KION GROUP AG

Q2 2020 Update Call

Conference Call Transcript

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Anke Groth (CFO)

Gordon Riske

Thank you, and welcome to our update call for the second quarter of 2020. As a basis for this call, we'd like to use our Q2 2020 presentation. It's available on kiongroup.com under Investor Relations in the Publications section.

We'll begin and present in four parts during today's call, and then we'll open it up for your questions. I will begin with our financial key figures for the first half of 2020 and also give you an update on the current status of our COVID-19 mitigation measures before showing you some of the product highlights in Q2 2020. This will be followed up by a market update. Anke Groth will then provide you with the financial update for Q2 and the first 6 months of 2020 and the overview of the current liquidity situation. We'll close the call then with our outlook for the full year 2020.

So let's get started on Page 3 with our financial key figures for the first half of 2020. A full quarter being globally impacted by COVID-19 is now behind us, and it has clearly changed our daily business. However, KION has defended its market position and succeeded in compensating at least partly for the very difficult market conditions in Industrial Trucks and Services through strong growth in our Supply Chain Solutions business.

Order intake for the group increased by 4.8% in the first half year and reached €4.4 billion, predominantly driven by our SCS business, generating a record order intake of more than €1 billion in Q2 alone.

Our revenue stood at €3.9 billion, minus 10% below the first half of 2019, and we achieved an adjusted EBIT of €205 million in the first 6 months of 2020, representing a positive adjusted EBIT margin of 5.2%.

Free cash flow for the group amounted to a positive €2 million in the second quarter of 2020, resulting in a minus €220 million for the first half year.

So overall, KION's strategic positioning has paid off, and the strict cost and cash management measures showed first successes.

Let's move onto Page 4 to give you an overview of our current status regarding COVID-19 mitigation measures. With respect to our employees, we've maintained our comprehensive health protection measures and have adopted the workplaces according to all of the distancing rules. Also, the opportunity to work remotely from home is still being used.

Additionally, we are continuously using personnel measures such as short-time work or reduction of overtime accounts to mitigate the negative impact from the lower demand caused by the COVID-19 pandemic.

During the past quarter, roughly half of our employees were affected at least to a certain degree by one of these instruments, and we plan to further make use of these instruments in the coming months if markets do not improve significantly.

With respect to our operations, we are still closely monitoring the supply situation and material availability. Overall, the number of critical suppliers has decreased since the beginning of the crisis to a low double-digit number of suppliers which are predominantly monitored and controlled by a central task force and is progressing well.

However, the supply situation has not returned fully to pre-crisis levels, but the easing of restrictions has led many suppliers to being already able to produce once again.

With regard to ITS, the very tight situation at the beginning of the crisis has improved, but we're still facing challenges caused by the corona pandemic. Therefore, we adopted the production capacity in our IT&S production plants to the current level of demand. So that means that our factories are planning for certain closing days in order to make short-time work possible during these times and to produce efficiently in the active periods.

With regard to our Chinese plants, they were able to benefit from the noticeable recovery in the market are now producing at pre-crisis levels for some time.

With regard to our service capability, we saw the gradual improvement in the aftersales areas in the last quarter, which once again confirms the resilience of this business. However, the service business is not yet returned to pre-crisis levels.

In the short-term rental business, we have also been negatively impacted by the corona pandemic. However, a gradual improvement is noticeable.

With respect to the used truck business, it showed an unfavorable development in the past quarter.

When we look to the Supply Chain Solutions business, this segment was less affected by the crisis. The number of active project sites that were closed or impaired because of COVID-19 has steadily decreased in recent months and is currently at a very low double-digit percentage rate. However, our employees can expedite projects remotely, at least to a certain extent, and our SCS production plants are all up and running.

In order to maintain the financial strength of the business, we further pay close attention to our expenses, which we can influence in the short time. Investments into the strategic projects are now being accelerated once again. As a precautionary measure, in May, we also agreed on an additional credit facility of over €1 billion with a participation of the KfW Bank of the Federal Republic of Germany, which further strengthens our financial situation.

So let’s move on to Page 5 and the product highlights for this Q2 2020. Important aspects of our KION 2027 Strategy are the areas of automation and innovation. And we’re proud to have launched a new generation of the Dematic Multishuttle. The system typically consists of multiple levels of racking, shuttles, buffer conveyors, and software and is a highly effective system for buffering totes, cartons, trays, or individual bundles used by different verticals, such as e-commerce, food and beverage, or logistics.

This new generation provides our customers with precise load sequencing and high rates, up to 10 times higher throughput rates than conventional storage systems, and requires less space with much more operational flexibility.

Moreover, with the optimized automated pallet storage, Dematic has upgraded its modular system of proven components that can be configured to meet specific customer requirements for pallet storage, such as for food and pharmaceutical industries. It includes a racking system, automated storage and retrieval machines, with load-handling devices, and the complete software around it.

Since the individual components are standardized, the system can be installed and put into operation in a very short time. The compact design and flexibility to store palletized goods at single, double, or even multiple depths makes optimum use of available space, saving up to 20% of the space compared to a manual pallet storage system.

