KION GROUP AG

Q3 2019 Update Call

Conference Call Transcript

24.10.2019

14:00 CET

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Anke Groth (CFO)

Gordon Riske

Yes, thank you. And welcome to our update call for the third quarter 2019. As a basis for this call, we'd like to use our Q3 2019 presentation. It's available as always at kiongroup.com under Investor Relations in the Presentations section.

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

So let me start today with our financial highlights for the first nine months 2019 on Page 3. Order intake stood at €6.5 billion, so up again 2.6% year-on-year, driven by both of our operating segments. Revenue reached €6.5 billion, up 13.1% based on a very strong order book in both segments. And we achieved an adjusted EBIT of €625 million in the first nine months. And this represents an adjusted margin of 9.6%, up 0.3 percentage points compared to the first nine months in 2018. And free cash flow for the group was €53 million positive in the first nine months of 2019. So, in a nutshell, very strong development despite some challenging macroeconomic conditions.

I'd like to move to Page 4 to highlight some of the strategic topics that we addressed in Q3 2019. As we continued the implementation of our Strategy KION 2027, along the fields of action that we've talked to you several times about, those are energy, automation, digital innovation, and performance. We again achieved a few milestones in the past quarter.

Dematic announced the commercial availability of its new micro-fulfillment solution. This is a solution that is designed to help retailers address increased customer demand for rapid online order fulfillment in a very small footprint. The solution empowers customers with high-throughput requirements to maximize space and achieve profitability with their e-commerce ordering, ultimately advancing their omnichannel distribution strategy to give customers what they want with one-hour fulfillment.

The system uses proven technology, like the Dematic Multishuttle and Goods-to-person picking, as well as our Dematic IQ software. The first customer installation is now in progress with Meijer, a leading US retailer credited with pioneering the modern supercenter concept.

KION North America received its largest order in company history from Wisconsin-based Menard, a US home improvement business. The deal calls for KION North America to manufacture and supply Menards with 600 Linde trucks all running on lithium ion batteries, as well as several FM-X reach trucks from STILL that will be fully automated by Dematic. Fully automated means driverless trucks.

Linde broadened their offering with a P250 fuel cell tow tractor. The P250 is an emission-free operation which has short refueling times at the hydrogen fuel pump, just a few minutes to ensure maximum availability, especially in multishift operations.

The last example on this page is the introduction of the new very successful RX 60 series STILL forklift electric truck in the 2.5- to 3.5-ton truck weight class. The RX 60 sets new standards using energy-efficient technologies. The truck has extremely high performance and agility for indoor and outdoor use and thereby supporting our customers' implementation of green logistics and sustainability strategies.

So, let's move onto the market update on Page 6, looking at the Industrial Trucks market, showing the global development by region in the third quarter. In Western Europe, we saw a decline of 7.7% in Q3, showing an improvement compared to Q2 2019. Eastern Europe declined by 11.9%, coming off a very high base in the previous year Q3 2018. And China saw a positive development in Q3 with plus 4.2% growth after a decline in Q2 2019 of minus 4.5%. Growth in this case was mainly driven by high demand for smaller warehouse trucks.

North America stopped its downward trend in the previous quarters and slightly grew by 0.8% in Q3. And South and Central America saw a positive development in Q3 with 4.1% growth, after declines in the first half of 2019. And as a result of these regional developments, the global market declined by minus 2.5% in Q3 2019.

Now looking at a little different picture on Page 7, a breakdown of KION's performance in those regions. In Western Europe, we grew at 2.0% in Q3, which was a record Q3, and developed significantly better than the declining market. Eastern Europe, KION declined by minus 19.1% in Q3 compared to a high base in Q3 2018. In China, we also grew at 1.6% in the third quarter, lagging behind the market, which was mainly driven, as I said, by smaller warehouse equipment.

North America, we did decline by minus 3.5% in Q3, however, still significantly outperforming the market in the first nine months with a growth rate of 6% versus a market decline of minus 10.2%. South and Central America, KION grew across the region and significantly outperformed the market. So overall, KION order intake in units slightly declined by about 1% or roughly 500 units versus a very strong Q3 2018. And so, we continue to clearly outperform the overall market based on our strong competitive position.

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

Anke Groth

Thanks, Gordon. And also a warm welcome from my side. Turning to Page 9, you will see the key financials for the first nine months of 2019. Order intake increased by 2.6% to €6.5 billion, in particular driven by the very strong SCS development in Q3 2019 and a solid IT&S order intake momentum.

At the end of the first nine months 2019, the order book was 4.2% above September 2018 level and stood at €3.4 billion. Based on our strong order book, revenue grew strongly by 13.1% to €6.5 billion. Adjusted EBIT increased by 16.2% to €625 million. The adjusted EBIT margin improved from 9.3% to 9.6%, driven by various effects, which I comment more in detail in our segment section.

