KION Group AG

2021 Results Update

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Transcript

Speakers:

Rob Smith

Anke Groth

Rob Smith

Thank you, Stewart. Good afternoon, ladies and gentlemen. I welcome you to our full year 2021 results update call. Let me start by saying just how concerned we are about the situation in Eastern Europe, and the Ukraine and Russia conflict. We're deeply concerned about this and our thoughts are, not only with the people in the Ukraine that are enduring so much suffering, but also with our employees and their families in Russia. And KION wants to help. That's why we're donating €1 million to the German Red Cross for refugees and people that need help in the region. Also, we're providing forklifts for the German Red Cross, who's establishing logistic centres to provide humanitarian aid in the region. We hope very much for better times soon.

Some of you we've had a chance to meet. For those of you that don't know me, maybe I'll take a minute to introduce myself. I started as the CEO at KION at the beginning of this year. To get a rolling start, I've done what I call my meet, greet, listen, learn. I'm still in that phase. I've met, easily, 300 employees around the company. Many, many of those in person. I've spent time with external views and a lot of time with our customers, and I'm really impressed with what I see, I'm excited about what I see. KION's in a very good position today and has enormous potential for the future.

So, although I met many of you, I'm really happy to present our strong results today and looking forward to meeting you in person, in the coming days when we have a chance to see one another in person.

For today's call, please refer to the 2021 presentation that you can find on our Investor Relations website. I'll be talking you through the 21 financials, the key financials and some strategic highlights, and then a bit on the market development. Then Anke's going to take you through the financials in detail and we'll close the call with an outlook for 2020 and some key take-aways for you.

Let's start with the top line figures on page three. We published very strong earnings this morning and many of our KPIs are well above pre-pandemic targets. This lays a very solid foundation towards our 2023 medium-term goals. I really want to thank, and recognise, employees and customers all around the world for delivering extraordinary results in extraordinary times last year. And delivering on every one of our guidance metrics. Extremely well done. I admire that and our team is very proud of that, and really, hats off there.

Let's talk about that. Order intake was up 32% year-on-year, finished at a record level of 12.5 billion. For the first time our sales hit 10.3 billion, broke the 10-billion mark and finished up

23% year-on-year. Our adjusted EBIT was 842 million, up 54% year-on-year, and finished with a margin of 8.2%, up 160 basis points from the previous year. Free cashflow was almost 4X the previous year at 544 million. And we should be proposing at our annual general meeting on the 11th of May a dividend per share of €1.50, which is a 35% pay-out ratio. We saw strong growth across all metrics and a very strong continued order intake.

Page four are some strategic highlights. We're about half-way through our KION 2027 strategy, that defines the way we intended to become by far the global leader in intralogistics and supply chain solutions for our customers worldwide. Our strategy is a very good one. It has some flexibility and we have an ability to refine it and extend to it. A good example of that is sustainability. We've added sustainability to our strategy last year and are very focused on that. There's a clear field of action and it's very important to me. We're very committed to this. It's not only in our strategy, it's also in our remuneration. And 20% of remuneration on a variable basis is dedicated to occupational health and safety, to environmental management systems, to ESG performance and employer attractiveness. We talk about an intersecting triple bottom line, or the three Ps. The people, planet, and profitable growth. And excelling in each of these is very important to us.

Last year we continued to invest strongly in innovation. We invested €283 million, or about 2.7%, and have consistently between about 2.5 and 3% of our revenue going into R&D. As our sales grow, our investments in R&D is growing. A very good example of that last year is the LoadRunner. A very exciting new technology we're developing with the Fraunhofer Institute. It's about swarm robotics, and we've got some very exciting videos of that to be sharing. Swarm robotics, artificial intelligence, brand new technology, very strong investments in research and development.

We also worked hard to extend the capabilities of full-line customer projects and joined offerings between IT&S and supply chain solutions, and saw some really good projects. Where Linde, STILL and Dematic are jointly working on holistic intralogistics solutions projects. Some examples, with Trelleborg, with Beiersdorf, with Siemens. They're the BMZ group, our flagship examples of great collaboration and joint offerings between the two. Maybe another good example of joint offerings and collaboration between our businesses, is an app that we put together that allows both IT&S sales teams and supply chain solutions sales team to offer products and make a simple, small-scale automation solution with very standardised elements. And do that with an app, so we can do it in real time for our customers.

In addition, we executed on strategic investments. We started production at our IT&S factory in Kołbaskowo in Poland last year in July. Then we kicked off production in a new segment of trucks in December at our dedicated IT&S plant in Jinan, China. Built in record time, less than 15 months and we went into production. We also laid the cornerstone for our supply chain solutions factory in Jinan, China.

Talking about the IT&S plant in Jinan, by producing in China, we get a benefit from local production costs. We compete head-to-head with Chinese players there on a cost perspective. It gives us vertical integration of critical component suppliers. Gets us a better cost position and better control of quality with the vertical integration. We'll be addressing the market in China first with our Jinan factory and we expect to extend exports to Europe and other places in the course of the year.

