong backlog as a good base for the remainder of the year 2019.

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

Anke Groth

Good afternoon from my side. Turning to Page 9, you will see the key financials for the first quarter 2019. Order intake grew strongly by 12.4% to €2.1 billion, supported by a strong order development in SCS. Revenue also grew strongly by plus 13% to €2.1 billion. Adjusted EBIT increased by 15.5% to €182 million. Our adjusted EBIT margin improved from 8.6% to 8.8%, driven by volume growth. Net income increased significantly by 36.1% to €93 million based on the group's operating performance as well as lower PPA items and net financial expenses. Overall, we saw a very good start to the year.

Let me continue with the key financials for the segment Industrial Trucks and Services on Page 10. Order intake grew by 1.7% to €1.5 billion, but with 53,400 units, nearly at the same strong level as in the prior-year quarter. This was largely driven also the strong order intake by our service business. The revenue grew strongly by 10.2% to €1.5 billion. Adjusted EBIT grew significantly by 9.5% to €149 million, equal to a stable margin of 9.9% year-over-year. The adjusted EBIT was impacted by some spill-over effects from inefficiencies in production resulting from supplier bottlenecks. Additionally, the IT&S segment saw slightly increased material costs compared with prior-year level. Overall, we saw a continued growth momentum in the IT&S segment.

Page 11 summarizes the key financials for the segment Supply Chain Solutions. The segment saw a strong growth in order intake of more than 50% to €603 million in Q1 2019 compared to a low order intake in Q1 2018. This order intake includes a good order development in Europe as well as a large customer order of over €100 million from a new US customer in general merchandise. Revenue increased by nearly 21% to €569 million as a result of the strong order book at year-end. Revenue of business solutions increased by 22.1% in the first quarter, and the revenue of the service business by 17.5%, driven by our growing installed base of systems.

Adjusted EBIT amounted to €48 million, resulting in a higher margin of 8.5% compared to last year's 7.4%. Profitability increase in Q1 was supported by the strong revenue growth. Overall, SCS saw a strong order momentum. We would, however, not expect that such a growth momentum repeats itself quarter-over-quarter. And also, to remind you, we saw an exceptional order growth in Q2 2018 and have therefore high comps.

Having said that Q1 SCS order intake included a large customer order of over €100 million, you clearly see that booking a big order one quarter or another can sometimes make a huge difference when looking at a quarterly growth rate. We therefore decided to also provide you with a rolling average of the last eight quarter order intake for SCS to smoothen out that lumpiness. And you can see that result on Page 12.

This chart provides you with the average growth based on the rolling average order of the past eight quarters. The result is a very healthy double-digit growth trend for SCS, in line with a strong market growth. And it allows you to see the long-term trend and the long-term development in order intake and in the SCS segment.

Turning to Page 13, you see the bridge adjusted EBITDA to net income. And as always, let me only highlight selected items. We mentioned before adjusted EBIT grew strongly by 15.5% in Q1 2019, with PPA items related to the purchase price allocation amortization for Dematic slightly lower than in Q1 2018. And you know that this is also the expectation for the full year. So PPA we expect in 2019 to be lower than in 2018.

Net financial expenses have reduced by €4 million compared to the fourth quarter in 2018, reflecting an improved financing structure. Overall, net income showed a significant increase of 36.1%, resulting in earnings per share of €0.79, up from €0.58.

If we are coming to our free cash flow generation on Page 14, free cash flow in Q1 2019 was €82 million and therefore significantly above prior year, underlying our good operating performance for the first quarter.

We do see a lower change in net working capital. Stock levels were higher, but mostly compensated by higher trade payables. Additionally, we saw lower tax prepayments compared with the first quarter 2018. Overall, all in all, a very good free cash flow generation, and we are in line with our annual free cash flow guidance.

Page 15 shows the net debt of our business continuously coming down based on our cash flow generation. So net financial debt is, as at March 2019, at a level of €1.8 billion, so almost unchanged to 2018 year-end level. Net financial leverage 1.1 of adjusted

EBITDA, and therefore decreased slightly. And our leverage on our industrial net operating debt is, at the end of March, also slightly improved with 2.2 compared with the 2.3 at year-end 2018.

And with this, over to you, Gordon, for the confirmation of the outlook full year 2019.

