KION GROUP AG

Q2 2019 Update Call

Conference Call Transcript

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Anke Groth (CFO)

Gordon Riske

Yes, thank you. Welcome to our update call for the second quarter of 2019. As a basis for this call, we'd like to use our Q2 2019 presentation. It's available on kiongroup.com under Investor Relations in the Presentations section.

We're presenting as usual in four parts today, and then at the end, we will open up the discussion for your questions. I will begin with the financial and strategic highlights for the second quarter 2019 followed by a market update. Anke Groth will then provide you with a financial update, and we will close the call with a confirmation of our outlook for the fiscal year, so for the full year 2019.

So let's get started on Page 3 with our key financial figures for the first half of 2019. Order intake stood at €4.2 billion, slightly down due only to our record order intake for our SCS project business in the previous year. Just as a reminder, Q2 a year ago was $1 billion in the quarter. So the comps are a little bit higher.

Revenue reached €4.4 billion, up 12.6% based on a strong backlog in both divisions. We achieved an adjusted EBIT of €408 million in the first half of 2019, and this represents an adjusted EBIT margin of 9.3%, up 0.4 percentage points from 8.9% in the first half of 2018.

Free cash flow for the group was a negative €32 million, mainly driven by our SCS business. And last but not least, of course, we had a net profit increase of 47% to €218 million. And I think all of these figures, our key financial figures, for the first half of 2019 demonstrate clearly we had a strong first half year with a good margin development.

Let's move onto Page 4, moving onto some of the strategic highlights for the first two quarters of the year 2019. As we communicated earlier this month, we are about to form a joint venture with BMZ, a leading European player for lithium ion battery solutions. KION and BMZ will each hold 50% stake in the joint venture called KION Battery Systems. The joint venture is scheduled to be launched in January of 2020 and will manufacture lithium ion batteries for industrial trucks in the EMEA region. The objective of the joint venture is to broaden the lithium ion product offering and to increase production capacity to best serve the rapidly growing demand for lithium ion battery systems in the intralogistics market.

Another important aspect of our strategy is automation. And we were very proud that our STILL brand won the International Forklift of the Year Award in the classification AGV and intralogistics robot, with an automated LTX 50 electric towing tractor. For the first time, an automated towing train combines automated driving with automatic load handling and is thus best suited for supplying to and removal from production lines. It's an innovation that provides additional benefit in production supply in an evolutionary way, while nonetheless continuing to allow the traffic-reducing idea of collective transports. The feedback from our customers is very positive and shows that we are on the right track with our continuous innovation in automated solutions.

So let me move to the market update for the first half year of 2019 on Page 6. We focus here on the industrial truck market and the performance of the market on a global basis by region in the second quarter. In Western Europe, the market declined with minus 10.4% in the second quarter with weaker developments particularly in Germany, Italy, Spain, and Turkey.

Eastern Europe declined by minus 6.7% in the second quarter, mainly driven by Russia. And China saw a decline of minus 4.5%, particularly driven by lower demand across all of the segments.

North America's decline in Q2 to minus 8.5% was at a much slower pace than at the start of the year. And even the month of June was a positive surprise, and June itself was a positive 13.7%. So as a result of all of these regional developments, the global market declined by minus 7.6% in Q2.

Now let's look at the opposite picture on Page 7. That is KION's performance growth by region. In Western Europe, KION saw a decline of minus 2% in Q2, developing significantly better than the market. Eastern Europe, KION declined by minus 4.4%, outperforming the market. In China, KION was almost flat, while the market at the same time declined.

In North America, we made further progress driven by the organic growth strategy that we announced earlier. South and Central America, we had a slight decline across the region, but still managed to outperform the market. So overall, KION order intake in units declined by minus 2.2% or roughly 1,300 units versus Q2 2018.

Now please remember that the Q2 2018 was the best Q2 that KION has ever had. The industry on its own in Q2 2018 was also at record levels. So again, we have very high comps. All in all, we did beat the market across all regions based on our very strong position as a leading player in the industry.

For Supply Chain Solutions and for the market Supply Chain Solutions, as you know, there is no official monthly or quarterly independent industry data like for the WITS data for the industrial truck market. But based on our discussions with customers, the pipeline status, and the order activity that we see, we still see a positive trend in the market towards automation systems and strongly being driven by the ecommerce market.

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

Anke Groth

Turning to Page 9, you will see the key financials for first half 2019. Order intake stood at €4.2 billion, decreasing by 2.6%, impacted by very high comps from last year's Q2 order intake in SCS.