Last but not least, we're very proud that the electric counterbalance truck RX 60 made by STILL, which was introduced at our Capital Markets Day earlier this year, won the International Intralogistics and Forklift Truck of the Year Award 2020 in the category Counterbalance Trucks up to 3.5 tons. According to the jury of the IFOY Award, the RX 60 sets a benchmark for electric trucks in this segment.

An independent test was performed with a combination of acceleration, driving, and lifting, and the truck achieved a productivity of 363 pallets in 8 hours. The jury concluded that the measured productivity has never been so high in a comparable IFOY test.

So let me move onto the current market situation on Page 7. We concentrate first on the industrial trucks in the global market and the development in the regions in the second quarter. All regions of the industrial truck market outside of China have severely been impacted by COVID-19, which led to declining markets in Q2 2020.

Western Europe saw a decline of minus 29% in Q2, driven mainly by negative developments in the UK, France, and Italy. Eastern Europe decreased by minus 22% in Q2, which similar to the development in Q1 was primarily driven by a decline in Poland.

North America declined by minus 16.8% in the second quarter, was highly impacted by the decrease in IC trucks, coming from a low base in the first half of 2019.

South and Central America turned even more negative in Q2 with minus 33.8%, driven by the negative effects caused by COVID-19 as well as the unchanged tense political and economic situation in the region.

The Chinese market, on the other hand, returned to its growth path and increased considerably by 40.6%, driven by IC and warehouse trucks, both mainly in the economy segments. And so as a result of these regional developments, and especially with China with such a huge part of the market, which was 31% in the full year 2019, the global market declined by only minus 4.5% in the second quarter of 2020.

On Page 8, it shows KION's breakdown by regions. In Q2, KION order intake in units declined by minus 29.8% in Western Europe, slightly lagging behind the market, mainly driven by higher volumes from Chinese competitors within Western Europe.

In Eastern Europe, KION declined by minus 18.9% in Q2 and outperformed the market, in particular driven by Russia and the e-commerce segment.

As for EMEA in total, however, the market declined by minus 28.2% in Q2, whereas KION order intake in units decreased less, so only minus 27%. So in a nutshell, KION's market share increased in the past quarter in EMEA.

Looking to China, KION's order intake increased by plus 13.7% in the second quarter and was lagging behind the very strong market development, driven mainly by IC trucks and smaller warehouse equipment in the economy segment.

Nevertheless, KION was able to grow in all product segments compared to the previous year. So overall, this clearly underlines that our China strategy is the right way to participate in this expected growth market.

North America declined by minus 38.9% in Q2 2020 compared to a high base in the prior year. Don't forget we did have the large Menard's deal in this time period last year.

South and Central America, KION's unit order intake decreased by minus 36% in Q2 compared to prior year, mainly driven by generally low base and FX-related pressure on imported trucks, especially in Argentina.

In total, our unit order intake decreased by minus 22.7% in the second quarter, resulting in a decline of minus 18.5% within the first 6 months compared to the previous year.

Overall, all regions, despite China, were significantly impacted by this exceptional environment during the second quarter, which also impacted negatively KION's unit order intake growth.

For Supply Chain Solutions market, we saw accelerated growth benefitting significantly from the currently booming market, driven in particular by high demand from our e-commerce customers.

With this update, I'd like to turn it over to Anke, where we'll take a look at the financial update.

Anke Groth

Thanks, Gordon, and also a warm welcome from my side. I do start with the segment financials before turning to the KION Group. So on Page 10, you will see the key financials for the segment Industrial Trucks and Services for Q2 and the first half year of 2020.

First of all, the current pandemic and the corresponding slowdown of the economy is visible in our IT&S financials. Looking at the second quarter 2020 first, our order intake fell to €1.3 billion, representing a decline of 19.8%, which was in particular driven by the weak development within our new business. At the end of June, the order book for the IT&S segment stood at €1.3 billion, a decline of around 9% versus year-end 2019.

Revenue fell strongly by 22.9% to €1.3 billion in Q2 and was mainly impacted by our new business, which declined by 33.7% in the past quarter.

Besides the closure of our key production plans in April, the market downturn took its toll. However, our service business could at least partly demonstrate its resilient nature and declined only by 10.1% in Q2, despite various restrictions globally. So we were able to generate a positive adjusted EBIT of €16 million in Q2, resulting in an adjusted EBIT margin of 1.2%.

The main driver for the development in profitability was the lower volume and, consequently, the lower fixed cost coverage, by far the most prominent effect.

On top of this, we had additional expenses amounting to roughly €17 million in total, resulting from, firstly, a higher depreciation due to the recent product launches and investments into new machinery, secondly, our so-called strategic projects, such as our new plants in Poland and China, increased R&D costs due to a lower capitalization rate, IT costs, as well as the costs from the joint venture with BMZ.

On the positive side, our temporary cost saving measures proved to be effective so that we were able to save around €60 million within IT&S in the past quarter. This means for the first half of 2020 the following: a decrease in order intake to €2.7 billion, down by 13.9% year-over-year, revenue in H1 down by 14.1% to €2.7 billion, whereas the adjusted EBIT declined to €112 million, resulting in an adjusted EBIT margin of 4.2%.

So overall, the IT&S segment felt the pressure from the coronavirus pandemic but could at least partly compensate the negative effects through the initiated mitigation measures.