Moving quickly to page six and talking about the industrial truck segment here. Let's start with the fact that the fourth quarter in Western Europe finished up 32% and finished up 52% for the whole year. In North America, we finished the fourth quarter at 17% increase and finished the year 59% was the market in growth. In South America, 18% in the quarter and plus 71% growth in the year. In China, 0.8% in the fourth quarter and a strong 28% growth for the year. Worldwide we finished at a record level of 2.3-plus million units per year, up 42% year-on-year. A huge, significant growth for the year.

Page seven shows how KION's unit growth by product and region finished. We're very proud to say we clearly gained market share on a global level, not only in the fourth quarter, but also for the full year. With our unit intake of almost 300,000 trucks, it was a historical record for us. The fourth quarter had 81,000 trucks, up 83% year-on-year, almost twice the market, despite a real high comparison base in Q4 2020. Worldwide we finished up 33% for the quarter and 51% for the year. So, in summary, KION saw a very strong fourth quarter and full year and gained market share globally in our IT&S business.

Let's talk about supply chain solutions on page eight. Our full year 2021 benefited from ongoing, very solid market fundamentals for supply chain solutions. Demand was supported by the general need for faster fulfilment and delivery, as a lot of customers were turning more and more towards online purchasing. Also, organisation and demographic change supported demand. The interact analysis, according to them the market for warehouse automation in revenues expected to have grown about 21% in 2021. EMEA and the Americas contributed very strongly to the growth to the warehouse automation market. In terms of verticals, the general merchandise market, the food industry vertical stood out with sharp increases in sales volume.

So, market growth in the past year was driven by execution of very high order backlogs at the end of 2020 and KION was able to increase its supply chain solutions revenue by 45% versus a market of 21%, a very, very strong performance.

With this, let me hand it to Anke, and she'll take you through our financials, please. Anke.

Anke Groth

Thank you very much, Rob, and hello to all of you from my side. Turning to page ten you will see the key financials for the IT&S segments. As just pointed out by Rob, the ongoing strong demand for industrial trucks was beneficial for us, of course. Supporting a 43% growth in order intake. At yearend, the order book more than doubled to almost 2.9 billion, which covers approximately three quarters of new equipment sales, provided, of course, parts are available.

We managed the ongoing challenges of tight supply chains fairly well during the fourth quarter, resulting into revenue growing 10% to 1.8 billion. The service business continued on its strong path, also during the fourth quarter, where new business, as just mentioned, was negatively impacted by supply chain issues. The Q4 adjusted EBIT improved by 11% to 130 million. However, despite increasing revenue, the margin remains stable at last year's level, mainly due to the higher material costs, supply chain interruptions and component shortages that were more pronounce in the fourth quarter.

In the fourth quarter alone, we saw more than 5,000 trucks that could not be shipped to our customers, ending up to a large extent as unfinished trucks in inventories. These trucks stand for around 130 million of unrealised revenues and a significant contribution margin uplift in the mid-double digit million euro range if we had been able to ship them. This effect is even larger in the full year, where we are talking about more than 12,000 trucks that were not shipped, representing roughly 300 million of unrealised revenues. The missing components triggered shift changes, overtime and extra shifts, resulting in the situation that we were impacting our productivity, and the unfinished trucks led to higher logistics, storage and handling costs.

On top of these headwinds from supply interruptions, we also had higher material costs, as I mentioned, and an increased need for spot buys in order to keep up production for the benefit of our customers. All of this weighed on our profitability, particularly in Q4, almost offsetting the positive contribution from the development of our new business, a higher share of service, and our achieved cost savings from our structural programme.

In the full year 2021, the IT&S segment recorded an order intake of 8.2 billion, revenue of more than 6.5 billion, and an adjusted EBIT margin of 8.2%. Turning to page 11, I'll give you an update on our capacity and structural programme. As already flagged with our Q2 results, we have shifted the focus of the programme towards structural optimisation, rather than on capacity needs, based on the very high order intake. We achieved 41 million cumulated savings last year, targeting additional 20 to 30 million in this year. All in all, we are very well on track and confirm the targeted 80 to 100 million cumulated cost savings by 2023. On top of that, at significantly lower costs than initially anticipated.

Page 12 summarizes the key financials for the segment supply chain solutions. SCS order intake was again above the 1 billion mark, with a very solid order pipeline ahead of us, even higher than a year ago. Regionally demand increased substantially in Europe and North America, but was slightly down in APAC. Mainly as last year was supported by two larger projects, which could not be compensated by the higher number of smaller projects this year. Looking at our verticals, we saw strong demand, particularly driven by general merchandise, grocery, as well as food and beverage.

The order backlog at the end of December was up by 24%, reaching roughly 3.8 billion. 70% of this is anticipated to be converted into revenues this year. In other words, more than 55% of our midpoint revenue outlook for our full year 2022. Despite the difficult supply chain environment, revenue grew significantly in Q4 2021, surpassing a level of 1 billion for the first time. While business solutions grew by 36%, customer services grew with a rate of around 28%.