At the end of the first half year in 2019, our order book was 2.3% above June 2018 level and stood at €3.1 billion. This gives us good visibility for our revenues until yearend. Based on our strong order book, revenue grew strongly by 12.6% to €4.4 billion. Our adjusted EBIT increased by 18.2% to €408 million, and adjusted EBIT margin improved from 8.9% to 9.3%.

The negative effects caused by our supplier issues, you know we spoke about this at length during the last financial presentations, are solved and not to be expected for the remainder of the year. Another positive margin effect came from an under proportional growth in SG&A and R&D spend in both segments. This is mainly a phasing effect and not sustainable until yearend.

If we move onto net income, you see an increase to €280 million, a significant increase by 48%, driven by operating performance and lower PPA items. We can say that we saw a very good first half of the year.

Turning to Page 10, you will see the key financials for the second quarter of 2019. And not surprisingly, Q2 is showing a strong performance, in line with the first half. The effect of the already mentioned high SCS comps is even more visible, with order intake decreasing to €2.1 billion, therefore by minus 14.2%.

Revenue in Q2 grew strongly by 12.3% to €2.3 billion. Adjusted EBIT is now at €225 million and increased by 20.5%. And adjusted EBIT margin improved from 9.2% to 9.9%. Net income increased significantly by 58% to €125 million.

Let me continue with the key financials for the segment Industrial Trucks and Services on Page 11. Order intake grew to €3.1 billion in H1, representing a growth rate of 1.7%, and to €1.6 billion in Q2, with the same growth rate. This is driven by service orders, which were up by 5% in the second quarter, again clearly demonstrating the resilience of our business.

The order book for the IT&S segment was at €1.4 billion at the end of H1 2019, representing a stable level versus H1 2018. Revenue grew strongly by 11.7% in H1 to €3.1 billion and by 13% to €1.6 billion in Q2. This is based on our strong order book.

Adjusted EBIT grew significantly by 14.9% to €327 million in the first half of the year, equal to an increase in margin to 10.4% versus 10.1% a year ago.

With 19.9% in Q2, the increase was even stronger, and we were able to show an adjusted EBIT of €178 million and a margin of

10.8% up from 10.2% a year ago. Drivers for this development are: our supplier issues are now resolved and therefore no longer an issue going into the second half of the year. We had moderate material cost headwinds, but still headwinds, and the already mentioned phasing effect in R&D and SG&A. Overall, we saw a strong performance, not least supported by our service business.

Let us therefore take a closer look at ITS Services on Slide 12. The revenue for this segment is split more or less evenly into services and new business revenues. While we do see new business fluctuating with the economic development, service sales offer resilient revenue streams with a consistent growth pattern across the years at attractive margins. You know services include our aftersales activities, where we take care of our installed base of around 1.4 million trucks in the field, steadily growing by the way with every truck we sell. And services also include our rental and used truck activities.

Page 13 summarizes the key financials for the segment Supply Chain Solutions. Coming off a high comparison base, the segment saw a decline in order intake of minus 12.7% to €1.1 billion in the first half and minus 42% in Q2 2019.

Looking at recent order intake for SCS, as shown in the chart down right, you see that the quarterly value of approximately €500 million in Q2 2019 is still a very solid development.

Order book for the segment was €1.7 billion at the end of the first half 2019, representing a slightly increased level versus the first half 2018. This gives SCS a good visibility going into the next quarters.

Revenue increase by 15.4% to €1.2 billion in the first half and by 10.9% to €642 million in Q2. Both business solutions and the service business revenues increased by approximately 15% in H1.

Adjusted EBIT amounted to €112 million in H1 2019, resulting in an improved margin of 9.2% compared to last year's 8.2%. Q2 2019 adjusted EBIT increased to €64 million, representing a margin of 9.9%. The increase in profitability was supported by various effects. We are no longer seeing an underutilization in the project-related capacities, which we had last year. We had a positive effect from FX, and here as well, positive effects from SG&A and R&D. Overall, SCS saw a strong operating performance in a continuously positive market environment.

With Slide 14, we have added a new chart in the last quarter. The chart shows the 8-quarter rolling average order intake. And for Q2 2019, this is at €590 million. The average annual growth rate across the 2-year period is 9.8%. In Q1 2019, we showed an average growth rate of 10.2%. The segment continues to see strong growth in line with market trends.

If we turn to Page 15, you see the reconciliation from the adjusted EBITDA to the net income for the group. If we start from the top, as mentioned before, adjusted EBIT grew strongly by 18.2% in H1 and 20.5% in Q2. We have lower PPA items, as expected, and we have higher taxes based on higher earnings in the reporting period, so that, overall, net income showed a significant increase of 47% in the first half of the year and an even stronger 58% in Q2.