Page 11 summarizes the key financials for the segment Supply Chain Solutions. Let me comment on the second quarter first. The order intake more than doubled, achieving a record order intake of €1.1 billion. As a result, the growth rate of the rolling average order intake stands at 14.3%.

The very good development in the second quarter was in particular driven by a strong demand in North America and Europe, especially from pure-play e-commerce customers, as well as from the food and beverage logistics vertical.

With this, the order book for the segment reached €2.7 billion at the end of June, representing an increase of 21.7% versus year-end 2019.

Revenue saw only a minor decline of 1.2% to €635 million in the last quarter, despite several COVID-19-related lockdowns and restrictions at our project sites. However, our engineers were able to catch up project delays during the quarter so that business solutions revenues only declined by 2.8% year-over-year. Our customer services revenues grew by 4% in Q2 after an already strong development in the first quarter of 2020.

With respect to profitability, our adjusted EBIT in Q2 declined by 16% to €53 million, representing a margin of 8.4%, which was burdened in particular by the inefficiencies caused by the difficult circumstances for delivering projects and services under pandemic-related restrictions.

This means, for the first half of 2020, the order intake increased by 57.3% in the first 6 months of the year to €1.7 billion, whereas the revenue increased only slightly by 0.4% to €1.2 billion.

Adjusted EBIT amounted to €112 million in H1 ’20, resulting in a stable margin of 9.2% compared to the previous year. Overall, SCS showed a very strong order intake development in the past quarter as well as a very solid project execution, despite the challenging environment.

Page 12 summarizes the key financials for the group. KION saw a significant increase in order intake of 11.6% in the second quarter, which strongly benefited from the Supply Chain Solution business. With this, the order book grew to €4 billion at the end June ’20, representing an increase of 9.4% versus year-end 2019.

Revenues declined by 16.7% to €1.9 billion in Q2, which was completely driven by the IT&S segment. And due to the already mentioned underperformance of IT&S, the adjusted EBIT for the group fell by 73% to €61 million in the second quarter and reached a positive margin of 3.2%.

Looking at results for the first half year, KION saw a solid increase in order intake of 4.8% to €4.4 billion. Revenues declined by 10% to €3.9 billion in the first half of ’20, and the adjusted EBIT fell by 49.8% to €205 million in the first 6 months, which resulted in a lower margin of 5.2%.

In summary, IT&S clearly impacted by the market downturn, whereas SCS showed a less cyclical development, withstanding COVID-19, and could at least partly compensate the decline in ITS.

Page 13 shows the reconciliation from the adjusted EBITDA to the net income for the group. As mentioned before, adjusted EBIT stood at €61 million in Q2. Nonrecurring items increased to €21 million, mainly caused by an impairment of the minority stake in Linde Hydraulics, as well as a realignment of our IT&S sales organization in the UK.

Thus, the reported EBIT decrease from €201 million to €70 million during the second quarter. And overall, net income decreased to minus €70 million in Q2 2020.

Looking at the first half of 2020, adjusted EBIT came in at €205 million and reported EBIT at €138 million. The effective tax rate increased to 44.2%, which resulted on the one hand side from the earnings development and losses that cannot be utilized for tax purposes, and on the other hand, by non-tax deductible expenses, which did not decrease to the same extent as the EBT.

Overall, net income declined to €51 million in H1, which represents an EPS of €0.46.

Details on free cash flow are shown on Page 14. KION was able to generate a small positive free cash flow of €2 million during the past quarter, which resulted in a negative free cash flow of €220 million during the first half of 2020.

This development was in particular driven by our operating performance. Besides that, the change in net working capital of minus €205 million benefited from the very good development and timing of the order intake from SCS customers and the related payments compared to the previous year. Additionally, a lower level of business activity within IT&S was supportive.

Moreover, higher tax payments due to higher earnings in 2019 impacted the free cash flow negatively. The net outflow from our rental business increased compared to prior year due to some refinancing activities performed throughout 2019, which led to a positive cash impact in 2019. The increase in rental CapEx does not mean that we increased our rental fleet. The contrary is the case. The assets are going down.

Finally, the cash flow from investing activities increased due to several effects, such as of course our production capacity expansion and the acquisition of DAI as well as further investments into our joint venture with BMZ.

However, we were able to limit the cash outflow from investing activities in the past quarter by the initiated COVID-19 mitigation measures and the postponement of selected investment projects. Due to the improved liquidity situation, as already mentioned by Gordon, investments into strategic projects are now being accelerated again.

Page 15 shows the net debt of our business. As at the end of June ’20, net financial debt increased to €1.9 billion versus year-end level, mainly to fund the working capital needs as well as the DAI acquisition. Considering our operating performance in the reporting period, our leverage on net financial debt increased to 1.3x compared to year-end 2019. The leverage on net financial debt benefited from our cost and liquidity management in the past months.

The liabilities from short-term rental financing have decreased to €551 million, which reflects a development within our short-term rental fleet. As a result, the leverage on industrial net operating debt at the end of June 2020 stood at 2.6x, up from 2x at year-end 2019.

Finally, our net pension liabilities increased slightly due to, again, lower interest rates. Therefore, the leverage on industrial net debt increased to 3.8x.