Gordon Riske

Okay. Let's turn to Page 17 and look at the outlook again. Based on the outstanding first quarter 2019 and our confirmation of an expected normalization of the new truck business in the segment of Industrial Trucks and Services, we as the KION Group fully expect 2019 to grow in the new industrial truck business, but we do expect to settle closer to the long-term trend of around 4%.

Additionally, based on all of the figures that we've shown today, we do confirm our outlook for the full year 2019, which you can see again on this slide and which was released about two months ago at the end of February. So again, we fully confirm our outlook for the year 2019 full year.

On Page 18, you can see our financial calendar. The next event is our AGM in May, followed by our Q2 2019 financials on the 25th of July 2019. So stay tuned for more.

And with this, we would like to close the formal part of this update call and turn it back to the operator so that we can take your questions.

Operator

Ladies and gentlemen, at this time, we'll begin the question-and-answer session. […] One moment for the first question, please.

Omid Vaziri

Yes, good afternoon. Thanks very much for the overview. I had two questions really. First one, I was wondering if you'd be able to help us understand how you would expect the Chinese warehousing segment and also the electric forklift truck segment to develop for the rest of the year, perhaps from where you've seen in the second quarter so far, but also how things have been sort of kicking off at the beginning of the year. I understand it was a tough comp for the Q1 this year, given dynamics you described last year in the first quarter.

And my second question is about upcoming trade shows in North America. So you presented in your slides the new range from Linde warehouse line. You presented at the Promat Show. But I understand there's a Chicago trade show also coming up for you later in the summer. Is that right? Thank you.

Gordon Riske

Yes, the Chicago trade show was just -- happened in March -- no, April -- sorry, April, yes, was just a couple of weeks ago. So that was the show I was referring to in North America, Promat, which was in Chicago.

But getting back to your first question, China warehouse segment, I think we've explained it a couple times in these calls, but I think it's worthwhile to review it again. China is the home of the hand pallet trucks, so no electric motor on them, more than 1 million a year. There's a huge effort in China because these hand pallet trucks can carry up to 400 or 500 kilograms. No one coming into these warehouses anymore wants to pull these things by hand. So what we have is a phenomenon of these hand pallet trucks becoming electrified, moving up to 1.2 to 1.5 tons.

These trucks are the extraordinary growth, especially in the Chinese market, that does affect the statistics. And so we do expect this trend to continue driving the numbers. And you alluded to a very important point that last year was an absolute record in the Chinese market. So the comps, especially Quarter 1 and Quarter 2, will become a little bit tougher as we go.

Omid Vaziri — Yes, that's very helpful. Thanks very much.

Sebastian Growe — Yes, good afternoon, everybody. Two questions on ITS. The first one is on the margin trajectory. And I think the better-than-expected sales growth of 10% came as a surprise obviously. At the same time, however, one cannot really see any operating leverage tailwinds. So the question is simply if you could shed some light on the key headwinds eventually in the quarter. So was it more on the cost inflation side? Can you eventually also comment on spill-over of supplier issues that we have been talking about at length in 2018? And along those lines, can you also remind us simply of the usual price hikes, to what extent these have been sticking, or is it more difficult to push those through if the overall volumes are not as booming as it was the case in 2018? That's the first question.

And the second one is on the order funnel. You -- sorry, you iterated the full year order guidance for 1% to 4% order growth in value terms. I think Quarter 1 admittedly was one of the most difficult quarters eventually in terms of the overall macro environment and eventually also some hesitance in China. Along the lines of improving PMIs in China and still I think good outlook for the US and eventually also some glimpse of hope there for the European markets, could you just walk us through your overall feelings and the order funnel that I referred to before for the ITS business in particular when looking at Quarter 2 to Quarter 4 in 2019? Thank you.

Gordon Riske — Yes, I'll start with the second question. Then we'll get into the headwinds. Anke will give you an answer to that.

Very excellent question. First quarters are always a little bit iffy. And this particular first quarter, I would say the political background and all the chatter and noise was more negative than positive, as everyone knows who's on this call. And despite that, we saw a very good market, sold a lot of things, produced a lot of things. And the discussions that we have with our top salespeople, I ask the same question all the time. And I visit many customers. And as I said, on the Promat, I had opportunity to talk to lots of customers and competitors. We've never had a booth so full as before.