If we look at earnings per share, this represents an earnings per share of €1.87 in H1 and therefore a remarkable increase of €0.79.

If we move to the free cash flow, which is shown on Page 16, the free cash flow in H1 2019 was minus €32 million and therefore below prior-year level. Main driver for the free cash flow development was a high change in net working capital of minus €381 million, which was impacted by lower contract liabilities from our SCS business and increased stock levels.

If we compare 2019 to the first half of 2018, the free cash flow was, apart from the net working capital, also driven by lower tax payments in 2019 as well as a slower increase in rental CapEx, reflecting latest market developments. Due to our active management here, we now expect rental CapEx at yearend 2019 to be lower than yearend 2018.

Overall, free cash flow was negative, but you know that we have a strong cash flow generation in the fourth quarter of a given year.

If we turn to Page 17, showing the net debt of our business, as of June 2019, our net financial debt stands at €2.1 billion. This level is increased versus yearend level due to the increase in net working capital. The ratio of net financial debt to adjusted EBITDA therefore increased slightly to 1.3. Our net pension liabilities are up by 16.6% due to a lower discount rate. So leverage on our industrial net operating debt at the end of June 2019 also increased slightly to 2.4.

And with this, I hand back to Gordon with the outlook for full year 2019.

Gordon Riske

Yes, thank you, Anke. I'm on Page 19, and here, you see all the numbers for the outlook, which we have confirmed already. Based on the market development year to date, however, we do not expect that the ITS market will grow this year at the longer-term average of around 4%. Instead, I do believe a stable to slightly declining market is more realistic. How strongly this market will be impacted by the conditions that we see all around us depends, of course, on the further development of these macroeconomic conditions.

But despite of all this and even with our slightly weaker unit order intake for industrial trucks in the first half of 2019, we do confirm our guidance for the full year 2019.

Our current view is supported by our strong backlog, our visibility for the month of July, and our very resilient service business, as Anke just described. Additionally, based on our market-leading position and let me remind you, the strongest brands in the material handling industry are at home at KION -- we do expect to further gain some market share in the ITS and SCS segments.

On order intake in units particularly, you may probably assume that we come out towards the lower end of the guidance range and not at the upper end of the guidance range for the order intake for ITS. However, said that, we do confirm our full year guidance for the year 2019.

Looking onto Page 20, you'll see our financial calendar. The next event will be Q3 numbers 2019 on October 24th. Until then, we do look forward to seeing you at conferences and roadshows after the summer break.

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.

Sven Weier

Yes, good afternoon. Thanks for taking my questions. The first one is just on your remarks that you mentioned with regard to the truck business, and you obviously also mentioned July and your observations. And we were obviously quite seeing your outperformance relative to the market, especially in Western Europe. So is it fair to assume that your budget assumes that that market share development continues? And could you give us some more examples what's driving that strong delta in your unit numbers to the market overall? That's the first one. Thank you.

Gordon Riske

Okay. In the first half of 2019, we did see a negative market development in the core Western markets, as you know. But it has been a pattern in the past that leading players, and I said with our brands Linde, STILL, Dematic, when markets do decline, we are able to take advantage of a very, very strong sales and service network. And I also do believe that we have a somewhat broader country and regional mix. Just to give you an example, everybody's reading in the papers -- and I don't want to stress it too much -- the automotive industry. Key accounts and so forth, if I look at some other competitors, are very much more probably relying on big key accounts. Our business over the last 10, 15 years has been spread much more broadly. So I do believe our mix of customers with many more smaller customers is a little bit different. And that gives us I think in times like these an opportunity to gain market shares.

Sven Weier

Thank you for that. Second question is just -- you mentioned obviously July for trucks. And I was just wondering, how is all this macro turmoil impacting your pipeline in SCS? Do you see an impact on that, or is it largely immune so far?

Gordon Riske

I would say so far, so good. July is almost done. So our pipeline is well filled. Our sales teams are busy. It's a healthy pipeline, diverse pipeline, especially SCS business. So far, I would say so far, so good. And I said, on the truck business, July is okay to date.

Sven Weier

Okay. Thank you.

Sebastian Growe

Yes, good afternoon, everybody. Thanks for taking my questions, two obviously, the first one on ITS and the order framework. I think you alluded to, obviously, the pretty decent resilience that you have from the service business. I would be interested in the framework. And you touched already on the month of July and then how this has so far at least played out.

If you're at the same time looking at market, obviously, that was pretty high comps, especially in Europe. So would you expect to rather see a bit of more headwinds and headaches eventually into quarter 3 and then sort of a relief on lower comparisons in the quarter 4? Would that be the right way to look at things? And eventually, you could also allude a bit on the mix impact, i.e. are you simply also benefiting eventually then from selling higher-value trucks and that this is also then sort of supporting the lower end of the provided order intake range? That would be a first one on ITS.