Page 16 shows KION's current liquidity situation at the end of June 2020. During the last quarter, we have strengthened our liquidity profile with an additional liquidity line of €1 billion provided by our core banks and KfW, German's development bank, as a precautionary measure. The additional credit facility runs until May 2021 and can be extended by up to 12 months.

Moreover, we also reached an agreement with our banking partners that the consequences of a covenant breach, meaning calling in the loans, are suspended until the end of Q1 2021. As a result of the additional credit facility, KION's free liquidity increased to roughly €2.2 billion at the end of June 2020.

Until the end of the reporting period, €221 million were utilized out of the first revolving credit facility. Moreover, the achieved STEP label of our commercial paper program, improved the acceptance in the market so that €287 million were placed at the end of June. And by the way, as of today, I think we even placed €482 million.

So overall, KION has a solid liquidity profile to get safe through this crisis.

And with this, I hand back to Gordon for the outlook for full year 2020.

Gordon Riske

Okay. Thank you. Let's move to Page 18 for the outlook. You all know that we have unfortunately retracted the outlook for the full year 2020 in light of the uncertainty about how the pandemic will unfold, its likely duration, its impact on the global markets, on the economy, especially in the various regions around the world where KION has a footprint, and the sectorial conditions.

So currently, the assessment of the group's business performance over the remainder of this year is still very uncertain. Consequently, we are only providing a qualitative comparative assessment of the outlook for our main KPIs at this point in time.

For the KION Group, we are expecting a noticeable decrease in order intake and a significant fall in revenue, adjusted EBIT, free cash flow, and return on capital employed compared with 2019. In the ITS segment, the current reluctance to invest and the declining market demand for services will have a significant negative impact. Therefore, we expect that order intake, revenue, and adjusted EBIT for 2020 will be down significantly year-on-year.

Given the currently very encouraging level of orders in Supply Chain Solutions segment, the order intake in 2020 is likely to be substantially higher than in 2019. Because there are considerable uncertainties about the possible return to lockdown measures, delays to project execution cannot be ruled out completely. Revenue and adjusted EBIT are therefore expected to be around a level more in line with that which we have seen in 2019.

So looking at Page 19, this is our financial calendar, the next event is the publication of our results for the third quarter on October 29th, 2020. Until then, we look forward to meet you at least virtually at conferences and roadshows after the summer break.

And with this, we'd like to close the formal part of this update call and hand over 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.

Philippe Lorrain: Yes, good afternoon. Thanks for taking my question. So the first one is on ITS. It seems like the price mix component in the ITS order intake was negative in Q2 when I compare that to the volume trend, the FX, and also the service trend versus the order intake in value. So was that like increasing by pricing or rather by mix? And perhaps when looking at the order intake in units, did that figure in Europe especially benefit from trading trucks going up massively in the region? That's the first question.

Gordon Riske: I didn't quite understand the second question, traded trucks?

Philippe Lorrain: Yes, basically, the traded trucks from EP Equipment that you just buy and sell.

Gordon Riske: Okay. Well, price mix negative in the second quarter. The second quarter, first of all, was a difficult quarter. And KION has a very broad range of customers, and we do sell to a bigger portion of general industry customers, also customers affected by the downturns in the automotive and automotive related, so heavier trucks. So the negative mix is slightly more negative than it is typically in a quarter, whereas when we do sell a lot of heavy trucks, then the negative is positive.

Units, yes, the warehouse business, the warehouse-related e-commerce business is still trending very well, as you see by the SCS numbers. And so, the units, we do sell quite a few over the years of what we call branded trucks with EP or others, that has performed outstanding in the market.

Anke Groth

Yes, but, Philippe, with respect to the mix, warehouse is less negative. So that, of course, contributes to a mix effect. And your question with respect to pricing, yes, pricing is more difficult in such a market, as you can imagine. So having a positive price assertion is much more difficult than what we achieved last year.

Philippe Lorrain

Okay. So I understand it’s a combination of both because like we’ve got the mix between the warehouse segment and heavier trucks and also like pricing is a bit more difficult.

The second question was on SCS. Bearing in mind that the order intake was up massively in Q2, especially versus Q1, I’m just wondering why the contract liabilities were not higher than the level that we’ve observed in the balance sheet in Q2.

And since you did not provide the level of contract liabilities that you had in the balance sheet in Q1, perhaps you can just like walk us through the difference between the two quarters.

Anke Groth

Yes, Philippe, it always depends on the timing when we do get the order intake: It was very much geared now in the second quarter towards the end of the second quarter. That means that customer prepayments will come then in Q3, respectively. So it’s really a timing issue and also depending on the terms and conditions we grant to the customers with respect to their payment term for the first milestone and prepayment.

Philippe Lorrain Interesting. Does that mean, just like as a final one on that topic, that you can book an order intake or an order in the order intake, and you haven't yet received the prepayment, technically speaking?

Anke Groth Yes, sure. You have an order intake in the books once you sign a contract, and of course, the customer is then paying after that signing date the prepayment. And also, the amount and the timing of the prepayment, that's not a standard for all the customers, but it also depends on the project and on the customer itself.

Philippe Lorrain Okay. Thank you very much.