Looking at adjusted EBIT, we saw a margin of only 7.3% in Q4. We focused on the benefit of our customer, thus our priority was to protect our customers' schedules. We therefore incurred higher costs in the spot markets to secure material, while simultaneously keeping our labour forces ready to install equipment at the moment of arrival. At times, this required demobilizing and remobilizing of our staff, as well as he use of short-term and higher cost labour, out of sequence installation, rework, and overtime premiums, have added up to higher costs. All this, as I said, resulted into increased costs of roughly more than 60 million, more than half of the full-year impact, which has more than offset the positive effect of our top line growth. In addition, we faced higher personal expenses, as we positioned ourselves for future growth. For the full-year period, SCS saw a record top line, with order intake of around 4.3 billion, up 19%, and revenues of 3.8 billion, even up 45%, as well as record levels for adjusted EBIT of 410 million and a margin of 10.8%. All of this despite the challenging environment.

Page 13 summarizes the key financials for the group. Overall we saw strong growth rates for both order intake and revenue in Q4. The order book grew around 50%, to 6.7 billion by the end of

December 21, driven by both segments and providing a good basis for this year's revenue generation. In Q4, the adjusted EBIT for the group dropped to 151 million, a margin of 5.5%. I've already commented on the effects that affected our operating segments, and rest assured that we will address these very actively this year. In addition, higher personal expenses due to higher variable remuneration, compared to the low level of the prior year. We also saw an impact from our ongoing digitalisation initiatives, mainly driven by the implementation of SAP S/4 Hana. For full year 2021, KION saw order intake of around 12.5 billion, revenues of 10.3 billion, both by the way, record levels for KION, and an adjusted EBIT margin of 8.2%.

Page 14 shows the reconciliation from adjusted EBITDA to the net income for the group. Reported EBIT included positive non-recurring items of 42 million in the past quarter. These were mainly driven by a pension plan amendment, to allow employees to choose their form of pay-out at the time of retirement. And we also recorded releases of provisions in relation to the capacity and structure programme. Net financial expenses decreased substantially to minus 10 million, driven by lower refinancing costs due to reduced financial liabilities and an improved net interest result from our lease business. Taxes increased nominally, reaching minus 24 million in Q4, based on higher tax deductibles and additional tax credits. Impacted by the lower rate in Q4, the tax rate for the full year was standing at 25%. Overall, we ended the fourth quarter with a net income of 137 million and earnings per share of €1.08, while we saw a net income of 568 million and earnings per share of €4.34 for the full year.

Let's move to the free cash flow statement on page 15. Full year 21 free cashflow amounted to 544 million. Main driver, of course, for the free cashflow was our strong operating performance. On the negative side, we saw in increase in net working capital, driven by higher inventory levels, mainly caused by the semi-finished trucks I mentioned, partly compensated by a favourable development of trade payables. Operating capex was lower than originally planned, since we saw some investment spilling over into this year. In Q4 we recorded a free cashflow of 409 million, following our usual seasonal pattern with Q4 which is, as you know, the strongest cash generating quarter for us. Overall, we ended the year with a strong cash generation.

Page 16 shows the net debt, as well as the corresponding leverage ratios of our business. At the end of December 2021, net financial debt decreased by 312 million to 568 million at year end 2021, mainly driven by the significant free cashflow generation. The leverage ratio based on net financial debt improve to 0.3 versus 0.6 at the end of 20. Our net pension liabilities decreased to around 1.2 billion end of December, mainly due to higher discount rates. Leverage on industrial net debt decreased substantially to 2.0, significantly down from 3.1 at December 20. You know we have two investment grade ratings right now, and with that, no covenant testing for our new ESG linked revolving credit facility. With this, back to you, Rob, for the outlook for full year 2022.

Rob Smith

Thanks, Anke. Let's go to our outlook on page 18 for 2022. After a strong performance in 21, KION expects to show further profitable growth in 2022. We expect an increase in sales, we expect an increase in adjusted EBIT, and we expect an increase in profitability. Although I do must highlight here that there are still some significant uncertainties in the global supply chain around material availability and also, around material pricing and inflation.

Let's go to that outlook and let's walk you through it. Order intake, we expect to come in between 11.6 and 12.8 billion. We expect to finish revenue this year between 11 and 12 billion of revenue. We expect to be better than 1 billion of adjusted EBIT, between 1.010 and 1.15 billion of EBIT. Our free cashflow, we expect to come in between 520 and 640 million. Our ROCE for the year, we expect to finish between 11 and 12%.

On page 19 you can see my key takeaways. KION's very well positioned in a dynamic and growing market, and reached record levels last year on order intake and revenue. I am very excited about leading KION into its promising and profitable future here. We expect very solid financial performance this year, despite raw material inflation and supply chain interruptions. Those particularly affected the fourth quarter, and we expect to address these going forward, through agile pricing actions and efficiency and productivity improvements across the company. With our full year 2022 outlook, you see we're very well on the path to achieving our medium-term targets in 2023, to which I am fully committed. Anke and I would be delighted to answer questions now. Let's open the line, Operator, please.