And then a second one on SCS. I think, with the quarter 1 results, Gordon, you said that the quarter 1 is always a bit iffy. And obviously, we have not seen really especially the, say, uncertainties on the macro front easing yet. Maybe you can just shed some more light on what you see simply in customers' willingness to approve bigger projects and talk a bit about the order funnel.

And eventually also, if I may ask that very last question around SCS, simply give us some more details and eventually more Anke's part on what happened exactly with this great execution on the quarter to solve price mix, and what is really execution capabilities, and what is eventually operating leverage? Thank you so much.

Gordon Riske

Okay. Let's start with the first one. A very important point. We're not aware of any fundamental change in the development in the first weeks of July. It's not gone up in particular. We've performed as far as our own numbers, when I do the comps to last year, very well in July. But of course, I don't have any market data at this point.

So I would say that the first comment that you made, we have extremely high comps. We had last year I think in Q2 some 400,000 trucks sold in the industry. That was the biggest market ever. So we are comparing at a very high level. And I say, when we end up with 1,300 units, that's -- I don't know -- 1.5 days' production, if I look at our whole world. So I think we do have to take it with a grain of reality of what we're comparing to.

Nonetheless, the market sentiment, and that's the point, is not better this year than it was last year. It's actually quite negative, and we see all the announcements around us.

The mix impact, we have -- that's a point I forgot to mention on the first one. We do have a different mix of products than most of our competitors. We're very even on warehouse and on the counterbalance electric and the IC trucks. So we do have bigger trucks, and we have higher option trucks, and I do think that helps us and also gives us a better edge on some customers because we do customize a lot of the trucks that we sell.

On SCS, yes, Q1 is always a little iffy. Right now, looking into our project pipeline, well filled, very nice mix of projects, also some big projects in there as usual this time of year. But right now, we see no real discussions with our customers about all of the noise that we hear between China, US, that type of thing. It doesn't happen.

And the reason I believe that is, some of these projects, as you know, are 2 to 3 years in the incubation stage before you get to final drawings. And then you have land that's purchased. You have structures that are built, buildings that are built. This all takes a little bit of time. It's quite a bit different than the shorter-term forklift business. And so right now, our order pipeline, even for bigger projects, is very well filled.

Sebastian Growe

Okay. If I may, and before we get eventually to the composition around the SCS execution, on the market, if I may ask that very question, I think it's quite striking that North America, in particularly I think the US market, was one of the earliest turning a bit more sour in the quarter 3 '18. And now interestingly I think in quarter 2 '19 was the first market, eventually single regional market to pick up again. Is this also witnessed by yourself that you would also read something at least into it as a kind of lead indicator for the industry, or what is basically your overall positive view on this market might at the end of the day be only about flat or slightly down for the full year based on?

Gordon Riske

Too early to call. And we're talking about ITS. It's simply too early to call. The nice thing is, as you saw on the Q1 for North America, minus 20, Q2 only minus 8, and June double-digit positive. So that's a good sign. In addition to that, we've launched a lot of new products. So our numbers are a little bit skewed and perhaps over positive.

But after a couple of weeks now, it's simply too early to call. US in many sections of the economy is booming, as you know. And in the last year 2018, we also had high comps because there were some pre-buys in anticipation of all of the tariffs between China and US because a lot of US suppliers do get many parts for their forklift trucks out of China. So I think there was some buy ahead in there. So again, we have this comp thing. But as I said, it's too early to call. I think it's a very positive sign that the quarter is better and that the month of June was so strong.

Sebastian Growe

Okay. Great.

Anke Groth

Yes, Sebastian, touching upon your questions with respect to SCS execution capabilities was one of your questions and operational leverage. Coming to the last point first, operational leverage, in SCS, it's a project business. So we don't have too much operational leverage in this kind of business. And the positive effect on SG&A and R&D, as we said, will mainly revert until yearend.

If it comes to execution capabilities, I think, often, we have described that we are improving in Europe, that we are transferring knowledge from the US to our European teams. And that pays off. So yes, we think execution capability has slightly improved. And we also do think this will continue until yearend. So that's a positive development in the business.

Sebastian Growe

Indeed. I couldn't agree more. Thank you so much.

Akash Gupta

Yes, hi, good afternoon, everybody. My first question is about production planning in second half. Can you talk about how many shifts you're running now and what you're planning for second half of the year? And in case if you have to reduce production, then how is it going to impact IT&S margin in second half of the year? So that's question number one.