Let me make some general comments here. As you are all aware, we had a couple of inefficiencies last year, which are solved entirely. Additionally, we still do have a positive effect on margin from the under proportional growth in SG&A and R&D.

If we look at net income, net income increased significantly by 39% to €339 million, driven by operating performance, lower PPA items, and a lower tax rate compared to the prior year. We can say that we saw a very strong development in the first nine months.

Turning to Page 10, you will see the key financials for Q3 2019. In the third quarter of 2019, we saw the good performance continuing, while reaching a strong growth in order intake of 13.5% to €2.3 billion. This was mainly driven by the very strong development in SCS. However, IT&S showed an excellent performance as well, considering the difficult market environment. Our revenue in Q3 grew strongly by 13.9% to €2.2 billion. Adjusted EBIT increased by 12.6% to €217 million, whereby the adjusted EBIT margin declined slightly from 10.2% to 10.1%. Net income increased significantly by 25.5% to €121 million.

Let me continue with the key financials for the segment Industrial Trucks & Services on Page 11. Order intake grew to €4.6 billion in the nine-month period, representing a growth rate of 2%, and to €1.5 billion in Q3, which represents a growth rate of 2.7%. This was mainly driven by our resilient service business, but also important, the new business saw a positive momentum in the third quarter against a declining market. At the end of September 2019, the order book for the IT&S segment stood at €1.4 billion.

Revenue grew strongly by 10.9% to €4.7 billion and by 9.5% to €1.6 billion in Q3. This development is based on our strong order book and despite the fact that we saw a slight decrease in our short-term rental revenues in Q3.

Adjusted EBIT grew significantly by 12.4% to €496 million in the first nine months of 2019, equal to an increase in margin to 10.6% versus 10.4% a year ago.

During Q3 2019, the adjusted EBIT increased by 7.8% to €170 million, representing a margin of 10.9%, only slightly down from 11.1% a year ago.

The main drivers for the margin development in Q3 2019 were no efficiencies or material cost headwinds, a still positive phasing effect from SG&A and R&D, but to a lesser extent than in H1 2019, and a negative mix effect due to a significant growth in new business sales, with lower margins than our service business. Overall, we saw a strong performance, not least supported by the positive growth in new business.

For the remainder of the year, please keep in mind that we had an exceptionally good Q4 2018 and therefore a high comparison base. As a result, Q4 will probably not be as strong as the first nine months of the current year.

Last quarter, we showed on Slide 12 the development of our service business over a longer term. We have updated the chart, and you can see an ongoing growth trend of our IT&S revenues, with an unchanged average growth rate of 5.7% for our service business.

Page 13 summarizes the key financials for the segment Supply Chain Solutions. The segment saw an increase in order intake of 4.2% to almost €2 billion for the first nine months and plus 40.1% in Q3 2019 to €839 million, reaching one of the best quarterly order intakes in SCS history.

This very positive development was in particular driven by new customers from Europe. And with respect to customer mix, aside from ecommerce-related orders, we also saw an increase of orders by general merchandise customers.

Due to this very positive development, the order book for the segment reached €2 billion at the end of September 2019, representing an increase of 13% versus September 2018.

Revenue increased by 19% to €1.8 billion in the first nine months of 2019 and even by 27.1% to €601 million in Q3 2019. The adjusted EBIT increased to €176 million, a strong increase by 35.2% during the nine-month period, resulting in an improved margin of 9.7% compared to last year's 8.6%.

With 47% increase in Q3, SCS reached an adjusted EBIT of €64 million and was thus able to show a double-digit margin of 10.7%. The increase in profitability was supported by an improved operational performance and project execution, as well as a still positive phasing effect due to a continued disciplined SG&A and R&D spending. Overall, SCS saw a very strong performance, also reflecting the positive market environment.

Slide 14 shows the eight-quarter rolling average order intake for SCS, and the average annual growth rate across the shown two-year period is up to 10.5% from 9.8% in the previous quarter. So, the segment continues to see strong growth rates in line with market trends.

Page 15 shows the reconciliation from the adjusted EBITDA to the net income for the group. Let me highlight selected items. As already mentioned before, adjusted EBIT grew strongly by 16.2% during the first nine months. PPA is significantly lower than 2018. Taxes are higher based on higher earnings. However, we saw a lower tax rate of 29.1% in the first nine months, and this is based on a lower tax rate in some of our regions and adjustment of tax provisions for prior years as well as tax subsidies for R&D activities in the US.