Operator

Ladies and gentlemen, at this time we'll begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. In the interest of time, please limit yourself to two questions. One moment for the first question, please. First question is from the line of George Featherstone with Bank of America. Please go ahead.

George Featherstone

Hi, good afternoon everyone, and thanks for taking my questions. I'll go one at a time. First of all, for you, Rob. Just wanted to know what you'd learned in the first few months of being with the business. Is there anything you particularly like, anything you'd like to change? And do you think there's a need to change the medium-term strategic aims of the business?

Rob Smith

Thanks for diving in right there, George. I, as I said, have been working real hard to get to know the business and get to know our customer's views and get to know an external outside-in view, as well as the inside-out view. I met over 300 colleagues across the company. I'm very motivated with what I've seen. I must say, also, I've been following KION for many, many years. The industrial truck and service business has played an instrumental role on all of my industrial companies over the last 30, and I've been following the company itself since the IPO in 2013. So, basically, what I'm seeing really confirms the excitement and the motivation to come here, and really underpins we're in a good position now and we've got very exciting growth potential going forward.

I also talked about the KION 2027 strategy. I think that's a very strong strategy and it does give us some opportunities for refinement and extension. A great example of that is adding sustainability right in the middle of our strategy last year. That's going to be an important part of our focus going forward. I expect we do some work on the multi-brand strategy. It's a very important element to focus on performance and agility. I talked about agile pricing. I think that the entire commercial and operations need to be very agile in the environment that we're in, and I expect that's an important part of our work going forward.

KION's got some exciting core values that underpin our performance, underpin our company. With our focus on sustainability and the intersecting three bottom lines of people, planet and profitable growth, there's a very strong focus in KION on people and leadership. So, I see these as refinements and extensions to a great strategy that's already underway. We've been implementing it for about the last five years. I expect it puts us very well on track to be that, by far, global leader in intralogistics and supply chain solutions. What's your second question, George?

George Featherstone

Thank you very much, Rob. Yes, my second question would be on SCS. I just wanted to talk a little bit about, or ask you, rather, about the contracts that you have in SCS in terms of the structure and the pricing within them. Are they typically fixed pricing or do you have any inflation linkage in there? Also, in terms of the new contracts that you sign today, have you got any form of mitigation for what is ultimately a quite volatile raw material and supply chain environment?

Anke Groth	Maybe I pick that up, George. Hi, it's Anke. I would say we have both types of contracts. We have fixed contracts, but we have also contracts with pass-on clauses. It depends on the project, it depends on the customer, it depends on the competition and finally, the negotiations we are conducting. But we have definitely learned from the year 2021, as we have said. One of the tasks is of course to increase the share of contracts with passthrough clauses, but again, currently we do have a variety of contracts and that is because we do have a competitive environment.
George Featherstone	Okay, then. One final question from me, if I may, I'll squeeze it in. I noticed that you'd had quite a significant increase in the number of employees, I think it was about 9% year-on-year in 2021. Just wondered where you'd been deploying those extra employees, where particularly in the business? And is there any future invest in more capacity, given the strong end to the year for 2022?
Anke Groth	Yes, we have a strong increase in SCS, of course, as you can imagine. You have seen the increase in order intake, you have seen the increase in revenues we have achieved, so that's only possible with adding to the workforce. That will also go on in the year 2022, so it's a strongly growing business. On the IT&S side, we do have new production facilities, so we have added a couple of employees in Jinan, in our new facility, as well as in Poland. So, also on the IT&S we see growth of our employee base, based on the new production facilities. And, additionally, we have a strongly growing service business, so that is not to underestimate. Also, that depends on service technicians, but still, the majority was growth in our SCS business.
George Featherstone	Okay, thank you very much.
Rob Smith	Hey, George. We don't want to miss putting a plug in for adding quite a few software capabilities and engineers along the way as well. Real important part of our growth here.
Operator	Next question is from the line of Sven Weier from UBS. Please go ahead.
Sven Weier	Yes, thanks for taking my questions. Good afternoon, Rob, good afternoon, Anke. The first question is on the EBIT guidance for 2022. When I take the midpoint of the guidance, I obviously get to a run rate of 270 million, you had 150 in Q4. How should we think about the phasing of that? Should we already see a significant improvement in the first quarter, given that some of the additional costs you had in Q4 might have also been a bit one-off, the pricing improves off the backlog. I think the guidance was probably a relief, but I think the issue some people still have is, how does it add up on a quarterly basis to get to this run rate? That's the first one.