Gordon Riske

Okay. Well, it depends on where you are in the world on our production. Normally, our assembly plants run two shifts and some Saturdays. Our component plants, some run three shifts because it's mainly machines, and they run kind of around the clock, foundries and those types of things. At the moment, all of our facilities are running at high utilization rates around the world. And we will review that after the summer break, August or so, to see how the order book -- as we showed in our documentation, our order book is still good. So we still have a strong order backlog that we have to get out the door. And that has to go through the sales channels and dealers and so forth. So I would say, right now, our production plan is as we planned it to be able to meet our guidance.

Akash Gupta — Thank you. And my second question is on SCS. One of your US competitors reported some pushout of large projects from H1 to H2. Maybe if you can talk about if you see any pushout of large projects in different customers, and also if you can talk about pipeline for next year, given you have a very high visibility in that business.

Gordon Riske — Yes, no, we're not aware of any big pushouts. But again, some of these projects, once you get above the €50 million class, those are big projects. And pushouts normally happen due to technical reasons, availability of land. You purchase the land, and then you have to get the permits. And if you're in a place like New York, where we had last year, by the time you can build this stuff, it just takes some time. Those are mainly the causes. We don't see any economic reasons for pushes, at least in the pipeline that we're addressing right now.

Akash Gupta — Thank you very much.

Martin Wilkie — Thanks, good afternoon. It's Martin from Citi. So the first question, just on SCS again, you confirmed order guidance for the year. And that does leave quite a wide range for the potential orders in the second half of the year. And you have obviously talked about this good pipeline. Is it right to sort of classify the reason for having that is more just a sort of technical timing issue as to when these contracts fall? It's not a mark out of the uncertainty that you have. Just to understand why you've retained that guidance for the year when we're effectively sort of six months' through. And I have a follow up, but that's the first question. Thank you.

Gordon Riske

Yes, we purposely have a wider range, not to make it easier, although some might think that. It's just the nature of a project. As I say, let's say you have three projects 50 plus. You get two, you don't get one. That's the reason for it.

Martin Wilkie

Okay. So it's just reflective of the lumpiness and sort of nothing more than that.

Just coming back on the market share gains, I just wanted to sort of understand the comment that you made that was in IT&S that it's your broader reach that helps you do that. So is this effectively that you're more diversified? Is that the comment that you mean as to why you've made these market share gains, or has there been -- on a like-for-like basis, do you think you're gaining market share with a given customer segment in a given country when you go head to head with competitors, or is it this market mix effect, just to understand really what you mean by the market share gains? Thank you.

Gordon Riske

Yes, well, first of all, let me just start with the brands. It's not unusual in times when there's market uncertainty that we gain market shares because we have well-established sales and service networks. Everybody knows us. They have a big population, etc. So some of the other players, whether it be Chinese players or other base players that don't have a strong sales and service, they are the first ones to drop market shares. That's the first point.

Second point, we have taken a huge task over the years to build our service network and to purposely address the small and medium customers. So they buy two forklifts. Other companies approach the market somewhat differently and mainly go to huge key accounts, where you sell 100, 200, 300 at a time. And those are the first markets when markets get more difficult, where big professional companies then will slow down the purchase of forklifts, and small- and medium-sized companies, that doesn't really happen. So we just have a different customer mix.

And I think the third point to remember is KION, and especially in EMEA with the brands of Linde and STILL, in most of the large markets, Germany, Italy, France, UK, together, we are at least in most cases the number one in the market. So we do have a favorable country mix also on our side with our very, very strong installed base and our strong service network.

Martin Wilkie — Okay. That's helpful. Thank you.

Philippe Lorrain — Yes, good afternoon. A few questions from me, mostly on ITS. The first one would be on price increases. Apparently, you do not increase truck prices during the course of the year. But some of your competitors do. In our view, how likely are customers to accept these price increases without firstly either pushing back or moving to competitors who do not increase prices during the course of the year? That's the first question.

Gordon Riske — Yes, we've had a long tradition. Some people criticize it because we always do price adjustments before Christmas, a Christmas present, some people say that sarcastic. But during the year, we don't do it because there's some effort to do it, and you kind of confuse the customers.

We saw one competitor did announce formally a price increase midyear or, say, beginning of the second quarter. And the market shares, I think they've boomed up a little bit because then people try to buy ahead of the price increase. But as a normal procedure, we during the year do not confuse the market and increase prices. Everybody knows the first of the year or the New Year where they stand and not kind of in the middle of the year.

Philippe Lorrain — Okay. And the likelihood then that customers perhaps are upset by such a decision to increase prices, I take that it is actually likely that this kind of reaction happens.