Overall, net income showed a significant increase of 39% in the first nine months of 2019. This represents an EPS of €2.88 for the period ending September.

Details on the free cash flow are shown on Page 16. Free cash flow during the first nine months was €53 million and therefore below prior-year level. Main driver for the decrease of the free cash flow was a higher change in net working capital of minus €471 million, which was impacted by lower contract liabilities from the SCS business.

Rental CapEx continues to be lower than in 2018. Additionally, free cash flow was driven by increased investments due to our production footprint expansion in Poland and India, as well as the payment for the acquisition of the minority stake in EP Equipment in China. So overall, free cash flow decreased, but please keep in mind that the fourth quarter is usually the main cash flow-generating quarter for KION.

Page 17 shows the net debt of our business. As at September 2019, net financial debt of €2.1 billion increased versus year-end 2018 level, even though our net financial debt increased due to higher net working capital. The leverage ratio on debt stayed with 1.2 on the same level as at year-end. The same applies for the leverage on INOD. Only the leverage on industrial net debt was slightly higher with 3.3 due to an increase of our net pension liabilities.

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.

In general, we do expect the overall combined market for industrial trucks and warehouse systems that it will likely expand again in 2019. And we are absolutely very well positioned to further participate from that growth opportunity.

And so, based on the market development year-to-date, we do not expect that the ITS market will grow at the average long-term growth rate at 4%, but more likely to be a declining market. How strongly the market will be impacted, of course, depends on the further developments of the macroeconomic conditions.

Despite this environment and weaker unit order intake for Industrial Trucks in the first nine months of 2019, we do again confirm our guidance for the full year 2019. Our current view is supported by a very strong order book, the visibility for the month of October, and our very resilient service business.

Additionally, based on our competitive position, we do expect to further gain market share. And for our order intake 2019 for the full year for ITS, you should probably assume that we come out towards the lower end of the guidance range, as we've stated before. That is more likely case, however, that on the SCS side or the systems business side is more likely to come out at the upper end of the order intake guidance range for 2019. In summary, it really was a great 2019 Q3. Thereby, we are confident in our outlook for the full year 2019.

Let me turn to Page 20, where you see our financial calendar. The next event will be the publication of our full year 2019 annual report on the 3rd of March 2020. And then we look forward to seeing you all at conferences and roadshows. And with this, I'd like to close the formal part of this update and turn it back to the operator so that we can take your questions.

Operator — Ladies and gentlemen, at this time, we will begin the question-and-answer session. One moment for the first question, please.

Sven Weier — The first one is on the truck market. Obviously quite stunning to see again resilience here, and I think the market has been also quite flattish in the exit of the quarter in September. So obviously, if you compare that against the current macro and bad PMIs and so forth, quite a stunning performance. Do you have any kind of new feedback to share with us how that could be, what your clients are saying, why they're keeping that spending so resilient against an ever-weakening macro backdrop? That would be the first question.

Gordon Riske — Yes, again, it was an outstanding performance. I think a couple of key factors are always important to consider. We have competitive products. We have, at least in Europe, the biggest sales and service network. I think one of the key points and a lot of things that we hear about macroeconomic conditions have to do with the automotive industry and related suppliers to the automotive industry. If you look at all the companies restructuring, that is the biggest factor.

And we have a very broad range of customers outside of the automotive industry. As certainly the macroeconomic conditions have softened, no question about it. But I do believe, because of our extremely large base of customers in very different industries, e-commerce, general merchandizing, food and beverages, and that combined with the sales and service and the brand recognition of our leading brands does give us a competitive edge at times like these.

Sven Weier — And, when I look to your comment about your visibility in October, it seems that this hasn't really changed into the October month. Did I understand that correctly?

Gordon Riske — So far, so good.

Sven Weier — Okay. The other question was just on SCS. Obviously, you've now taken a big chunk out of your pipeline in Q3. I was just wondering; how do you look at the order pipeline from here? Is it still as crowded as it was, or how should we look at the SCS pipeline from here?

Gordon Riske — Still very robust. We had a great order intake in Q3. Yes, it's a big chunk, but I did make the comment towards the end of the confirmation statement for 2019 that the way it looks right now today with all the order activity and project activity, we will most likely come out at the upper end of our order intake guidance for the full year 2019.

Sven Weier — But I guess some of your pipeline will probably also already be for 2020 already at this stage now I guess, yes?

Gordon Riske True, yes.

Sven Weier Okay. Thank you, Gordon.

Sebastian Growe Yes, good afternoon everybody. Thanks for taking my questions. The first one's also on ITS and here around mix and pricing. In the prepared remarks, you said that there were some mix-related headwinds because the original equipment piece has been growing stronger. Yet it seems when looking at the last 12 months rolling that the margin has kept sort of at around 11% for ITS as a whole.