So the overall sentiment is quite -- much more positive than what we typically see on the nightly news or read in the papers. And yes, I could say April trading was okay. April's still not gone yet, so first couple of weeks, everything fine. And I think the question is, do we see more potential as the year goes for markets to rebound a little bit more than what we think? I think it's too early to say that, but I would say, overall, the sentiment, not just due to the nice weather, is picking up rather than going down if I could be as conservative as possible in that regard. And that's why we feel good about our guidance through the full year.

Sebastian Growe — Okay. Very helpful. And yes, on the margins indeed.

Anke Groth — Yes, hi, Sebastian. Good afternoon. Yes, from a margin perspective, we would have seen a higher EBIT margin if we wouldn't have had the slightly higher material costs. So especially rubber is significantly up. That is -- if we want to quantify it, it's a low single-digit impact. And we have also some spill-over effects from the supplier bottlenecks, so some inefficiencies in our factories resulting from that, which still sticks a little bit with us as we also have flagged when we presented the full year results. That is also a low single-digit impact. So if we wouldn't see those two impacts, then we would have had achieved a higher margin.

Gordon Riske

I'd just like to make one additional point for everyone on that. Headwind inefficiencies, as you all know, when we finished 2018, we released our numbers. Everybody said, "Okay. You have a high working trade capital," because we had a lot of machines that are basically finished or semi-finished going out the door.

So we have to take these inefficiencies a little bit in two buckets. Number one is, how is our supplier network looking? Are they able to supply us? That has been fairly well sorted out. I don't see any major supplier problems right now facing us besides the usual. The truck broke down from Poland to here or something like that. That's all normal course -- due course of business.

But what we did have, as you know, with this huge trade working capital that we had to get out the door and move these machines and catch up on the backlog in the first couple of weeks this year to get that stuff out of the factory. So we do have to separate this.

And the good news is -- the very good news is that, from a supply base, we are very well caught up. And things look excellent. And in the factories, we had to push this stuff out the door, including our backlog from last year. So things look much smoother towards the second half of the year.

Sebastian Growe	Okay. And then the supplier issue in the sense of working capital impact, that's virtually behind us with Quarter 1. That's correctly understood?
Gordon Riske	Yes, as I said, we see the slight spill out, and second half is done. But most of it is behind us.
Sebastian Growe	Okay. And other question part that I had was on the price hikes, if you could just comment a little on what happened there.
Gordon Riske	Yes. As you know, we do our price increases at the end of the year. So the effects of the price increases will affect new orders positively more towards the second half of the year, right? If you do it December, then you get the order, then you deliver it, and it comes into the bottom line the second half of the year. So far, it's okay. We have a fairly stable price environment at the moment. Of course, competition is hard, especially with the Chinese competitors. But we're confident that we will have the price assertion that allows us to confirm our guidance.
Anke Groth	And you know Sebastian, we have commented that we have put a higher price increase through this year than normally. And as Gordon has mentioned, we will see that with a time lag based on the old orders, the order backlog we have in the factories.
Sebastian Growe	Yes, okay. That's helpful. And then if I may just ask on one other specific issue which will affect 2019/'20, which is obviously the ramp up of new production facilities in Poland, India, and China. And I think, on the Quarter 4 conference call, you implicitly guided towards an almost around €80 million CapEx step up in this year compared to 2018. Can you just remind us of what the phasing

really behind that is? So as of when is really the CapEx outflow starting, and at the same time then also the ramp up and the set of the also slight burden at least to the operating expense line hitting the P&L around ITS?

Anke Groth

Sebastian, again, so we have said, and you have rightfully stated that our CapEx is slightly higher. So the guidance was around 4% in 2019 in comparison to the normal rates before of 3%. And you will see the -- it's -- in Q2, you will see CapEx coming through out of that program and also the remainder of the year. But one of the facilities there is in Poland. The main part of the CapEx will come through in 2020 and not in 2019. But we have said, and we are reaching our peak in 2019 with the 4%. And after that, we are coming down to a reduced level again because then some of our investment programs in the factories will fade away and counterbalance that higher CapEx which we would face in 2020 in Poland.

Sebastian Growe

That's great. Thank you so much.

Martin Wilkie

Yes, thank you. Good afternoon. It's Martin. The first question is on the outlook for orders in Supply Chain Solutions. Obviously, a good quarter this time around. But obviously, the low end of your range, as has been previously flagged at €2 billion, would be a decline year-on-year. You've given a chart on Slide 12 that shows the eight-quarter rolling average. Is that how you think of the business in terms of the lumpiness? Do we have to smooth across such a long period to see the normalized trend? And given you've had such a good quarter in Q1 and presumably you're tendering for some of these big contracts for Q2 and Q3, if you just talk a little bit about how you think about that range for order intake in Supply Chain Solutions for the year as a whole. Thank you.