Gordon Riske — I know. I'm not in the customers' heads all the time, but nobody likes to have their prices increased. So I'm sure it can have a negative pushback.

Philippe Lorrain — Okay. Great. And then another one which is more like on how the market developed especially during Q2. And I have the impression -- perhaps there's a similarity to what we see in the heavy truck business in the US when there are bottlenecks in the supply chain, i.e. the suppliers and even the truck OEMs face some bottlenecks in terms of their own capacity to produce trucks. It seems like customers sometimes place more orders in advance so they can secure production slots. Is it something that might have happened during the course of last year when the whole industry, including yourselves, Jungheinrich, Hyster-Yale, Toyota, and so on, was facing supply chain bottlenecks? And then that means that this year's correction would be an off-peak correction just because we had this excess of ordering?

Gordon Riske — No, I don't think so in that case because we also have a large rental fleet, short-term rental fleet, several 10,000 units, 50,000, 60,000 I think in Europe at least. And so we are able sometimes to bridge any delivery issues that we might have had internally, but that customers are pulling ahead just to secure slots, that normally doesn't happen in our industry that way.

Philippe Lorrain

Okay. That's great. But to make your point on rental fleet, because that was the last question, you seemed to decrease the investment in the rental fleet currently. So I guess one of the reasons for that is because the bottleneck situation is a bit easing. Do you feel actually the need to frame the rental book in size at this stage? And also, what would be the risk for additional market-to-market related depreciation on the rental book in case the new business market conditions really remain tough?

Anke Groth

So what is happening with respect to our rental fleet and the rental CapEx, we are still increasing. So we are still investing into the rental fleet. It's also true that we have received some bridging trucks back, which we have given to our customers based on last year's supplier situation and so on. So there is not the strong need for the high investment we did last year, but again, we're still investing into our fleet.

Philippe Lorrain

And really the final one would be -- you were mentioning that you were still working on a well-filled order backlog in ITS, partly I guess still because of the bottleneck situation. So could you provide us with a quick update on that? How far has it progressed already? And to bounce back on I think it was Akash's question with regard to the production volumes, did you feel the need to at some point, if the market remains weaker, to really to reduce production rates, or are you still quite confident that, with the backlog that you have, you're going to maintain the production level, which is of course a good indicator for your drop for margins?

Gordon Riske	We have to see how it goes. It's a little bit too early to say. Right now, we haven't made any drastic changes. Again, when you have 26 plants, each plant has a little bit of a character of its own. And we have constant updates and new products being launched. So it is a mix of things, but so far, we're not taking any production rates down. To give you I think maybe a little bit more color on our bottleneck situation, maybe for everybody that's listening still, last year, when we have our daily EMEA operations call, that call lasted 20 to 30 minutes. Beginning of this year, we got it down to about 10 to 15 minutes, and now it's under 8 minutes. So I think it shows things are much, much better than they were a year ago.
Philippe Lorrain	Okay. Great. But I still understand that you're working on the bottlenecks.
Gordon Riske	I think we're now at normal operating day-to-day tasking.
Philippe Lorrain	Perfect. Thank you very much.
Jack O'Brien	Thanks, Gordon. Thanks, Anke. My first question is just on your order book of €3.1 billion. I can't find the split between your two divisions. So could you just give us the split there, please?
Anke Groth	Yes, no problem. The split between ITS and SCS, so ITS it's €1.4 billion, and SCS it's €1.7 billion.
Jack O'Brien	Okay. Brilliant. Thank you very much. Secondly, just on -- back to the pricing point, I guess we're seeing a raft of businesses profit warn at the moment. And it feels like your pipeline is pretty well filled, July okay to date in trucks. But to what extent are you

seeing, if at all, any customers coming to you asking for better price downs? Because it feels like, from what I'm hearing, the demand pitch is okay, but I'm just wondering of the potential for the pricing to potentially surprise us in quarters to come.

Anke Groth

Yes, first of all, talking for the ITS segment, of course, if market environment gets difficult, there might be one or the other player who gets more aggressive. But normally, the market tends to be quite price disciplined. And for us, we can say that we have seen a positive price assertion year to date, which also should give you a positive signal.

Of course, it depends second half of the year a little bit how the market develops. We are now in July, or we have given you visibility for July. But for the first half of the year, our price assertion again was positive.

And for SCS, it was and is a competitive market. We have said our pipeline is very well filled. We don't have customers pushing back on orders. So margins are slightly different in Europe and US. We have also talked about that for quite a while. So I haven't heard and seen major differences yet.

Jack O'Brien

Okay. That's really helpful. Thank you. Just one final question on the free cash flow in the first half. You talked about this working capital outflow of I think it was €380 million in 1H. Is there anything we should read into that? I know, seasonally, the first half, free cash is often much weaker, and it's more of a timing thing. But is that how we should interpret this free cash performance?