So, I would be interested in your thoughts around the new product introductions that you mentioned before. Is there anything to mention with regard to competitive edge, with regard to potential pricing power, or how can we simply explain this massive ASP increase? Is it simply a function of a higher counterbalance truck share? So obviously, I'm very interested in your thoughts around mix going forward and your ability simply to eventually do better again than competition.

Gordon Riske Well, if I look at our numbers in each of the segments, counterbalance trucks with engines, so IC trucks, electric trucks, warehouse trucks in each of the segments, especially in Western Europe, we've had a very strong outperformance in Q3. We do believe that we will be able to maintain that. Pricing certainly is always a topic, but we've maintained, and you see it on the top-line results with the EBIT percentage, we have done a good job there.

Regarding new product launches, we have our multi-event in Berlin in a couple of weeks I think, week after next, right, to introduce one of the most important new trucks for Linde in many, many years, so a complete new generation of IC trucks that run on the same line as electric trucks, so a multiplatform that we've talked about a long time.

And this is the first time I think we really kind of put all the ideas into one platform. You can produce all on the same line. So, I think that again will give us a competitive advantage. They're all connected. So IoT is pretty much of a standard feature with these products. And so that will be an important launch. I don't think this year we'll see too big of effect since it's already November. But in the years to come, as we progress with the full model lineup, that will give us an advantage.

And never to forget, of course, in times when customers are uncertain, the biggest single factor that kind of wins a deal is the sales and service network. It's always an investment in capital goods. It's always an investment in keeping your logistics running. And sales and service is the key driver in my view that makes these competitive products the choice when the customer finally makes a decision.

Anke Groth

And, Sebastian, from my side because you asked for ITS and the margin, so if we look at IT&S, we have a clear business segment mix effect. So we have a large swing to new business with lower margin. So if you look at the mix between service and new business, normally, the split was 50-50, and now it's going towards 52% in new business and therefore a lower share of the service business, which has a higher margin than the new business. So we have mix effects in ITS.

Sebastian Growe

Yes, that makes sense. Moving onto Supply Chain, and operating leverage is what I'm looking at, so the 16% contribution margin that I calculate is really stunning, I think you had already pretty decent quarter 2, obviously, and now once more off with a very strong contribution margin.

So, the question is simply where you're heading to. So we are approaching obviously the upper end even or going beyond the upper end of the guided range in terms of margin for SCS in 2019. It seems the momentum in terms of volume is still good obviously. You referred to the pipeline before, Gordon. So where can you go? You've been indicating, I think 12% in the past. But also, shorter term, we have really seen a very encouraging I think development on the margin side of things. So that would be the first part of that question.

And related to it and because mix has been I think the topic of the day it seems; can you also comment on the most recent order mix? Is there anything standing striking that we should be aware of? And eventually, and sorry for that very latest part of the question, if you also could allude a bit to the project phasing around the order backlog, that would be much appreciated. Thank you.

Anke Groth

Yes, Sebastian, coming to your first question, the margin in SCS, yes, we have a very good margin development based on the operational performance of the business, the improved project execution, and the disciplined spending around SG&A and R&D. We said from the beginning that this is a phasing effect, which we are expecting to revert during the second half of the year. So SCS is still very cost disciplined, but nevertheless, again, it's a phasing effect.

So, the margin you're seeing in Q3 is quite an exceptionally good margin. But overall, you also know our aspiration to grow to an EBIT margin of 10% to 12%, and we said that both segments are contributing to that level.

Gordon Riske

Maybe the last part of your question of phasing, Q3 2019, we did see a slightly larger part of the business in large orders. 56% were large orders. Normally, in the years before, we were more like 40%, so a slight increase in that. And the backlog phasing is 12 to 18 months, which in general won't change too much looking forward into the end of this year and into 2020.

Sebastian Growe

Okay. And then the 56%, that was related to quarter 3 or the nine-month period?

Gordon Riske

That was the quarter 3. That was the last quarter.

Sebastian Growe

Okay. Sounds good. Thank you.

Martin Wilkie

Thank you. Yes, it's Martin from Citi. So, the first question was just on the sort of location and type of customers for orders in Supply Chain. You mentioned Europe and Asia, and then you called out one general merchandise customer I think it was in Europe. Just to get a sense, obviously, historically, Dematic was very US focused when you bought it. In general, can we read from this that you're having good success in breaking into the European and Asian markets, and will that be incrementally a bigger source of new orders for you?

And also just related to that, you do have a slide that you've used occasionally that shows that 47% of customers are pure play e-commerce. Again, you mentioned about general merchandise. You talked about a new picking system for retail. When you think again of incremental customers, is it more coming from those kinds of areas rather than the pure play e-commerce, just to understand sort of where you see the opportunities? Thank you.