Sven Weier Yes, thank you for taking my question. Good afternoon. The first one is also on SCS. And sorry if you mentioned that in the prepared remarks, but I had only joined later because of another call. Did you mention that, on the big tickets in SCS, could you give us more details? Were there a lot of orders above 100 individually from one e-commerce client, or how good a spread did you have on those big tickets? And how much did that activity empty the pipeline for the second half? That's the first one.

Anke Groth Hi, Sven. Maybe from my side, if we look at the split of orders, that has changed in Q2. So it's again geared more to large orders. So the respective split into large orders, medium, and small is as following. So 61% in Q2 have been large orders, whereas small orders account for 34% of the order intake, and only 5% are medium orders. So we have had a couple of those big orders coming in.

Sven Weier	But it was not like you got a lot of orders from one client, right? So you had a good mix of individual different clients in there?
Anke Groth	As we have said, e-commerce is currently booming due to COVID-19. And within the e-commerce space, you don't have so many really large global players. And we are also connected to a lot of those players and have good and longstanding relationships. And your question also referred to if the pipeline is now emptied. I think that was also one part of your first question. No, the pipeline is not emptied. It's still very well filled. And if you look at our overall guidance, we have said for SCS that we expect an increase which we classified as a substantial increase in order intake.
Sven Weier	Yes, and how does your micro-fulfillment perform now? Because I guess the solution came right in time, introduced to the market. I do understand that it's relatively small-ticket items per order, but isn't that also now taking off as we speak?
Gordon Riske	Yes, we have a lot of micro-fulfillment. We have a number of pilots now running and that will take off, but it is a - if you compare - as Anke said, in the e-commerce space, big distribution centers being built up quickly to handle the demand is more of the focus, at least in the second quarter.
Sven Weier	And I remember, in the last call, I think we had the question that whether you could run the business for €800 million of sales per quarter. And I just remember the Capital Markets statements on SCS and that the biggest bottleneck you have is really finding the people to handle all the projects that are available out there.

Now it seems that you have gotten a lot of these projects out there and have increased your backlog quite sizably. How have you dealt with the people shortage, so to speak, engineer shortage?

Gordon Riske

Yes, yes, the people is certainly an issue. I think, from the investment and capacities and so forth, that's all realistic. And good thing we built Stříbro a couple years ago and are expanding it now. So from a factory standpoint, it's okay.

But also, on the people side, we've made great progress in acquiring people this year and particularly project engineers. And one of the topics is, of course, when you build large systems, you use electrical engineers for controls. And we do have the opportunity to partner with some smaller companies because, as you know, these types of systems are also going into automotive factories, which are down investing quite a bit. So, there is some capacity in the market available that we have been able to secure to make sure that we are able to deliver this large, let's say, upswing in SCS.

Sven Weier

Okay. So basically, this €1 billion order level that can in the medium term also become a sustainable level that you can handle per quarter, so to speak, on that basis, because otherwise, you wouldn't have accepted the orders in the first place.

Gordon Riske

You just answered the question very well.

Sven Weier

Okay. And then secondly, and ties into Philippe's question on the advanced payments, given that you've just said that some of these will only come in Q3 on your cash accounts, you did a good job on the free cash flow in Q2. So should we be hopeful that the third quarter or, let's say, the second half won't be negative either?

Anke Groth

It depends a little bit on how the economy and the world and the pandemic is progressing. If everything runs smoothly, I think that's a good assumption.

Sven Weier

Okay. That's it for now. Thank you, both.

Alexander Virgo

Thanks very much. Thanks for taking my questions, and good afternoon to everybody. I trust you're well. Building a little bit on from Sven's last question there, just thinking about the extra facility that you've organized the covenant waiver that you have, would it not be fair to say that the Q2 situation or the end of Q2 and the Q2 situation is the worst it will be this year and that, therefore, what you have done is obviously clearly taking assessment as a very worst-case scenario in order to feel the need to put these things in place?

I just wondered if you talk us a little bit through the logic and talk a little bit about how you see that balance sheet situation I guess progressing through the rest of this year and into March because, at first glance, obviously, putting something in this space might make business sense, but it does or it can sometimes spook people a little bit. So maybe you could talk a little bit about the logic of that, would be really helpful.

Gordon Riske

Yes, maybe just first in general, and then the specifics. The whole idea of having a guidance in the way we've done it, the uncertainties in the market, and yes, maybe a conservative approach in securing financing towards the second half of the year. But I'd like to remind everybody the daily news, the daily happenings, and all the major banks around the world, etc., and economists are quite cyclical, if you want to call it that, up and down. And we have a responsibility for our customers, our employees. And we have an outstanding pipeline for SCS, and we have a great market position for ITS to serve our customers.

But the situation is quite volatile, and we just want to make sure we can sail through that without any issues.

Alexander Virgo

Okay. Thank you. And then maybe as a the secondary question, with respect to the second half, I wondered if you could just give us any color, commentary as to how Q3 has started, maybe talk through some of the regional differences, just to give us some idea of how things stand at the moment.

Gordon Riske

Well, Q3 still has 2 more months and 1 day to go. July has been, let's say, at a steady level - stabilized, I would say - at this level of two-digit negative on the ITS side, the market. So we haven't seen anything get dramatically worse. I think that's a good sign for - at least in Western Europe - we're in a little bit of in a summertime. So that's not untypical that July is a little bit slower. So that ,I think that's a positive sign.