Anke Groth	Hi, Sven.
Sven Weier	Hi.
Anke Groth	Yes, that's of course a very often-asked question, as you can imagine, based on what we have seen in Q4 and learned in Q4. Let me first comment on the overall levers, which will support our margin development. So, the volume growth, of course, is the most important lever, and that is based on our order book and the additional capacities we have put into place. Secondly, we have higher prices in our order book from the second price increase last year and the price increase at the beginning of 2022 will come into force in the second half of the year. Thirdly, we have our structured programme savings, as we have pointed out. And fourth, the fourth effect, is the very, very strong service business, which we also have seen this year. Now, let's come to the headwinds. Yes, we have seen the Q4 effect, but I would say it was very much pronounced with the respective headwinds in Q4. And the order of magnitude cannot continue. So, Q4 was really an extraordinary high effect on the IT&S side, as well as on the SCS side, where we also see in Q1 some spill overs from 2021 projects with a higher cost base going into 22. So, taking all of that together, I would say Q1 and the first half, potentially, of the year will still see somewhat a lower margin and the second half of the year is expected to be stronger. That's, in a nutshell, what we expect and see for 2022.
Sven Weier	Understood, Anke, thank you. And I based on the numbers you've seen so far in Q1, I guess there is already also a sequential improvement in Q1, right? It's not a totally second-half loaded guidance.
Anke Groth	Yes, we will talk about Q1 once we are in Q1, end of April, as you know. But what we can say is that our order pipeline is very well filled on the SCS side. We have mentioned that the trucks market is still in very healthy condition, but there are also still some uncertainties out there. Let's talk about Q1 once it's over and finished, and we can give you the number.
Sven Weier	Thank you, Anke. The second point was just following up on some, let's call it the self-help improvement measure, you probably especially have on the truck side. Rob, you already talked about agile pricing. I know everybody had supply chain issues last year, but the question is, were they maybe even more pronounced in the truck business than at other companies, your own cost base? I was just wondering, is there also a mentality change needed within the truck organisation? Because you always said there's a one-time price increase in a year, now this needs to become agile. So, how easy do you find to implement that, actually?
Rob Smith	Hey, Sven, I take my hat off to the performance of our industrial

truck and service business worldwide. I think it overcame some very, very significant challenges during the course of last year and I expect that we continue to overcome challenges during the course of this year. I certainly wouldn't be talking about any attitude changes, I'd be talking about continuously working to make our performance better and better and better. And an important element of that will be the agile commercial activities that we've talked about. But we've got a very strong basis and a strong team. I think we've got a good run this year.

Sven Weier — You also mentioned multi brand. I think we can now see at your former employer, AGCO, how now the fence sales in the US are picking up. What's the recipe for Linde in the US?

Rob Smith — You know, Sven, the recipe is I have to assume that all the elements that made the multi-brand strategy at AGCO one-to-one apply here. KION has great brands with a wonderful heritage. I think we could position each of our brands very successfully in the market on a sustainable basis, where each of our brands are able to do sustainable, win-win business with their target customers, and taking market share from competitors outside of KION. I think we can do so by listening to our customers, is how we're starting this. The whole story is to understand the customers, their ambitions, their needs now, how they see the future. And help them realise that future in the fashion that gives them multiple, as a matter of fact all, the elements of intralogistics and supply chain solutions they need from KION's brands. And having those brands positioned so we're covering the entire market, as opposed to parts of it. That will be what we'll be working on. And I expect that over a period of time we'll be able to talk about that more and we'll be able to show the effect of that.

Sven Weier — Great. Looking forward to that. Thank you, Rob. Thank you, Anke.

Operator — Next question is from the line of Sebastian Growe from BNP Paribas Exane. Please go ahead.

Sebastian Growe — Hi, good afternoon. Hi, Anke. Hi, Rob. Thanks for taking my questions. The first one is on the supply chain issues and also then related to the guidance. I would like to start on the supply chain with a question simply what you're currently observing in that very supply chain. Are things getting better or, say, at least more stable and reliable? It's a similar comment we just heard from GEA, so I would be interested in your current observations here. And then, related to it, when I think of your guidance and also the related growth of 7 to 17% for the group on the top line, how much of a risk buffer is embedded here? And the same, obviously, would also apply to the margin. And if I may touch briefly on IT&S and the Americas, it had some very strong growth, from what is a comparatively low base, still, I think for your business. Can you just walk us through the outlook from here and what the planned measures to regain share in the region are. Thank you.

Rob Smith

Why don't you and I tag-team on that, Anke. Let me talk about some of the supply chain difficulties now, and maybe you can address the other portions and we'll see how we finish that one up. But Sebastian, it's no secret, everyone is struggling with a very tight supply chain right now. And there are different interruptions and there's quite a bit of volatility there. That was with us last year, I do expect that it continues with us this year, at least the first part of it. The first half I expect it to be more pronounced than the second and we'll be observing this very carefully.

Having said that, KION added 2 billion of sales, which is a very significant amount, year-on-year of incremental sales. Which means a very significant amount of incremental supply chain performance and parts being received and purchased, and supply chain challenges being overcome in 2021. Our team has been very, very focused on that. And I expect that we are able to continue to meet these challenges as they come up. And hopefully they'll abate a bit in the second half. Anke, would you like to talk to some of these things too?