Gordon Riske

We don't break down the verticals on a quarterly basis, but you're right about general merchandise, those types of projects, micro-fulfillment centers in the food and beverage industry. We have made a concerted effort to improve our business in that area, and that is showing progress.

And the first question I think is a very important one, since we closed the deal November 1st, 2016. We always said that we have an underrepresentation of our order book in customers in Europe. And at this point, we have made some very solid progress in the European market in this year 2019, already starting last year with a lot of work in the organization and the sales setup.

We've introduced our factory which is fully running in Stříbro in Czech Republic. That was also a key factor to be able to serve customers in Europe from the European market. And I think all these things together have given us the background and the ability now to service customers much better in Europe than we were 2, 3 years ago.

Anke Groth

And with respect to North America and Europe, yes, we are catching up in Europe. So we have started not only in the last quarter, I think beginning of the year, we have also changed the management team in Europe, as we told you, and that pays off. So we are having really a good catchup and good successes in

Europe, so that the mix between the project in North America and Europe is changing slightly. So Europe is really catching up.

Martin Wilkie

Thank you. And just one question. You mentioned about the mix of large orders to small orders. I'm not sure you'll be willing to answer, but should we think of that having a different effect on prepayments, project mix in terms of margins? Does that mix of large orders versus small orders in Supply Chain Solutions, does that have any other impacts on P&L and cash that we should think about?

Anke Groth

You know that the prepayment always depends also on the specific contract with the customer and the margin on the specific project. So the size of a project does not necessarily mean that we earn a higher or lower margin. It really depends on the specifics of the project we're talking about.

Martin Wilkie

Okay. Thank you very much.

Philippe Lorrain

Yes, thank you for taking my question. So I've got a couple on questions mostly on the truck business. I wanted to follow up on the fact that you mentioned that the macro headwinds are actually not really easing. And to follow up on that, I wanted to understand how you prepare for such potential headwinds to materialize also on your volumes, although you have outperformed by far the European market this year.

And also, to couple with that, basically, when you look at your customer groups within Europe, do you observe that some customers or customer groups are ordering above normal levels and might then normalize their ordering behavior at some point, which would lead to the whole volumes in the segment ITS to decline?

Gordon Riske

On the first one, of course, we constantly try to review where we stand and our competitiveness and what happens in case 1, 2, 3 in terms of market downturns. And over the years, we have increased our flexibility quite a bit, so the number of short-term contracts, temporary workers. The location -- the footprint of our company has completely changed in the last 10 years. We are much more into those markets, which gives us a much greater flexibility. We have a fairly large setup now in Eastern Europe, in North America and China, four factories. So, we have really moved our production footprint and are not only flexible, but in terms of location much more competitive than in years past.

So, I think we have the flexibility to move up and down with the market, even our European factory, short-time work, all those things that we have as instruments to be able to handle at least a reasonable downturn. And that's what we see going forward, but we don't see the falling off of the cliff. That is not predicted in any cases that we've seen and people that we talk to or customers that we talk to. But for the lumpiness ahead, let's call it that, in the market, we are prepared very well to deal with that.

Regarding customer groups above normal levels, I would put it the other way. The only customer group that's below normal levels is anything related to automotive, and you see that in certain other companies that have very high exposure to automotive and automotive related, that it's much more of an issue because you have actually a double issue there. One, you have the macroeconomic conditions, and secondly, you have this tremendous technological change going from combustion to electric and all the topics that have to do with that. I think that's probably the bigger force that we have to look at for those types of companies. And our customers are already through that. 80% of our products are electric at this point.

Perhaps one market -- I mentioned that at a Bloomberg meeting a couple of weeks ago. The UK is a little bit higher than normal in ordering things. And we have big market shares in the UK. Depending on how Brexit goes or does not go, that will certainly normalize at some time in 2020.

Philippe Lorrain

Okay. Thank you very much. And if I could get your personal view as well on the following. Your peer Jungheinrich owns 20%, about 20% of the European market. And these guys have increased their prices on the 1st of September last year. So they have created in the months before, July, August, a huge pre-buy. Do you think that, because of their own size in the market, about these 20%, that might have led to some distortion in terms of volumes, both in Q3 2018 and Q3 2019 and that what we see right now as, let's say, your outperformance versus the European market may be well also driven by the fact that Jungheinrich owning 20% of the market has brought down these market numbers?