Gordon Riske

Yes, we have -- I know everybody wants to hear it: we're going to change our guidance. We're not going to change our guidance because of one quarter. And I think that's the whole reason we have this nice chart is to show several quarters the general trend, double digit. Yes, of course, we always have some larger tenders. Sometimes, you get them, and sometimes, you don't. That's the nature of the lumpiness. And as Anke alluded to, we did have a very sizable order in the first quarter that we've been working on for quite a while. And so we're going to stick with our guidance. And you can't assume that that happens every quarter with a project that size.

Martin Wilkie

Okay. Thank you. And if I could ask also about the growth in trucks, you said that you expect growth to converge to the market rates of 4%. If we see a sort of bottoming out of markets, you mentioned that some of the sentiment is to get slightly better or certainly not worse now. Would you ordinarily expect then to see the sort of low point for truck growth this year, or what is normally your time period between when the sort of order rates bottom out and when you'd expect that to show up in revenue? We can do some charts historically, but it does seem to vary each cycle in terms of when the peak order intake happens and when you see the peak in revenue, just to understand a little bit more about how we should think about that phasing from order weakness -- marked order weakness that we saw in Q1 and when that might filter through to revenues for the group.

Gordon Riske

I'm a simple person. We don't -- we can't make it that complicated. What we have -- you always have to look at the underlying factors of why this industry is growing. We have the e-commerce. We have the lack of labor shortage. We have automation. We have countries that are investing heavily in e-commerce. We have the productivity improvements. We have people outsourcing everything, from food to manufacturing. And all of those things have to be moved from A to B. And that's what drives our business.

And so the underlying trend that we are seeing is quite different in the last five years as perhaps what we've seen traditionally the last 25 years, where you had a very heavy correlation between GDP and industrial production. If I look at our customer base now, it's quite a more diverse base into food and beverages, everything driven by e-commerce. So the industry has changing, and I guess we have the luck or the fortune or the fortune that comes with hard work is being in an industry that is growing in underlying growth triggers that really are sustainable. And so we can't look at it, is this the peak, and is it a quarter? It's -- the sustainability of our growth is a longer-term perspective.

Martin Wilkie: Okay. Thank you very much.

Nika Zimmermann: Hello. Thank you for taking my question. I got actually two questions. The first one is (inaudible) the supplier bottlenecks are -- has been actually quite important in 2018 and how I understood are still. Do you -- just thinking about the worst-case scenario, do you think that those could remain even in 2020, especially like in the light of the positive sentiment that you talked about? And like shouldn't supply chains be even further in attentions, especially with that positive sentiment and even like ongoing growth?

And then looking at your points that you said, number one, that the suppliers are under -- have those bottlenecks and then the second one that KION is catching up on its own backlog, shouldn't that be kind of still problematic on an -- in the light of growth, ongoing growth?

And then the second question is about the rolling average SCS order growth of 10%. You said that this should reflect a good long-term trend. But how do you justify that this history is kind of accurate as a projection for the future? Thank you.

Gordon Riske

Well, on the first one, I don't expect to have the same problems in 2020 as we've had in 2018. I think we're better prepared for that. Looking at KION, and not only KION, I think other people in this market have had similar experiences in the truck and car industry for some other reasons, but also have had some problems. Historically, the last five years or at least four years, so 48 quarters, we've had extensive growth. Yes, we've invested in capacity, but many of our, I would say, smaller suppliers perhaps didn't invest in '16 and '17 as much as we thought because we didn't expect the market to grow.

We've all learned from that. And so we've done a lot of work with our supply base in 2018, in 2019. And we do feel much better prepared from the supplier base for the year 2019 and '20. In addition to that, our own factory capacity, as I said, Poland, China, India, plus the flexibility that we've increased in our main factories in Germany, which we talked about last year also, that also helps us to get the capacity that we then buy from the market out the door with fully assembled trucks.

Again, this point about KION catching up, again, if you have some factories up to 200 trucks being produced in a single day, and now you have a hiccup for a couple of weeks, you can imagine what kind of work that is once you do have all of the material on hand to move those trucks, to get those trucks in the proper position, to have the people install these missing parts, and then get it out the door. That's what I meant for in the first quarter, and that will be settled now going into the second half of the year.