Anke Groth

Sure. Hi, Sebastian. Yes, we still are feeling supply chain issues, as Rob has pointed out. Things are not getting better, things are not getting worse, but I would say we are facing a stable situation if I compare it with Q4. But if one supplier can deliver again, then potentially you have another supplier who is getting a little bit into trouble. It will be a tight management necessary, especially during the first months of the year here. Your question was have we packed something into our guidance? Yes, of course, we did so. We packed some effects into our guidance. Also, with respect to potentially trucks which cannot be delivered. But more substantially, also with respect to material cost headwinds, we have seen a significant number this year affecting us. We have also taken a considerable amount of headwinds into consideration for the year 2022.

Sebastian Growe

Would you mind putting a number behind that?

Anke Groth

I don't give you a concrete number, as you know, but what I will do is give you the number we have seen in the last year, in 2021. We have faced material cost headwinds of roughly 120 million. That was even a little bit more than our high double-digit to low triple-digit with which we estimated. And you'll see the effect on Q4. We spoke about spot price we had to do in order to secure the delivery to our customers and that has somehow landed in our material cost headwinds. For the year 2022, we do not expect that number to go down, based on the current market environment. I think that is the guidance we can give you on that one. It rather will increase than going down.

Sebastian Growe

That makes sense. When it comes to the volumes in the IT&S business, how should we think about that?

Anke Groth

We have spoken about 12,000 trucks which we couldn't deliver this year, based on the missing material and the missing parts which are sitting in inventory and which we are going to retrofit as soon as we do have it. All in all, the order of magnitude will hold through also for 2022 plus and minuses, so don't nail me down here on an exact number for the guidance. It's a full year guidance, and we are putting ranges in order to not give one exact number and then might be proven to be wrong. That's also with respect to trucks and material cost headwinds.

Sebastian Growe

Yes, sure. And on the Americas?

Anke Groth

Rob, do you want to speak about our positioning and our development in North America? Sebastian, can you repeat your question? It was how we develop further or intend to grow our position further in North America on the truck side, wasn't that your question?

Sebastian Growe

Yes, it is. And obviously going on for ages, it feels, that you had in the past double-digit market shares in the region and, with that, obviously also pretty high volumes. Now you are at a pretty low market shares. And we've seen in quarter four a very, very strong development, that's always difficult to extrapolate a quarter, but if you could just help us with understanding what has driven that phenomenal increase and how we should think about the further trajectory from here. That would be helpful.

Rob Smith

That's an exciting story, Sebastian. We've put a team in place there that has worked very hard over the last year and a half to capitalize on some good decisions that we did make in the past years too. I'm quite conscious of the story all the way back to 1977 and where we are now, the 2021 performance was quite exciting. We took our revenues up very, very significantly. If you want to talk about units in the market, we went from probably about 4,000 units per year on average, to an order entry last year of 10,000. There was a lot of work done. It's an interesting time in the North American market right now. The market is growing very strongly. It was a record year in North America last year.

Some of the competition is facing some interesting challenges, and we see it as an opportunity for our business there. I think the 2021 order intake at 10,000 demonstrates the impact of working on the key accounts. And part of the key accounts is benefiting from the very strong teamwork between our industrial truck and services business and our supply chain solutions business in

North America. Some of the key accounts we were able to enter for the truck business came from the supply chain solutions business. In addition, there was some very good work on getting some substantially stronger dealers into our network. We've been working on a network transformation, going from smaller and less performing dealers to larger and financially strong and very focused dealers for KION there. And have seen some very substantial increases with the dealers that just came in last year, making a big difference in the order entry.

So, we see it as a very good starting point, but watch that space because our expectation is to go get a very strong share there. We expect to be able to demonstrate that in the times to come. So, thanks for picking up on that. We're focused on that, the team is working hard on it. We've got the right team in place, we've got exciting dealer network improvements, we've got products going in that are right for the market. Especially focusing on the warehousing segment, I think that'll be a good boost for us. Look, watch this space and we keep talking about it. We're excited about the cross-selling capabilities that industrial truck and services and supply chain solutions are demonstrating, and have in their plans, especially around the key accounts that we talked about.

Sebastian Growe — Sounds encouraging, thanks.

Operator — Next question is from the line of Daniel Gleim from Stifel. Please go ahead.

Daniel Gleim — Good afternoon, Anke, Rob, thank you for taking my questions. I actually have two of them, the first one is for Rob. I'm wondering whether we will see a capital markets day at the end of this fiscal and whether you will present 2027 guidance on mid-term targets at that point? That is question number one.

Rob Smith — I expect we do have a capital markets day at the right point in time, Daniel, and we'll be telling you exciting things about what we've already done and what we have in mind. There will be no reversal on the 2027 strategy. I think we're very well positioned with our 2027 strategy and I talked about an ability to refine it and extend it. And so, I don't see an immediately pressing need for a capital markets day in the short term, but at the right moment in time we'll be coming and sharing some further exciting future plans.