China is really chugging along. That does surprise me. And the 40% in Q2 and even in the first weeks now of July has been very solid. So that just encourages us to keep along our investment plans, and we have a big investment plan in China, especially in the ITS segment.

	So we haven't seen it get worse. Perhaps Q2 was the bottom of the curve, but current trading is kind of at a stabilized level at the moment.
Anke Groth	And I would say, in addition, if you think about the full half year 2020, which will come if you compare that with the first half of 2020, we still had in Q1, especially on the ITS side, a very good quarter. So that you have to take also into consideration when you think about H2.
Alexander Virgo	Okay, guys. Thank you.
Felicitas von Bismarck	Yes, first one, acoustic question, can you repeat the last sentence that you said? Sorry, I didn't catch that.
Anke Groth	If you think about the development of the second half of 2020, you have to take into consideration, especially for IT&S, that we had a very good first quarter or still a very solid first quarter.
Felicitas von Bismarck	Okay. Thank you for that. I have another question. So on your Supply Chain Solutions, you're guiding for flat revenues, flat earnings. H1 was actually stable year-on-year. You have that kind of huge order book. And the lockdowns, yes, there is a risk, but the situations have been improving. So why would your second half performance not improve compared to last year?
Anke Groth	So if you are referring to the order book, Felicitas, that will turn into revenue next year, not this year.
Felicitas von Bismarck	Not even in Q4.

Anke Groth	Maybe a couple of million here and there, but the majority will turn into revenues next year.
Felicitas von Bismarck	Okay. And can you maybe give us like some kind of indication what significant means in your like, KION world? Because that could be basically anything.
Anke Groth	Yes, we have chosen words instead of giving a guidance range for a reason. But I can give you somehow the words we have used. I can put those into an order. Significant is more than substantial, and that is more than noticeable. So that's a little bit the order and the ranking of the words we have chosen, Felicitas.
Felicitas von Bismarck	Okay. All righty. Thank you.
Katie Self	Hi, good afternoon. Just a couple of clarifications on some comments from the call. There was one where, Gordon, I think you mentioned seeing some increased competition from lower-priced Chinese entrants within the Western European market itself, which perhaps resulted in some of the underperformance versus the market. I wonder if you'd just comment on whether that is a new trend you're seeing? Were they going more aggressively after price? Just any more color on that would be great.
Gordon Riske	First of all, we are, if you look at all the data and our own estimations, a market leader in Europe with a broad sales and service network and huge technology investment. However, in some low-cost segments, the Chinese competitors are performing better than they have in years, and the products have become better.

The biggest part of the European market, though, is still value and premium segment, but we have, as I said, we have seen an uptick in that. We've seen it the last couple of years. It comes for a couple of quarters. And we've had 2018 or so, and then it goes away for a half a year. But it's a very viable competitive challenge there with these low-cost products. And that's why we have put so much focus in our Chinese operations, and we will use and have used our Baoli brand to mitigate some of that with our -- let's say, with our own products to face them head to head in certain markets.

Katie Self

Great. Thank you. And then just a different question, on SCS, you mentioned that there is a lot of uncertainty in the second half and that there is a potential for perhaps second lockdowns or more disruption that could mean delays in deliveries or in project execution at SCS.

I just wondered whether your comments there refer solely to the uncertainty in second half? Are there some projects that you'd expected to deliver on in the first half that are still delayed, just whether you could just update us there?

And then sort of a general big-picture question: if we think beyond COVID, beyond 2020, how do you see those trends in SCS progressing? Do you think you've had a sudden wave now where the e-commerce players have found their capacity maxed out because of the online demand? So there's a big wave of investment, but then that'll kind of be the end of it for a while, or do you see a longer-term continued pickup here?

Gordon Riske

Well, let's start with the second question and come back to the first one. Beyond 2020 or beyond COVID or whatever you want to call it, in my view, some people call it the new normal. I don't think there's any normal to go back to. It's just the way of the development of the markets.

When we purchased the company in 2016, we saw a unique opportunity there. And that has proved lucky maybe but has proved to be exactly the right thing to do because of the behavior changes in our customers. And we projected at that time when we made the first announcement a double-digit growth on average over the coming next 10 years I think was the original statements that we made. And that has more than proven itself.

And if you look at the behavior of customers, the online e-commerce part of it, not only in certain verticals like clothing and groceries, but in almost all segments now taking hold and some of the bigger players globally making distribution centers that are able to deliver not just the next day but within an hour, that really, really drives our business.

And so with the unique position that we have with Dematic to be able to put a system into place from €10 million to €200 million in size anywhere on the globe within one organization, that's quite a unique position. So we are very upbeat about the opportunities. That's not just a wave of COVID, but it's certainly a trend that I think we can drive very heavily in the coming years.

Anke Groth

Yes, with respect to your first question, so we also had an impact on SCS in the second quarter, predominantly from COVID-19. So there have been a number of project sites which are closed or impaired. That has improved during the last months and improved during the quarter. So currently, we only have a very small double-digit percentage number of project sites which are still closed or impaired. So it has significantly improved during the second quarter.

But nevertheless, and we also spoke about it when we explained the profitability of SCS, where we have said the EBIT margin of 8.4% was burdened by the inefficiencies. When a project site is closed or impaired, of course, we do a lot of engineering work remotely. But that is not as efficient as working at the project site.

