KION GROUP

Leasing Business Deep Dive

A resilient and well managed income stream

Frankfurt, 25 June 2020

Agenda

1. **Business Model and Strategy**
2. Funding
3. Risk Management
4. Lease Accounting
5. Key takeaways

Integrated Business Model within Industrial Trucks and Services

Leasing is an important component growing the business

New truck sales

- Technology and innovation leadership
- Tailor-made solutions and customer options
- Optimized total cost of ownership
- Multiple brands for multiple segments/markets

Around half of new truck sales carry leasing contracts

Financial services

- Sales support vehicle with benefit for aftermarket and service activities
- Integrated within regular sales process
- Long-term customer relationships

Ongoing customer relation-ship (e.g. short-term rental) triggers new truck sales

PRODUCTS

SERVICES

Many customer and most leasing contracts linked to service contracts

Short-term rental & used trucks

- Rental offering to match customers' capacity needs
- Integrated in industrial segments Linde and STILL
- Used truck sales from lease contracts

After duration of leasing, trucks are used in rental fleet or sold as used trucks

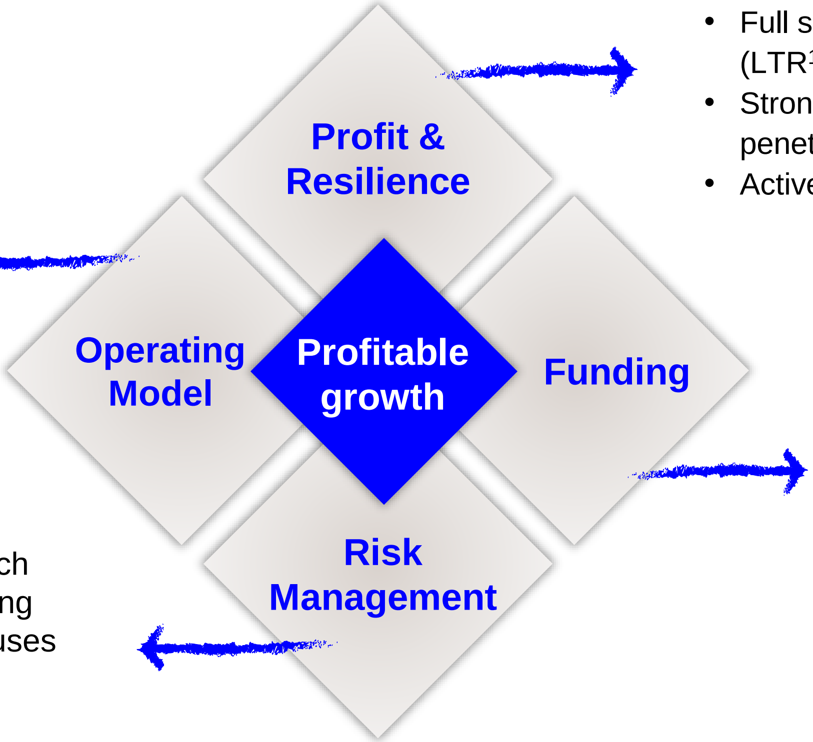
Service solutions & aftersales

- Proximity with global service network
- Service contracts
- Proprietary spare parts
- Solutions approach including fleet data management, automation and intralogistics services

Leasing and Rental Strategy

Integrated approach to drive profitable growth

- Serve customers' needs
- Full integration into regional sales structures
- Central steering body for setting guard railing
- Separated captives in bigger markets



- Full support of life cycle management (LTR[1], STR[2], service, used trucks)
- Strong customer focus to optimize penetration and retention
- Active asset management

- Optimized structure to offer competitive funding
- Diversified funding partner portfolio for stable access to market
- Matched funding (currency, interest rate, maturity)

- Asset-focused credit risk approach
- Conservative residual value setting
- Close management of break clauses

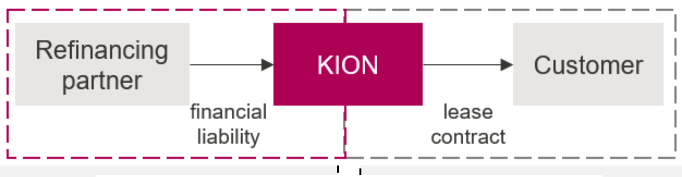
1. Long-term rental 2. Short-term rental