Daniel Gleim — Very clear, thank you very much. The second one is for Anke. I value your opinion how to calculate the true underlying margin for the SCS business in 21, given on what we heard so far. I think you mentioned 60 million in additional costs for the full year, is that the correct number? And, secondly, I wonder whether simply adding back those 60 million to the EBIT line gets the job done or would you also put into lost sales that we would need to add back to?

Anke Groth — No, there are no lost sales you have to add back to underlying margin. I would say you have seen the margin development in the first three quarters of the year and we were hit in the fourth quarter by additional costs, as we have pointed out, in order to serve the customers, in order to maintain milestones. We really had to face higher labour and installation costs, which we haven't seen in the three quarters before. I would say that you also can look at our mid-term targets where we have given a guidance for SCS of 12 to 14% profitability. That gives you a good hint towards the profitability SCS is able to achieve.

Daniel Gleim — Yes, this is where I was heading with that question. I'm maybe pushing my luck a little bit. When we think about the 60 million in 21, could we roughly scale what the 60 million will look like in 22? Is it half of that or one third? How should we think about that number in 22, from a zero-comparison basis, so not incremental, but 60 million in 21 compared to X in 22.

Anke Groth — Yes, you can try your luck, and maybe I give you a little bit more. I give you a more complete answer with the 60 million. I think you misunderstood it. The 60 million we said is more than half of the full-year impact, so you can easily double that up for the full-year impact. But I would expect that to go down in the year 2022. As we said, it was really, we were hit hard in Q4 on the SCS side with respect to cost increases. Particularly for some sides of particular customers where we wanted to keep the schedule, where we also have not negotiated a postponement of certain milestones. So, that has really hit us hard in the fourth quarter, and I see some spill over effects, as I said, from 2021 projects going into 2022. But we will also see a higher cost burden, but I would not expect to see that in the full year, so to say.

Daniel Gleim — Very clear. Thank you very much, both of you.

Operator — Next question is from the line of Jorge Gonzalez Sadornil from Hauck & Aufhaeuser Investment Banking. Please go ahead.

Jorge Gonzalez Sadornil — Hello. Thank you, Rob and Anke, for taking my questions. My first question will be around your expectations for the order intake evolution for supply chain solutions in 2022. I was interested to know if you see a softer evolution for the ecommerce vertical? Taking into account that the post-COVID economy scenario that we currently have is maybe a little bit worse for ecommerce after the rapid growth. And if you see other vertical growing faster this year, it will be interesting to have some feedback about that. My second question will be around the mix for industrial truck orders in 2021. You saw after the volume grew 51%, that if I remember well, the orders in euros grew by 40-something percent. I was wondering how that may have changed, if this is going to be better at some point and if

	that is going to mean also better margins, maybe in the future? When the mix changes, not potentially bigger, or maybe you can tell me a little bit more on this, please.
Anke Groth	Okay, let's have try on your first question, before we deep dive into the next one. Ecommerce is still a very, very strong vertical of ours, and a strong-growing vertical. Ecommerce and what we call general merchandise, you can put that together, is one of the fastest, strong-growing verticals, then followed by grocery, and food and beverage. If you take not only pure play ecommerce, but also look at general merchandise, you have to go into an online channel fulfilment, you'll see a very strong growth of that one. If we go into the mix question, I would say warehouse is slightly down. The overall trend, nevertheless, remains that the warehouse is increasing. That has a negative effect on the value, not on the numbers and units of trucks, but on the value as warehouse trucks are smaller trucks and have a lower average sales price. Maybe, if we have not hit your question correctly, then please repeat it.
Jorge Gonzalez Sadornil	No, that's perfect. I was wondering because you're selling more small forklifts. If from now on maybe there is not going to be the correlation between the volumes and the price.
Anke Groth	With the increasing share of warehouse trucks, there's a little bit of a decoupling, absolutely. We quite often talk about the statistics and that, also, the small hand pallet trucks getting a motor are now part of the statistics and adding to the units. But from the overall pricing position, these are rather very low value trucks. All of that goes into the numbers.
Jorge Gonzalez Sadornil	Thank you very much.
Operator	As a reminder, if you'd like to ask a question, please press star followed by one on your touchtone telephone. Next question is from the line of Philippe Lorrain from Berenberg. Please go ahead.
Philippe Lorrain	Good afternoon. Thanks for taking my question. That's going to be more on the working capital. I was wondering a little bit how we should think about the networking capital in 2021. Inventories went up a lot in 2021, driven by all positions, that was especially the case in work in progress. Payables went up and helped a bit, but looking at the project business, the contract balance was relatively stable because new orders and prepayments financed the contract assets expansion. So, is there anything particular to expect on the contract balance for 2022 due to the advancement of project execution? And also on the remaining working capital position, so perhaps probably more like inventory? That's the question.