And then once a site is opened up again, so after the lockdown, we need to work overtime to recover that time we have lost during the lockdown, which is of course causing higher expenses on the personnel side, but as well as some kind of logistical expenses. So we have seen some kind of effects of COVID-19 in SCS already in the second quarter. The team was able to catch up, but it's also slightly visible in the figures. And as still some sites, as I explained, are closed or impaired, that will also still go on in the second half of the year.

Katie Self

That's great. Thank you very much.

Martin Wilkie

Hi, thanks. It's Martin from Citi. Just a first question on the delivery of orders in Supply Chain Solutions. You have pointed to significant growth here, obviously, a very strong quarter. In the past, you've talked about implementation times of anything from 6 months to sort of 18 to 24 months, depending on construction lead times and so forth. Given the mix of the orders, are the projects generally sort of in the middle of that range, the early part of that range, just to get some sort of sense of the phasing of the backlog would be helpful.

And then the second question, also in Supply Chain Solutions, you mentioned in your release this morning certain customer segments here, food and beverage logistics, e-commerce very strong. In some of the other categories, are any past orders at risk if some of your customers, perhaps in clothing or other consumer areas that are not doing quite so well, are there any concerns about any of the existing backlog in Supply Chain Solutions? Thanks.

Gordon Riske

Let me start with the second one again. No, we don't see any projects at risk that we have going on. The team very early in the year, I think in February or something, we had that meeting. We said, "What if this spreads all over the world? Let's look at our project pipeline, so things that we have in the bidding cycle that will be affected negatively or positively."

We went through that quite intensive process and skewed it towards customers that would have more demand as this pandemic increases. And we had some luck there certainly, made some right decisions. We don't have any customers right now, or orders that are going on, that will be negatively affected or that we've stopped the order or canceled the order, any of that type of thing. We don't have it.

Anke Groth

So with respect to your question of the delivery times, our estimate would be around 12 to 18 months. It's geared towards this time horizon, but it's a rough estimate because as you can imagine, there are a couple of orders. And sometimes, you are faster. Sometimes, you have problems with the project sites or whatsoever. It's a rough estimate of 12 to 18 months.

Martin Wilkie

That's great. Thank you very much.

Philippe Lorrain	Yes, thanks for taking my follow ups, a couple ones. Just like from today's perspective on SCS, and I'm coming back to Sven's question. When would you think that you could deal with a quarterly business volume of about €1 billion? Perhaps a bit early, but just like to get a sense of how you see that situation evolving.
Gordon Riske	Well, last year, we had a $1 billion quarter. This year, we have a €1 billion quarter. The numbers are growing. So we're actively in that process to be able to handle that. I can't say it's Q1 of this year or Q2 of another year, but we are actively in the process driving this business forward. And I feel very comfortable at this point with the actions that we've taken, with the investments we've made in our factory capability, in our engineering capability and HR. It's a very concerted effort by the whole team. And I think we're well, well underway there to handle that.
Anke Groth	And, Philippe, as Gordon has rightfully said, we already had a quarter of USD 1 billion. And I think, during the last quarters, we constantly have spoken about the solid and improved project execution of the teams. And so again, we are capable of handling this volume.
Gordon Riske	Maybe just to give you a colorful example to close the call here, in Stříbro, we have a big complex for ITS and SCS. We're building capacity to be able to deliver this year to our SCS customers. We needed immediately quite a few employees to do some mechanical work. We moved people from one site making forklifts, not losing people, moved them over to another site. So, it's quite unique what's happening in our company right now with these two segments helping each other to get through this.

Philippe Lorrain: Do I understand that correctly as well that, when you say like dealing with €1 billion, let's say, kind of order volume also does mean that not far away you can deal with that on the revenue side?

Gordon Riske: Yes, yes, certainly.

Philippe Lorrain: Okay. Interesting. And the last one is just, do I understand that correctly? Is that fair to assume that, if the situation does not deteriorate in ITS, then the production should probably not be disrupted in Q3, Q4 because you already have these problems on the supply chain, especially in Q2? And hence, the overall fixed cost absorption in the whole ITS segment would look like much better in H2 than in Q2?

Gordon Riske: Yes, I think Anke said it, and I'll say it again. It really depends on the entire economic situation. And we flexibilized it. In Germany and other countries, we have short-time work opportunities and other temporary people and so forth. So we are working with unions, everybody, to be as flexible as possible to make sure to get our costs down.

But that's a much shorter-cycle business. We have delivery times between 6 and 16 weeks' visibility. So we have to be able to react quickly. And it really depends on the overall outlook going into the second half of the year. But assuming that Q2 is the bottom of the curve, then your assumptions could be correct.

Philippe Lorrain: Okay. And a final one really just like on the guidance, especially like with the wording around significant, substantial, and noticeable, so I've noticed the ranking. But when you speak about the significant decrease or the substantial increase in ITS or, respectively, SCS order intake that is expected for the full year, do you mean actually like in absolute terms, or did you mean like also in just in percentage when you rank that? Because the two divisions have significant difference in size.

Anke Groth — It's growth.

Philippe Lorrain — It's growth. Okay. Thank you very much.