Anke Groth	I think it's based on the SCS business quite normal development. You know that we had a very high order intake last year. And we had very high prepayments of our customers. So cash came in very early. Now we are working on the orders, and cash is going out. So that's the major thing in working capital and the major explanation.
Jack O'Brien	And thank you very much. Perhaps just one more, if I may. Sorry about this. When you look at your portfolio in either SCS or on the forklifts side, are there any sort of missing -- I know you have an extremely broad product offering. But are there any sort of nascent technologies? Obviously, you mentioned the partnership with BMZ. But are there other sort of potential products or areas that are catching your eye at the moment?
Gordon Riske	No, the historical view of our company, when we look at additions to the group, it's either to beef us up regionally, someplace where we're not strong like we'd like to be, or technologically. And everybody knows technologically at this point, everything to do with automated trucks, robotics, digitalization, energy, you see the topic of lithium ion, those are the areas that we're investing in. And as we move forward, lithium ion fuel cells, that will become kind of the standard in our industry. So those are the things that we're looking to invest in.
Jack O'Brien	Cool. Thank you very much.
Gordon Riske	Of course, if there's bolt-on opportunities in the market, that's always interesting that we look at.
Jack O'Brien	Brilliant. Thanks for your help.

Markus Almerud — Yes, good afternoon. Markus Almerud from Kepler. My first question is just out of curiosity. So the economic environment seemed to have deteriorated throughout the quarter and then was particularly bad in June in several parts of the world, including Germany and also China it seems. Have you seen kind of the same picture, or has demand for you been fairly stable throughout the quarter?

Gordon Riske — Well, if you look at our numbers, for the first half, we're down -- exactly. That's on Page 7 of our presentation. The first half was minus 1.2%, and the second quarter was 2.2%. So and we're able to compensate that on the euro side with a very robust plus 5% service business.

So I would say, in total, that's the reason for the market share. The order inflow has been fairly consistent. And as I also indicated, July is also right in that range. So it's okay. But on purpose, we said, when we look at order intake through the year, confirming our guidance today in this call, we fully realize we're in an environment that's a bit more negative than it was a year ago. And we probably won't reach the upper end of the ITS order intake.

Markus Almerud — Okay. Thank you. My second question is on the customer split in SCS. So you saw a very, very strong growth in the ecommerce part of your portfolio in last year. And most other segments were actually declining. Are you seeing some of those segments come back? So if you look at the pipeline that you have, are all segments good, or are there specific segments which are just sticking out as either up or the downside? For instance, we had general merchandise being weak six -- well, some quarters ago, for instance, or is it across the board pretty similar?

Gordon Riske	I think it's across the board pretty similar if I look at it on a global basis. But everything -- the main driver is certainly ecommerce all around the world, everybody wanting to be able to compete with some of the big players in the industry. And that's what's driving our business up. We are very cautious when it comes to heavy industry or automotive. That's not one of our bigger segments. The other verticals are much, much stronger.
Anke Groth	You mentioned a weak general merchandise. You know that the big customer order we won last quarter and which we have disclosed was in general merchandise, and it was a big order, above €100 million. So for us, that's a strong development in that vertical.
Markus Almerud	Okay. Okay. And then finally for me, just a housekeeping question. So we know that Q4 is usually weak in terms of sales in SCS, but we saw that pattern break last year with the weak Q1 order intake and then a very strong Q2 order intake. Should we expect a more traditional pattern this year with a weaker Q4, or do we have these factors where the order book is still going to be disturbed, just for modeling purposes?
Gordon Riske	Again, kind of the theme for today is market's a little bit more difficult, but we confirmed our guidance, and we have good order pipeline. And all I can say, you see the numbers that Q2 for SCS, due to the high comps the previous year, was a little bit below, but we still feel strongly enough in terms of our project pipeline to be able to confirm our guidance for the full year.
Markus Almerud	Okay. All right. Thank you very much.

Omid Vaziri — Yes, good afternoon, Gordon. Hi, Anke. You're delivering on larger volume SCS projects in North America this year. Was wondering, has this provided an opportunity for you to place in KION forklifts these projects? Is that helping you growing forklift units in North America by 10% when the market has declined 15% in the first half, or is it the product launches in the first half, and so we should expect a less strong performance by KION in North America in the second half, if there aren't any other product launches in the second half?