Gordon Riske

Hard to say. I can't look inside what they're doing. I can just compare if we look at the ITS business with double-digit margins. I don't know if too many competitors are able to reach that. I read that also that the prices have been increased. I saw that on the paper. If I look at market behavior, it's difficult to see that come through. As I said, I can't comment exactly what they're doing, but I don't think that's the effect. It simply is KION with 34%, 35%

market share in Europe, with a premium approach, with a much broader customer base, I think that's the main difference.

Philippe Lorrain: Okay. Thank you for the follow up.

Katie So: Hi. I just have one broader on the ITS market. I was hoping you could give us a bit of a breakdown on what you saw through the third quarter and then what you've seen in October, so far in the fourth quarter. The point I'm trying to understand is the trend you saw through the third quarter. So for example, the rebound in China, the slight improvement in the Western European market, did that come gradually through the quarter, or did you see a step change in October or September? Thanks.

Gordon Riske: Well, in the first half, I think there was a lot of negative sentiment around the month of June, a particular month. And then in the third quarter, you saw the reported market numbers -- have recovered slightly. And September was I think the best of all the Q3 months. So September was a very solid month compared to the others. And October, it's a little early. I know it's already the 24th, but typically, in our market, 50% of the orders come like in the last 10 days of the month. So, so far, what we see, it's encouraging, but compared to Q2, yes, Q3 was better, and September much better.

Katie So: Thanks. And then just by region, I'm interested, do you notice any differences in China, Europe, North America, if we're just to look at those kind of three major regions?

Gordon Riske: Well, my comments were mainly Europe. Sorry about that. Yes, North America, the market last two quarters has come back a bit. There was a lot of – pre-buying is maybe too extreme, but a lot of uncertainty last year, which customers then started to buy because, as you know, many customers and so forth do have a high input of material coming out of China. And so if you're not sure of what are the tariffs, how long the tariffs, you know many things have changed in tariffs. People have got exceptions. We also have on a few products exceptions, although they only last for 12 months. So it's quite confusing of how to make major decisions on CapEx. And I think that was the uncertainty.

In the Chinese market, it was a nice growth in Q3 with 4.2%. China does seem to be coming back, although it has a lot to do with e-commerce. We have the CeMAT China, which is the biggest material handling fair in China, which I'll be going to in a few hours. But the activity that we see right now at this fair, is a lot more customers than we're used to seeing versus last year, so I think China does have potential to surprise us a little bit on the positive side. Let's see. But it was a good quarter with 4.2% growth.

Katie So — Okay. Thank you.

Nika Zimmermann — Thank you for taking my question. The first one is mainly if we think about or if we just assume that the IT&S market, the forklift market is declining further in 2020. How long do you believe should KION be able to outperform this forklift market based on its market position and even based on the fact that it might be taking even more market share from competitors?

Gordon Riske — Of course, we're always going to try our best, but it was a very solid third quarter. Let me put it this way. We have new competitive products coming up into the market this year and next year, as we always do, but this year is quite exceptional, as will

2020 in terms of new product launches. So I think that will help us. But also, our competitors are not sleeping. We have great competitors all over the place. So everyone has to prove themselves every day. So we have a great team out there fighting. But to now make a prediction that this goes at the same rate as 2019, I think is a little bit early.

Nika Zimmermann

Okay. Thank you. I understand. Second question is maybe a bit more general. So when you first acquired Dematic, I believe one of the factors was cross-selling forklifts into Dematic projects. Now you had quite some good orders in Dematic. Did you also see a further increase in cross-selling activities, or are you trying to improve this somehow?

Gordon Riske

Yes, I mentioned one. And I think it's particularly the biggest order we received every for KION North America ITS, is a direct result of cross-selling. We wouldn't have been able to do that in our previous state, and I think it's a great sign, especially in a market like North America, where everyone knows that KION has on the forklift side a pretty small market share.

Other areas of the world, Western Europe, Eastern Europe, and in China, the teams are working closer and closer together. The exchange of leads is becoming much more natural than it was in 2016. So I do see that as a continued opportunity for us. As you know, things like micro-fulfillment and other very high-tech automated solutions are quite in the high-growth area, but all of these things always have a few forklifts attached to them.

And so if you're at the leading edge of the new e-commerce development, not only a pure play, but the e-commerce investments that almost everyone in general merchandise and food and beverage is making, you kind of get on the bandwagon with some of the forklifts. And we would not have seen those projects a couple of years ago. So I think that's an opportunity. And we are seeing direct effects of that.

Nika Zimmermann — All right. Thank you. And congratulations, again, on that big order.

Akash Gupta — Yes, hi, Gordon. It's Akash from JPMorgan. I have one general question about service intensity of electric forklifts. So maybe if you can talk about service opportunity for new electric forklifts versus legacy ICE ones, and maybe in a few years down the line with most of the installed base under service will be electric, how do you expect this change in mix to benefit or impact your service business in future?