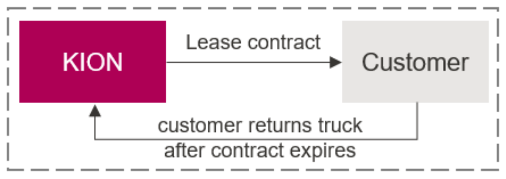
Rental and Leasing business

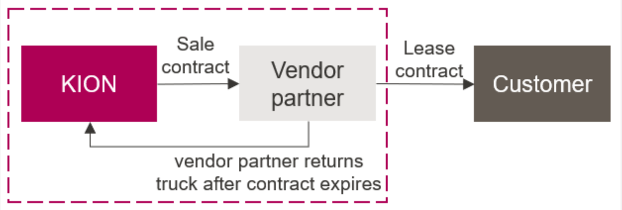
Contract and financing structure overview

Rental Business | **Leasing Business**

Direct Business | **Indirect Business**







Sale-and-leaseback, self-funded

Sale-and-leaseback, ABS, Lease Facility, self-funded

Vendor Financing

Operating Lease

Finance Lease

Agenda

1. Business Model and Strategy
2. **Funding**
3. Risk Management
4. Lease Accounting
5. Key takeaways

Funding Structure of Leasing Business

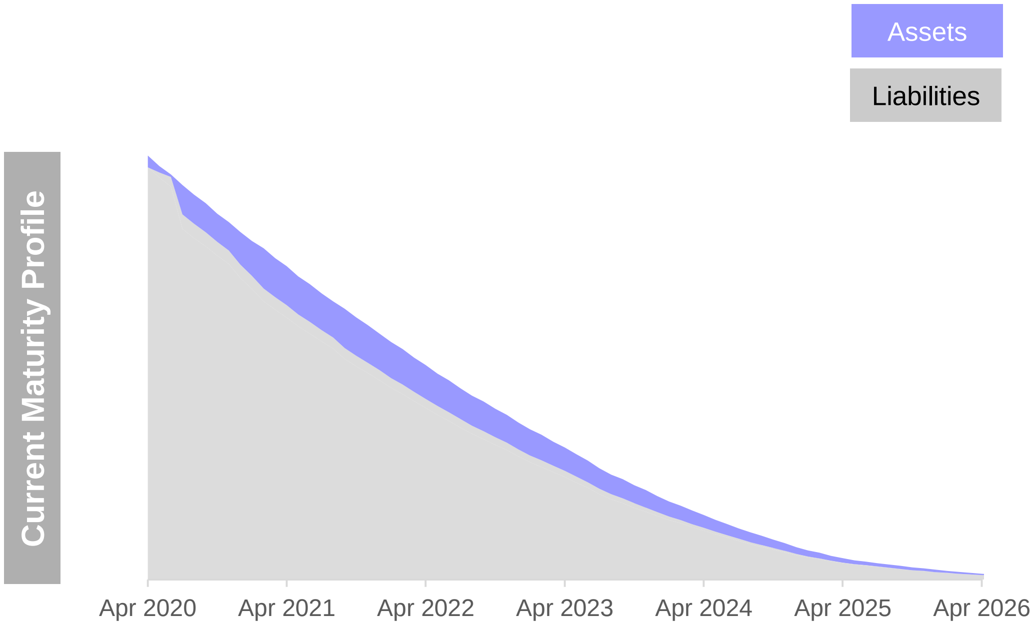
Increasing share of direct leasing business supports profitable growth

Instrument	Balance Sheet Position €m[1]	Maturity Matched Funding	Interest Matched Funding
SALB (Sale-and-leaseback)	FY 2019 1.778 FY 2018 1.778	✓	✓
Indirect Leasing	297 320	✓	✓
Lease Facilities	393 307	✗	✓
ABS	530 98	✓	✓
Credit Facilities	113 0	✗	✓

1. Excluding deferred income

Refinancing of Leasing Business

The majority of KION´s leasing portfolio is matched funded



Refinancing structure

- Funding instruments are rolled-forward on a yearly basis
- Very high share of matched funding which benefits from optimized cost structure
- KION uses optimized structure to offer competitive funding for customers

Agenda

1. Business Model and Strategy
2. Funding
3. **Risk Management**
4. Lease Accounting
5. Key takeaways

Risk Management Categories

All risk categories are actively managed and mitigated

Residual Value Risk	• KION's conservative residual value strategy in place since 2001 • LTR[1] residual values allow for attractive profit margins in our used truck business • KION has never recorded significant aggregated residual value losses
Customer Default Risk	• Customer default costs are today at a level of roughly 20 basis points • Differentiated, asset-based risk approach leads to very low refusal rate • Increasing use of automated scoring
Break Clause Risk	• Only single digit percentage rate of contracts carry break clause risk • Utilization of break clauses has been rare • No material impact on results • Future customer utilization is expected to remain low