The third one, that's always a rule of thumb. You can't always base the past -- the future based on the past. What we're trying to show is, for those of you that have followed us for a longer period, the project business is not serial production. The project business is lumpy business. If you have a business situation where you're between €2 billion and €2.5 billion in sales and you have a couple orders that are between €80 million and €120 million and you have one or two of those, it has a huge impact on quarter-to-quarter numbers.

And that's all we're trying to show is that the longer-term perspective in this industry -- and one of the reasons we purchased Dematic was this attractive double-digit growth heavily driven by e-commerce makes it an attractive business going forward. And we do believe that, at least for the coming couple of years, that this trend of double-digit growth is viable and sustainable.

Nika Zimmermann — All right. Thank you very much.

Philippe Lorrain — Yes, good afternoon, ladies and gentlemen. Philippe Lorrain from Berenberg. A couple of questions also from my side. The first one is on the ITS order growth. And I would like to understand a little bit better. You've got an organic growth of about 2%, if we adjust for the currency effect. You're speaking at the same time about the price increases that you had at the end of last year. And when we look at your volume, which was essentially flat, minus 0.2%, I would like to understand a bit what -- how to bridge from the volume trend towards the value trend in order intake because we don't have the split between service and new business. So I would like to understand basically if it's right to assume that most of the growth that we see in organic terms in value is actually driven by the price increase.

Gordon Riske

Well, don't forget, when we talk about ITS and we talk about Euros at the end of the day, and I know all the statistics. We have units. We talk a lot about units. But 49% of our revenue is services after the sale of the forklift truck, either with aftersales, with short-term rental, used truck business. And that has been very robust part of our business. And that also is a key factor in the resilience. So it's not just price increase. It is also the increase in the service business.

Anke Groth

Philippe, additionally, what we have said, the 1.7% order intake growth, that this was predominantly coming from the service business. So that was one additional information during the presentation.

Philippe Lorrain

Yes, okay. Thanks for that precision. But if most of the growth is coming from service and that means that the new business might be a bit more flattish, if you've increased prices, are there actually like mix headwinds that you see on the pure truck side? It's to better understand why it's not growing a bit more than perhaps what we would have seen just from the volume side.

Anke Groth	It's based on product mix. So small warehouse trucks is the point in that calculation.
Philippe Lorrain	Okay. Great. Okay. That's what I was thinking. Thank you. And the second question is more on the supply chain bottlenecks again. I noticed that your inventory level was growing still year-on-year. I understand that there is still a period maybe to digest completely this order backlog and get basically the inventories of finished goods out of the door. But can it be as well that the increase in inventories that we see is driven by the fact that you've won new projects since the end of last year and that you start basically using the cash that you get from the prepayments in order to purchase the inventories ahead of the project execution?
Anke Groth	No, that's not the case. We have increase in production, and logistic has to handle it and transfer the trucks to the customer. So the increase in inventory is mainly based on that reason, but not on Supply Chain Solution and using the prepayments. That's not the case.
Philippe Lorrain	Okay. Thank you. So that means that we should then expect really that inventory level to come down throughout the year.
Anke Groth	I expect it to normalize, absolutely.
Philippe Lorrain	Okay.
Sven Weier	Yes, thanks for taking my two questions. First one is coming back to the big tickets in SCS. And we're all by now I guess familiar with the lumpiness that it causes to the sequential orders. But I was more curious what your learning curve has been in the

meantime on actually executing the large orders. Obviously, you had a big one from Schaeffler. And obviously, we all know that bigger projects typically have some execution issues, timing issues. And are you happy with the execution of those orders? Are they living up to the original margin expectations? That would be the first question. Thank you.

Gordon Riske — Yes, if I take November 1st, 2016, and big numbers meaning nice numbers, not always great results, and now 2.5 years later, I think, from the quantity and qualification of top-level project managers, and that's been a European topic much more than it has been a North American topic, we have really beefed up the team. And we see those results in some of our current projects under execution. So if I say I have a couple when we bought the company, they were already in. And kind of three quarters down the road, we are closing them out now. So we have learned a lot in this process and then review the ones that we have taken in, and end of '17 and in '18, quite a difference.

Sven Weier — Because I remember you once said the margin of the big contracts is not so dissimilar from the others. And I was just wondering if you've seen that also now in the reality when executing the orders.