Gordon Riske — Well, 80% of our forklifts today are already electric. And then we have this very nice chart that we've showed that, even in the last quarter, we had a service business part go up at 5.7% growth rate. So I think that kind of answers the question a little bit.

We've been on this change to electric for many years now and have been able to consistently increase our service revenues. The revenues are a little bit different, where the diesel engine, you have things like filters and oil changes and all those things, so with the more hardware-related type of things. With the electrics and especially the new generation of trucks completely IoT capable, so you sell extra services, fleet data management, vehicle tracking systems, you name it. You're just able to offer the customer more.

And so I do believe that this trend that our service business increasing, even though we're heading towards more electric trucks, maybe it's not 80% someday. It's more like 85%, 87%. I do believe that continued trend will be with us.

Akash Gupta

But can you say, how does this electric versus ICE issue in your installed base under service? It's 80-20 already, 515 is in new orders that were there for last year, but if you look at install base under service, do you have a number estimate in terms of how much it splits out?

Gordon Riske

We have 1.5 million trucks out there. There's some beauties out there that are probably 30 years old, still running and with air-cooled engines. So, I would say, from a population standpoint, we still have a lot of trucks out there that have engines in them. So that is always to be remembered, 1.5 million. There's still a big part has to do with engine-driven trucks.

Akash Gupta

Thank you.

Philippe Lorrain

Yes, thanks for taking my follow up. Just a quick one on the rental business, I see that there was a slight decline in rental revenues, but at the same time, there was a significant increase in rental CapEx. So could you explain what's happening there? Is that just timing somewhere, and that's something we should bear in mind?

Anke Groth

Yes, Philippe, no, we are managing our utilization rate. That's the reason why we are decreasing the rental CapEx or not spending as much as we did in the years before to actively manage our utilization rate. And utilization came down slightly, so no additions to the fleet, or less rental CapEx spending and then effect on our revenues.

Philippe Lorrain	Okay. So it's worth having more a look at the nine months accumulated and not just at the Q3 separately.
Anke Groth	Yes, it's always worthwhile to look at both, I would say. But if you look at the overall figure year-to-date, we are still growing, and rental business has a positive growth trend also over the last 3 or 4 years.
Philippe Lorrain	Okay. Great. And perhaps just like one other quick follow up, out of the 2% growth that you had in Western European orders, would you share with us how much of that is coming from UK?
Gordon Riske	UK is, what, 6% or so of our total?
Anke Groth	We pick up the next question. We look it up, Philippe.
Philippe Lorrain	Thanks.
Daniel Gleim	Thank you very much for taking my question. Can you hear me well?
Gordon Riske	Yes.
Daniel Gleim	All right. You spoke about R&D and SG&A phasing in the second quarter call. Understand that has now further been delayed. Is that the right assumption that we will see higher expenses then in the fourth quarter and probably entering into 2021? That is my first question.
Anke Groth	Yes, we said it's a phasing effect which was more pronounced in the first half of the year and which is now starting to revert.

Daniel Gleim	So we will see higher expenses both in 2020 or in 2021. Is this more like a pushout, or is this all going to be accelerated in the first half of 2020?
Anke Groth	No, that is not what I said. We come up with our guidance for 2020 early next year. It's specific for this year's spending.
Daniel Gleim	All right. I would also be interested in the impact of the UK. I think, Gordon, you mentioned that the growth was double digits. Could you be a little bit more specific how high that exactly was?
Gordon Riske	Well, it was below 50%, but it follows also the answer on the other question with about year-to-date 6.7%. And Q3, it was around 15%, so very solid Q3.
Daniel Gleim	And has that continued also in the fourth quarter? Have you seen that in October happening as well, or was there already a reversion?
Gordon Riske	As I said, it's too early to say. Most things happen in the last 10 days. So we'll see. I also said on a previous question I do believe that will normalize as things become clear, do we have a Brexit, and what type of Brexit it is, if at all.
Daniel Gleim	Very clear. Thank you very much.
Sven Weier	Yes, it was also a follow-up question on the rentals. Sorry for that, but there was obviously quite a swing between the plus 4% in Q2 and the minus 1.5% in Q3. And if I understood your answer correctly, it was really you actively managing the rental base. It has nothing to do with clients actually having less demand for the rental. Is that a fair summary?