Anke Groth	Hi, Phillippe. Yes, inventories. I think I said, also, on the last call that inventory will go down. Unfortunately I was proven wrong with the parts not arriving and, therefore, ending up with a high number of unfinished trucks in inventory. But yes, I would expect that to go down during the course of this year and, therefore, giving a relief there. Contract liabilities, I would expect to go rather up, so, inventory down and contract liabilities up. Let me make one remark, if we look at SCS, at year end the networking capital was again negative. You know that we have spoken about the quite unusual patterns during the year 2021, but at year end it was negative again, so SCS is contributing negatively to our working capital. That is also expected, of course, for the year 2022.
Philippe Lorrain	That's a fair point. You said contract liabilities going up, but what about the contract assets? Would that go up in line with that, so that we still keep a contract balance that is perhaps relatively stable? Or would there be a real shift observed in the contract balance?
Anke Groth	I would rather expect a positive contract balance.
Philippe Lorrain	So, more growth in the assets, then? Or how do you understand the positive?
Anke Groth	No, rather on the stable level.
Philippe Lorrain	Okay, perfect. Just in terms of the guidance, that's basically what you've packed into your free cashflow guidance, I guess?
Anke Groth	Yes, sure. Everything we know, we packed into the guidance.
Philippe Lorrain	These bigger fluctuations that you've seen, especially on the contract balance in the project business, is that leading you to changing your view perhaps on the targets, net financial leverage for the business? Do you believe, perhaps, that having a net financial leverage that doesn't go up too quickly, is perhaps the right thing to do because of the potential working capital fluctuation?
Anke Groth	I am not 100% sure I got your question. Nevertheless, let me try and answer. If we look at our net financial position, you have seen that it came down very nicely based on our cashflow generation. We do not have too many maturities coming up this year. There is one of roughly 90 million promissory notes, which we intend to pay back. Apart from that, yes, in Q1 we will see needs, and we already do have commercial paper out in order to finance working capital. You know that in the first quarter we normally are negative from a cash perspective, so we have to finance working capital in the first quarter. But that is following the usual pattern we do see in a normal year.
Philippe Lorrain	Yes, sure. And perhaps I'm going to try again on the topic of

costs and so on, but just to understand a bit. Last year you increased prices in the trucks twice, once in July and once towards year end that's going to be effective later this year. If cost inflation continues to be a topic and there is no normalisation, let's say, how have you thought about the guidance on the profit line? And should we expect, as well, further price increases, perhaps unscheduled, over the course of the year, and hence, a delay again in building up the margin?

Anke Groth	Rob, will talk about the agility in pricing. Yes, we had two price increases last year. The second one is now visible in the order backlog, and then we have the more pronounced one at the beginning of this year, which will come into force then with the orders more towards the second half of the year, more towards autumn. But we also will be much more agile throughout the course of this year. I hand over to Rob to comment on that one.
Rob Smith	Yes, I think that you're talking about one element of pricing. I think you're primarily discussing in previous times one or twice a year, uplifts on the list price of new trucks. And the list price of new trucks is one element of many elements of pricing. And agile pricing means you can work on multiple elements and you can do that at a much more interesting frequency than once or twice a year. Agility means one can be working on that at any point in time, as appropriate, to get the balance right. To be handling the productivity material costs and the inflations and the energy costs with productivity and the operations and the supply chain. But also, frequent adjustments and agile adjustments on the pricing. So, that's what I mean by agile pricing. We'll be seeing that as we go forward.
Philippe Lorrain	So, you mean as well prices in the aftermarket, because that's the one that you can probably adjust at discretion?
Rob Smith	That's one element I'm addressing. I'm addressing basically everything besides what you were talking about, was primarily just new list prices on new trucks. There's many more elements commercially that can be addressed in an agile pricing fashion.
Philippe Lorrain	Sure, okay. And perhaps just the last topic, because you mentioned the energy costs. Would you mind giving us a little bit of a hint by how much you are exposed to rising energy costs, perhaps electricity versus gas. We have some data on your megawatt hour consumption from the sustainability report, but putting a euro median amount behind that could be helpful.
Anke Groth	We would expect that we are rising by a low double-digit million euro impact this year. It's not the highest cost for us, to be honest, Phillippe. But nevertheless, it's a headwind, additionally, which we take into consideration.
Philippe Lorrain	Perfect. Thanks very much. I'm back in the queue.

Operator	In the interest of time, we have to stop the Q&A right now. I would like to hand back to Rob Smith for closing comments. Please go ahead.
Rob Smith	Thank you, Stewart, and thank you very much for joining our call today. We're really excited about the 2021 performance and results that we described earlier today. Record elements in that. And we're very focused on delivering our 2022 prognoses we've shared in route to delivering the 2023 mid-term objectives that I and our KION team stand fully behind. I'm looking forward to seeing many of you when we're out and about in the next couple of weeks in person. And look forward to picking up these conversations then. Thanks for coming and thanks for your time and your very good questions. Bye-bye.