Gordon Riske — Yes, our bigger projects and execution is -- it's much better. That's one thing. And of course, the other thing is, if you can have repeat customers, that's the best way to do it, customers that order one or two a year that are similar. That is, of course, the absolute perfect situation.

Sven Weier — Okay. And the other question I had was just coming back to your cash flow and the rental CapEx, which has been down obviously quite a bit year on year. And I was just wondering if we could annualize that. And I guess that could probably more than compensate the increase that you have in the normal CapEx. Is that a fair observation, or what's your best guidance on that?

Anke Groth — No, I think we wouldn't propose to do it like this, Sven. First of all, yes, we have invested heavily in the expansion and renewal of our fleet over the past years. But nevertheless, the CapEx can vary from quarter to quarter. And for the first quarter, you have to see we are currently really focusing on using the production facilities for our customer orders rather than for producing trucks for our own rental fleet. So that's the reason also for the lower rental CapEx in Q1.

Sven Weier — So for the year as a whole, you would see a flattish figure on the rental CapEx, or --

Anke Groth — Similar to prior year is currently our --

Sven Weier — Okay. Okay. Thank you, both.

Frederik Bitter — Good afternoon. I would have one question on ITS and one on SCS. Let's start with ITS. I would be keen to learn more about your initiatives to optimize the plant structures in facilities like Aschaffenburg, Hamburg, etc. so if you could provide some more details on that, that would be quite helpful. Thank you.

Gordon Riske — I know lots of people would be keen to know all the secrets of how we do it. So I can only be somewhat limited. But as you know, we have two big factories in Hamburg and Aschaffenburg, all kidding aside, and they are running at full steam ahead.

We also know that, in Germany, as great as the workforce is and high precision, quality, we have the highest rates and the lowest amount of working hours. So our big task has been to put more flexibility into the workforce. That means use of temporaries and limited contracts on the one side to be able to better breathe.

The second one has been a much higher use of automation, even using some of our own equipment in our factories to compensate for some of the increase in labor costs.

And the third thing most important that kicks in, and we have a big product launch at the end of this year in Aschaffenburg, is a much heavier usage of our module and components platform. Years ago, every brand had their own engine type of thing. We had different types of electric motors, cables, you name it. And we have modularized the products since Eike Böhm has been here the last couple of years. And some of those products now are coming online and on stream. And that makes a big difference. Those are kind of the three major points I would say.

Frederik Bitter

Okay. Thank you very much. The modular product platform we haven't heard about for quite a while. So that's very interesting and also I guess in a way positive that that is obviously still in usage, etc. Okay. Thanks.

The second question then on SCS, if you could talk a bit more about your cooperation with Weichai in China, say, talk a bit about like joint projects you have, how they can help you in the country, and I guess all in light of quite some success you have, particularly recently in North America, where new customer wins, like in Q1, but I would be more interested to learn more about China, if not the whole of Asia-Pacific.

Gordon Riske

Okay. In North America, Weichai Power did not help us, just to make sure that there's no misunderstanding, first point.

Second point, the China cooperation, Weichai Power in SCS has been very fruitful, very positive in two directions. One direction is that Weichai Power itself is a huge company with all kinds of spare parts centers, etc., service centers. And we have a couple of orders what we've had for Weichai Power and their brand new spare parts distribution center, which is now ramping up, doing very well. And as you know, Weichai Power is now also very heavily involved with Sinotruck, making them one of the largest truck manufacturers in the world, which also has a lot of distribution centers. And we are working with them on projects. So even having them as a customer, that's kind of the one angle.

And the other angle is helping us in especially state-owned enterprises that are looking into e-commerce solutions, opening doors for us, at least providing the first line of contact with owners or managers of some of these companies and then being able to have our team follow up and develop projects with them. So that's been a very fruitful cooperation, especially in last year 2018. And we do believe '19 will have some new orders based on that cooperation.

Frederik Bitter

Okay. That would -- that perfectly answered my follow-up question I would have, if you talk a bit about obviously how that should be or could be materializing into order intake going forward of these fruitful discussions you have. But that's clear. Thank you very much.

Operator	Thank you for your questions. I hand back to Mr Gordon Riske for closing remarks. Please go ahead, sir.
Gordon Riske	Yes. Thank you, all, for participating and all the great questions. And as I said, stay tuned for more coming up in the next quarterly call.