Anke Groth	No, Sven. I think that's a misunderstanding. What we are managing, of course, are the trucks in our fleet, so how much additions we are putting into the rental fleet. And the rental CapEx is lower this year as it was last year. You see that in the cash flow. But yes, revenues are decreasing. So, the customers are renting less than they did last year. So, our revenues are decreasing.
Sven Weier	Okay. Understood.
Anke Groth	So overall, year-to-date, so in the nine-month period, the rental revenues increased, but in Q3, we saw a slight decrease.
Sven Weier	Yes, because that's been the kind of only step change between the quarters, right? The rental was still very solid in Q2. Now it's going down. And do we see that trend also continuing in October then, or was Q3 a bit exceptional?
Anke Groth	I follow Gordon in saying we are quite early in Q4. And so we still have to see how Q4 runs. And normal Christmas time, it goes up again. But I would not exclude that Q4 could also be a weak quarter. But, Sven, we still have to see that.
Sven Weier	And is that maybe also a reason for the margin mix issue that you had because I suppose the rental margins are some of the highest margin activities in the mix in service, so maybe another reason to keep in mind, well, the margin went down slightly year-on-year because of the mix within the mix, so to speak.
Anke Groth	Exactly. It's a mix within the mix. I completely agree.

Sven Weier — Okay. Thank you, Anke.

Alex Hauenstein — Alex Hauenstein, DZ Bank. I have also a question following up on your automotive comment you made. You mentioned that automotive demand is one of the few, if not the only one, that is seeing some, let's say, slow demand overall obviously. So my question is, how do you think about it? Do you think this is going to be a longer thing, or are you just waiting for a short-term revival here potentially? And the thing I want to know at the end is, do you plan to adapt here in terms of your automotive offering your portfolio or your kind of business behavior here, or are you simply saying, "Well, this is a cyclicality for the moment, and we wouldn't change our stance towards automotive overall"? Thank you.

Gordon Riske — We've always tried to have the mix of segments that we serve that no segment has more than 10% to 15% exposure if I look at the forklift business. And that's been a good policy to have a very solid mix in this business. The automotive is something that, of course, will come back. But what we're going through is, as I said, you have to look at it in two ways. You have the macroeconomic condition, customer uncertainty. So you don't buy a car.

But the other thing, that makes the customers right now that are thinking about buying cars is, what kind of car do they buy? Is it electric car? Certainly not a diesel. And I think that's the bigger factor that is forcing tremendous change, restructuring of some of the key automotive suppliers as they get into the electrification of the fleets.

And of course, the requirements for emissions coming up in the next 10 years are quite significant. And so that will change how some of the automotive suppliers behave. But they all need material handling solutions. They all need automated forklifts or forklift type of systems. And that's where we are positioning our products. What we're adapting, of course, is a much higher use of mobile automation, so forklifts without drivers and those types of things, AGV systems, rather than traditional assembly lines. And that's where we're really at the forefront of our R&D. And we will be able to serve those customers also in the years to come, as we have in the past.

Alex Hauenstein

Okay. Understood. So you're not thinking in a way that you say, well, in case that, at the end, the one or the other way how we use mobility will change structurally the demand side for your ITS offering. I understand. Maybe it's also simply too early.

Maybe a follow up on the comment you made also on ITS, when you mentioned at the beginning that Q4 was exceptionally higher, and the base for last year has been very -- or the bar is very high. On the other hand, you're saying that the phasing the SG&A and the lower R&D is just at the start. So I don't get that completely together in my mind actually.

So I'm simply wondering, should we expect this strong development due to these 2, 3 factors to continue over the turn of the year, or is that something which is probably a very specific 2019 thing, and afterwards, you're probably in kind of normalizing here? I know you have been counting on that already and at one or the other point, but I don't get it completely together actually. Maybe you can help me.

Anke Groth

I think the IR team also would be more than happy to give you a call afterwards to clarify that more in detail. From my side, the overall comment is we confirmed our guidance. So also for ITS, we confirmed our guidance. We said, for the full year, we come up at the lower end of the guidance range for order intake. If I look at Q4 2018, that was a very strong quarter in ITS from an order intake perspective.

But also, from a revenue perspective, we have worked tremendously, as you might know, to resolve our supplier issues. So factories were running at full steam. We had 2 and 3 shift models to really get the trucks to our customers. So Q4 2018 in ITS was a very good quarter under the circumstances we had last year. So that was the comment referring to and with respect to phasing, that's a margin driver. SG&A and R&D spend was under proportional in the first half of the year, which again we expect to revert IT&S until yearend. So that is all what we wanted to make clear. But again, happy to pick up your questions afterwards and go much more into detail, if needed.

Alex Hauenstein: Okay. Thank you.

Operator: In the interest of time, we have to stop the Q&A session. And I would like to hand back to Mr. Gordon Riske. Please go ahead.

Gordon Riske: Yes, thank you, all, for your questions and the participation. As always, very helpful. We look forward to seeing you on the upcoming roadshows and then to report on the development of the fourth quarter 2019.