1. Long-term rental

COVID-19 Crisis

As of today, no significant impact on profitability of existing portfolio

MEASURES

Meeting our customers' needs during this difficult time

- Selective use of contract adaptions to support customers experiencing disruptions
- Utilization of short-term fleets to support increased demand for customers engaged in essential industries
- Monitoring independent dealers, some of which hold significant long-term rental portfolios

RESILIENCE

Leasing profitability continues to support KION EBIT

- Contract adaptions have no material impact on cash flow position
- KION expects no significant negative impact from COVID-19 on leasing EBIT in 2020

Agenda

1. Business Model and Strategy
2. Funding
3. Risk Management
4. **Lease Accounting**
5. Key takeaways

Lease Accounting – Balance Sheet

Increase in (lease) liabilities resulting from growth of leasing business

Assets	
Goodwill	3,475.8
Other intangible assets	2,256.6
Leased assets	1,361.2
Rental assets	632.9
Other property, plant and equipment	1,236.3
Equity-accounted investments	84.5
Lease receivables	1,080.9
Other financial assets	44.6
Other assets	73.8
Deferred taxes	449.7
Non-current assets	**10,696.4**
Inventories	1,085.3
Lease receivables	340.1
Contract assets	150.2
Trade receivables	1,074.2
Income tax receivables	24.9
Other financial assets	74.1
Other assets	108.8
Cash and cash equivalents	211.2
Current assets	**3,068.8**
Total assets	**13,765.2**

Equity and liabilities	
Equity	**3,558.4**
Retirement benefit obligation	1,263.4
Non-current financial liabilities	1,716.8
Liabilities from financial services	1,566.9
Lease liabilities	243.8
Other non-current provisions	113.8
Other financial liabilities	500.9 [1]
Other liabilities	301.2 [1]
Deferred taxes	570.9
Non-current liabilities	**6,277.8**
Current financial liabilities	103.7
Liabilities from financial services	933.2
Lease liabilities	188.3
Contract liabilities	504.9
Trade payables	975.9
Income tax liabilities	88.7
Other current provisions	140.6
Other financial liabilities	284.0 [1]
Other liabilities	709.6 [1]
Current liabilities	**3,929.0**
Total equity and liabilities	**13,765.2**

1. Also contains non-lease related items

Overview

- Many of KION Group's balance sheet items are related to leasing business, especially:
  - Leased assets
  - Rental assets
  - Lease receivables
  - Liabilities from financial services
  - Lease Liabilities
- In general, the development on the asset and liability side of the balance sheet are highly correlated
- Therefore, an increase in liabilities is resulting from an increase in leasing business (i.e. lease related assets) and/or a higher dedicated refinancing portion of our leasing business
- Valuable information on KION Group's leasing business can be found in the Notes to the consolidated financial statements

Source: KION Group, Annual Report 2019, p. 136-137

Lease Accounting – Balance Sheet

Direct long-term leasing business drives KION's balance sheet

Leasing balances as at Dec 31, 2019

Long-term rental

Leased assets €1,361.2m	**Liabilities from FS[1]** €2,062.9m
Lease receivables €1,421.0m	**Lease liabilities (old)** €432.1m
	Deferred income[2] €414.2m

Short-term rental

Rental assets €632.9m	**Liabilities from FS[1]** €437.2m
	Liabilities from finance leases[3] (old) €178.6m
	Deferred income[2] (old) €34.6m

Long-term leasing balances as at Dec 31, 2019

Direct

Leased assets (Operating lease) €808.1m	**Liabilities from FS[1]** €1,765.7m
Lease receivables (Finance lease) €1,421.0m	**Lease liabilities (old)** €432.1m
	Deferred income[2] (old) €25.8m

Indirect

Leased assets €553.1m	**Liabilities from FS[1] (residual value obligation)** €297.2m
	Deferred income[2] €388.4m

1. Financial Services 2. Contained in "Other liabilities" 3. Contained in "Other financial liabilities"

Source: KION Group, Annual Report 2019, p. 172-174, 177-178, 195-196, 198-199, 200