Richard Schramm — Yes, good afternoon. Just a quick one on the topic short-time work you mentioned. Could you give us the amount you got as reimbursement in Q2? And should we expect this to go forward into Q3 and Q4, as you mentioned that short-term work will prevail for the time being here? Thank you.

Anke Groth — There is a difference between the cost effect and the cash effect. From a cash perspective, there are a couple of millions coming in from the Bundesagentur für Arbeit. But if we look at the expense side, if we look at the cost side, as I said, in IT&S, we have the positive €60 million achieved. And I would say, in the €60 million, roughly two-third are from personnel measures, including short-time work, but also the reduction of time accounts.

And yes, overall, with respect to timing, of course, if nothing new comes up, our estimation would be that the highest impact would have been now in Q2. Of course, we still have days in the factories where we are going to close and so on. But the majority of the short-time work hopefully was applied in Q2, if nothing new dramatically happens.

Richard Schramm	So do we have already scheduled when this will be stopped, or is this still not decided yet?
Anke Groth	No, it depends on the further circumstances of the market development. We have agreements with our workers' councils. You know that, in Germany, that is needed until the end of the year, and then a new negotiation and assessment needs to take place. But that really depends on the further market development.
Richard Schramm	Okay. Thank you.
Alexander Virgo	Thanks very much. Just a quick follow up on the service development in ITS. Obviously, down 10-odd percent in Q2, probably a little bit more hit by access and travel restrictions I guess, in line with a lot of the rest of the sector that we're seeing. I'm just wondering if you could talk a little bit about how you expect that to trend through the rest of the year, whether or not we can see something of a catchup, or do we just assume that it's a lost business, if you like?
Anke Groth	We do expect a gradually improving of the situation with respect to services. It's always, quite frankly, a difficult question if there is a catchup in aftersales because, if you can't do a service, you can't do a service. And it depends a little bit on the condition of the truck when maintenance or a spare part is needed. But overall, the service situation will improve during the next quarters. Again, the disclaimer if nothing new happens in the market, new second wave and lockdowns.
Alexander Virgo	Okay. Thank you.

Sven Weier — Yes, two quick ones, please. The first one was also on the service business. I was just wondering, with downturn in Q2, if we had the rate for June and on. Was that already back to kind of flat or still in the negative?

Anke Groth — No, June was the best month in the second quarter.

Sven Weier — Okay. And the other one is just on your credit ratio, right? So now you came in at 2.6x net debt-EBITDA. And we know that your comfort level in the long term is 2x. I guess, in the next two quarters, the ratio might still get a little bit worse because the rolling 12 months EBITDA declines. How much time do you give yourself organically to get back to the comfort level? Are we talking about 1 or 2 years, or how would the rating agencies look at it? Because I know that the investment-grade rating's very important to you.

Anke Groth — The rating agencies and discussions with Fitch we had in April. Our investment-grade rating with Fitch was renewed quite recently. With S&P, we also have regular calls. And with respect to deleveraging, I fully agree. So 2x is our target. We haven't changed that because we deem that a reasonable ratio for our business. And we need to see where our leverage stands at year-end. That depends a little bit on the further development in the third and fourth quarter.

And you know that, normally, we have a very strong cash flow and are able to deleverage quite nicely year by year. But that needs to be seen in the light of the further development, Sven.

Sven Weier	Basically, the capital increase option that you now have since the AGM remains really an emergency option and is not the base case for the time being.
Anke Groth	No, as you mentioned, the AGM has granted the approval to increase our equity. And you know it's up to 10%. The timeframe is 5 years. So the approval is valid until 2025. And maybe you also have seen that the overall purpose is restricted to a refinancing. I would say it's a very prudent and standard procedure to have such authorized capital as a German Aktiengesellschaft. And as I always say, the utilization of such authorization can never be excluded depending on balance sheet structures and debt level. And we have spoken about our INOD target.
Sven Weier	Understood. Thank you, Anke.
Stefan Augustin	Yes, hello. Thank you for taking my question, just two remaining. I understand that you outlined the risk on the project execution in SCS. Could you also comment on the Q2 orders if you're well satisfied with the pricing level without the execution on it? Is that maybe better than you have seen it before? And the second question would be on your proposed or thought of management of the rental fleet, as the rental business was quite okay.
Anke Groth	Yes, with respect to rental, let's pick up on your second question first. Rental has to be differentiated into long-term rental and short-term rental. So the overall rental business was down slightly by I think it was roughly 4.8%. But in that, the short-term rental is

	more affected. We have seen a double-digit decrease. So rental is a bucket for long-term and short-term rental.
Gordon Riske	And SCS pricing, you've seen our operating results over the past quarters have continued to improve at SCS. And with the market demands as we have right now, I would say pricing is okay. But we still are trying to improve our pricing situation in certain markets. There are some very good markets. But we are executing within -- in line with our expectations.
Stefan Augustin	Okay. Thank you very much.
Operator	And there are no more questions at this time. I hand back to Mr. Gordon Riske for closing comments.
Gordon Riske	Yes, thank you, all, for participating in our update call for the Q2 2020, a very interesting quarter. Let's all hope for the best. Stay safe. And we look forward to giving the update then or seeing you on a roadshow in the coming months.