Gordon Riske — So that was two. The first question, North America, big projects, we did get a large project. What was it, €35 million or so, in the US. And I don't know if I'm allowed to say the customer. So I won't. Everybody's looking at me. But it is a big order with several hundred forklift trucks that would we have not -- probably have not gotten without a coordinated effort between Dematic and the forklift business. So that was a real extremely positive sign for the North America team in both segments.

Product launches, yes, we do have a major project launch scheduled for the end of this year 2019 in the ITS segment for our Linde brand, the next generation of forklift trucks coming slowly out of the factories. And so that will start at the end of the year 2019.

Omid Vaziri — Yes, and would that be North America, just to confirm?

Gordon Riske — No, the launch is here in Germany.

Omid Vaziri — Oh, right. Yes, I was rather referring to market outperformance in North America.

Gordon Riske

Okay. That's the products that we displayed for the first time in Chicago in the spring of this year 2019, and those are now starting to go out to dealers and other customers. And that has been quite a good market entrance, especially the warehouse products, because that's what we need to be able to offer together with the Dematic systems. It's not enough just to deliver counterbalance trucks. You need the particular US specked warehouse products, which we now have the complete portfolio available.

Omid Vaziri

Yes, okay. That's great to hear. My second question was in relation to what sort of -- would you mind just help us understand what overlap, functional overlap there are between the two operating units Linde and STILL? Now understand -- from 2015 when you announced the new organizational setup, I understand there are cross-operating unit responsibilities in R&D, finance, HR, IT, and so on, and even procurement perhaps. But what overlaps are there in manufacturing, sales and marketing, aftermarket service, and as such between the two operating units?

Gordon Riske

There's been no change to what we announced a couple years ago with our OU structure and so-called CTO organization, where we have R&D, purchasing, and quality together. IT has always been together. Purchasing has been together for a little bit longer. And so there's been no real change on that. Sales and service networks are completely different. We do share some back office warehouses and so forth. But in terms of point of customers, there's also quite a heavy product differentiation. It's not the same product with a different paint job. It is quite different in some respects, but no change in the organization.

Omid Vaziri: Yes, so little overlap there in also manufacturing?

Gordon Riske: For components. Components all come out of similar factories, foundries and axels, and those types of things.

Omid Vaziri: Yes, okay. Assembly is somewhat different. Okay. And my final question was on the guidance. IT&S EBIT guidance, you've been very helpful in pointing us towards the lower end as kind of more likely outcome now for the IT&S's order outcome for the full year. I was wondering if you would like us to also maybe -- you think we should be looking more towards the lower end for the EBIT as well for the IT&S if this was to cause operational inefficiencies in production. I understand your earlier comments in that you will be reviewing these. But if you are pointing to order intake towards the lower end, you're clearly setting some -- you're narrowing your expectations yourself. So you must be also -- would you be able to lower now your expectation on the EBIT side?

Gordon Riske: I wouldn't like to be too negative on EBIT, but, Anke, jump in there because the EBIT side has to do directly with revenues, and the revenue pipeline is very strong because we have this over €3 billion order book that we're getting out the factories, and our sales and service business is very robust. So we confirm our guidance, and no particular end, high end, low end.

Anke Groth: Nothing to add, Gordon. Thanks.

Omid Vaziri: Yes, okay. I guess, when we look at the order book for IT&S, it's lower than the €3 billion. And clearly, the order-to-sales coverage for the IT&S business is much shorter than the SCS segment. And so as shifting order intake development for you in the coming months could change things for, say, Q4 profitability outcome, so that was the reason for asking. Thanks for the answer. That was all my questions.

Richard Schramm

Yes, good afternoon. Just a simple one to clarify this phasing effect. You mentioned connection with R&D. If we calculated a bit according to the development in H1, this was relief of about €4 million to €5 million, which you signaled that this effect should turnaround in second half. Can you shed a bit light on the background, why this happened? And should we see just compensation of this effect in second half, or will it be even an additional burden and what amounts we should think here? Thank you.

Anke Groth

Yes, hi. No, it's not an additional burden for the second half. It's -- phasing effects, what do we mean with that? So for example, in R&D, you are getting the bills after the 30th of June. And therefore, you have to spend then in the second half of the year. So these are really timing effects.

We have said at the beginning when we gave our guidance back in February that we spent this year slightly more on R&D. So that is still the intention. We are not cutting back spending. But we have a timing, a phasing effect when we spend that money. That's all.

Richard Schramm

So from the ratio, we should assume a stable one for the full year? Would that be a fair assumption, so no scale effects here?

Anke Groth

No scale effects on R&D.

Richard Schramm

Okay. Thank you.

Operator	I hand back to Mr. Gordon Riske for closing remarks.
Gordon Riske	Yes, thank you all, for participating in today's update call, and we look forward to our reporting Q3 in October.