Lease Accounting – Balance Sheet

Specific accounts with bigger movements, overall parallel development

(in €m)	2019	2018	2017	Change 2018-2019	Change 2017-2019
Sales Industrial Truck & Services (total)	**6,410**	**5,922**	**5,572**	**8%**	**15%**
thereof New Business (third party)	3,346	3,009	2,829	11%	18%
thereof Rental Business (third party)	926	900	855	3%	8%
Total assets	**3,415**	**3,030**	**2,730**	**13%**	**25%**
Leased assets	1,361	1,262	1,246	8%	9%
thereof direct	808	622	522	30%	55%
thereof indirect	553	640	724	-14%	-24%
Lease receivables	1,421	1,097	876	30%	62%
Rental assets	633	671	608	-6%	4%
Total Liabilities	**3,560**	**3,130**	**2,850**	**14%**	**25%**
Liabilities leasing[1]	2,198	1,586	1,227	39%	79%
Liabilities rental business[1]	616	597	516	3%	19%
Residual value obligation[1]	297	320	341	-7%	-13%
Deferred revenue (LTR[2], STR[3])	449	627	766	-28%	-41%

1. Reported under “Liabilities from financial services” (entered into after 1 January 2018) and “Lease liabilities and other financial liabilities” (entered into before 31 December 2017)
2. Long-term rental 3. Short-term rental

Lease Accounting – Balance Sheet

Presentation of refinancing transactions

Liabilities from financial services

In € million	2019
Non-current liabilities from financial services	**1,566.9**
thereof from lease business	806.4
thereof from short-term rental fleet financing	339.8
thereof from lease facilities	4.3
thereof from asset-backed securities	416.4
Current liabilities from financial services	**933.2**
thereof from lease business	220.4
thereof from short-term rental fleet financing	97.4
thereof from lease facilities	388.6
thereof from asset-backed securities	113.8
thereof other	113.0

A deeper look into the Liabilities from Financial Services[1]

The liabilities from financial services relate to the financing of the long-term and short-term leasing business, separated into a non-current and a current portion:

- Lease business: This line contains liabilities from sale and leaseback sublease transactions in the amount of €729.6m as well as residual value obligations (indirect leasing business) in the amount of €297.2m
- Short-term rental fleet financing: This line represents the refinancing portion of our short-term rental business by sale and leaseback sublease transactions
- Lease facilities, asset-backed securities and other: These lines represent our new refinancing transactions, including the special purpose vehicle K-Lift S.A. which is used to refinance our direct long-term leasing business via ABS transactions in the amount of €285.9m

1. *This slide presents the refinancing transactions closed since Jan 1, 2018. "Old" refinancing transactions are presented under "Lease liabilities" (LTR) and "Other financial liabilities" (STR) as illustrated on the previous slide.*

Source: KION Group, Annual Report 2019, p. 195-196

Lease Accounting – Income Statement

Timely recognition of income differs between finance and operating lease

Income statement	LTR[1] (FL)	LTR[1] (OL)	STR[2] (OL)
Revenue category	New business	Rental business	
Revenue (in 2019)	🤝 €748m	🔄 €500m	€426m
Cost of sales	🤝	🔄	
= EBIT impact			
Financial income	✓	✗	
Financial expense	✓	✓	
= EBT impact			

🤝 **At commencement of the lease contract** 🔄 **Over time**

1. Long-term rental 2. Short-term rental

Finance lease (FL) vs. operating lease (OL)

- (In-) direct leasing business classified as a finance lease generates revenue and cost of sales at commencement of the lease contract
- (In-) direct leasing business classified as an operating lease generates revenues and cost of sales (i.e. depreciation) over the lease term
- Refinancing of our leasing business causes financial expenses (finance and operating lease) as well as interest income (finance lease). However, the customer payments made under operating leases are fully recognized as revenue, without an interest income portion

Source: KION Group, Annual Report 2019, p. 134, 160-161, 165-167, 172-173

Lease Accounting – Cash Flow Statement

Leasing business is operating cash flow accretive

Consolidated statement of cash flows

In € million	2019
Earnings before interest and tax	**716.6**
Amortisation, depreciation and impairment charges of non-current assets	898.0
Non-cash reversals of deferred revenue from leases	–212.5
Other non-cash income (–)/expenses (+)	27.0
Gains (–)/losses (+) on disposal of non-current assets	–3.6
Change in leased assets (excluding depreciation) and receivables/liabilities from lease business	–122.1
Change in rental assets (excluding depreciation) and liabilities from rental business	–146.6
Change in net working capital*	–146.8
Cash payments for defined benefit obligations	–22.0
Change in other provisions	22.5
Change in other operating assets/liabilities	27.3
Taxes paid	–191.6
Cash flow from operating activities	**846.3**

1
2
3

Source: KION Group, Annual Report 2019, p. 138 + 172-174 (depreciation of leasing related asset)

Understanding the cash flow statement

KION's leasing business is presented as operating cash flow (OCF)

1. *Earnings before interest and tax* is the basis for the (indirect) calculation of the OCF and already contains the EBIT from leasing business
2. Due to the indirect determination of the OCF, non-cash leasing items included in EBIT, i.e. depreciation (€528.7m) and deferred revenue (-€212.5m) are reversed = **+€316.2m**
3. Changes in leased assets, rental assets as well as lease receivables and dedicated liabilities are off-set against each other = **-€268.7m**

→ Taking all relevant lease positions into consideration, leasing business has a **positive OCF effect.**
No. 2 & 3 have a positive effect in the amount of €47.5m, in addition to the already positive EBIT portion related to leasing business as included under no. 1.

Agenda

1. Business Model and Strategy
2. Funding
3. Risk Management
4. Lease Accounting
5. **Key takeaways**

Leasing Business Deep Dive

Key takeaways

KION GROUP

1. Leasing business is one important component of the integrated IT&S business model
2. Well managed risk profile with resilient income streams
3. Optimized refinancing structure supports competitive funding costs
4. Leasing operations are EBIT and operating cash flow accretive

Disclaimer

This document has been prepared by KION GROUP AG (the “Company”) solely for informational purposes. This disclaimer shall apply in all respects to the entire presentation (including all slides of this document), the oral presentation of the slides by representatives of the Company (or any person on behalf of the Company), any question-and-answer session that follows the oral presentation, hard copies of the slides as well as any additional materials distributed at, or in connection with this presentation (collectively, the “Presentation”). By attending the meeting (or conference call or video conference) at which the Presentation is made, or by reading the written materials included in the Presentation, you (i) acknowledge and agree to all of the following restrictions and undertakings, and (ii) acknowledge and confirm that you understand the legal and regulatory sanctions attached to the misuse, disclosure or improper circulation of the Presentation.

The Presentation is private and confidential and may not be reproduced, redistributed or disclosed in any way in whole or in part to any other person without the prior written consent of the Company.

None of the Company, its affiliates or any of their respective directors, officers, employees, agents or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of the Presentation or its contents or otherwise arising in connection with the Presentation. The information and opinions contained in this Presentation do not purport to be comprehensive, are provided as at the date of the document and are subject to change without notice. The Company is not under any obligation to update or keep current the information contained in the Presentation.

The Presentation does not constitute or form part of, and should not be construed as, an offer to sell or issue, or the solicitation of an offer to purchase, subscribe to or acquire, securities of the Company, its affiliates or an inducement to enter into investment activity in the United States or any other country. No part of this Presentation, nor the fact of its distribution, should form the basis of, or be relied on by any person in connection with, any contract or commitment or investment decision whatsoever.

Certain industry, market and competitive position data contained in this Presentation, if any, come from official or third party sources. Third party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. While the Company believes that each of these publications, studies and surveys has been prepared by a reputable source, the Company has not independently verified the data contained therein, and the Company assumes no responsibility whatsoever in respect of the accuracy and completeness of any such data. In addition, certain industry, market and competitive position data contained in this Presentation come from the Company's own internal research and certain estimates are based on the knowledge and experience of the Company's management in the market in which the Company operates. While the Company believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. The Company, therefore, also assumes no responsibility whatsoever in respect of the accuracy and completeness of any such research and estimates. Accordingly, no reliance should be placed on any of the industry, market or competitive position data contained in this Presentation.

Statements in the Presentation, including those regarding the possible or assumed future or other performance of the Company and its affiliates or its industry or other trend projections, constitute forward-looking statements. These statements reflect the Company’s current knowledge and expectations and projections about future events and may be identified by the context of such statements or words such as “anticipate”, “believe”, “expect”, “intend”, “project” and “target”. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Company. Such factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. Accordingly, no assurance is given that such forward-looking statements will prove to have been correct. They speak only as at the date of the Presentation and the Company undertakes no obligation to update these forward-looking statements.

IFRS financial information for any previous fiscal year figures is adjusted in the Presentation as necessary pursuant to changes to IFRS or other mandatory reclassifications. The addition of the totals presented may result in rounding differences. In addition to figures prepared in accordance with IFRS, the Presentation also includes certain non-GAAP financial performance measures (e.g., EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net profit, free cash flow, gross debt, and net debt, order intake, order book and ROCE). These non-GAAP measures have been included because we believe that investors may find them helpful to measure our performance as reported under the relevant IFRS measures. However, these non-GAAP measures should be considered only in addition to, but not in isolation or as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles, and other companies that report similarly named non-GAAP measures may define or calculate these financial performance measures in different ways.