KION GROUP AG

Full Year 2020 Update Call

Conference Call Transcript

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Speakers: Gordon Riske (CEO)
Anke Groth (CFO)

Gordon Riske	Yes, welcome to our update call for the full year 2020. As a basis of this call, we'd like to use our full year 2020 presentation. It's available on kiongroup.com under Investor Relations in the Publication sections.

We will be presenting in 4 parts during today's call, and we will then open up the discussion for your questions. I will begin with our financial key figures for the full year 2020, and we will then show you selected strategic highlights from last year. This will be followed by a market update. And Anke Groth will then provide you with a financial update for Q4 as well as for the full year 2020 and give you an overview of our financing structure. And we'll close the call with our outlook for the fiscal year 2021 and an update on our capacity and structural program.

Before we start with the financial highlights, I would like to point out that with the new Management Board composition on Page 3, laid the groundwork for future profitable growth. With the new structure, all operating activities are directly represented on the KION Executive Board.

The group's Supervisory Board has appointed Hasan Dandashly, responsible for SCS, and Andreas Krinninger, responsible for the EMEA business of the ITS segment, as additional members of KION's Executive Board. Both Hasan and Andreas should be known to all of you, as they were part of various capital market-related events in the past.

Henry Puhl, President and CEO of STILL EMEA since 2016, has been appointed as a member of the Executive Board from July 1, 2021, onwards. He will succeed Professor Elke Böhm, who will be retiring at the end of June 2021.

With the new management structure, we will be able to make even better use of the available resources to further expand our strong market position as a part of the KION 2027 Strategy.

So let me move onto our financial key figures for the full year 2020 on Page 4. Supported by the generally less cyclical SCS business, which has seen an accelerated demand due to COVID-19, and a further recovery in ITS since the second quarter, we achieved a record order intake of €9.4 billion, up 3.6% versus previous year.

Revenue reached €8.3 billion. That is minus 5.3% below the level of 2019. And moreover, we achieved an adjusted EBIT of €547 million in 2020, representing an adjusted EBIT margin of 6.6%.

Our free cash flow for the group came in at €235 million in the fourth quarter of 2020, resulting in a full year free cash flow of €121 million.

And finally, we are proposing to the virtual AGM in May a dividend per share of €0.41, which represents a payout ratio of 25% and a total volume of €53.7 million to be distributed towards our shareholders. In a nutshell, we saw a very strong finish to a challenging year 2020.

On Page 5, you see selected strategic highlights for the year 2020. We continued to implement our KION 2027 Strategy with our strategic fields of action: energy, digital, automation, innovation, and performance.

Early last year, we acquired our longstanding partner DAI, Digital Applications International. DAI is a logistics automation software company with which Dematic has significantly expanded its software offering, which supports the movement, storage, and distribution of goods across the entire supply chain.

During the summer of last year, we agreed on a strategic partnership with Quicktron, a Shanghai-based manufacturer of autonomous mobile robotics, AMRs, using technology based on artificial intelligence. In addition, we have underpinned this with the acquisition of a minority stake in Q4 of 2020.

Furthermore, we initiated and sped up the implementation of our new comprehensive China strategy with a total investment volume of around €100 million. This included the construction start of our new plant for the production of counterbalance trucks in Jinan, China.

According to the world industrial truck statistics, China is the largest single market for new industrial trucks by units ordered in 2020 with around 40% and has shown significant growth of 37% in the full year 2020.

With respect to sustainability, we are constantly combating climate change and are proud to have received our first A-minus rating by the international environmental organization CDP. This is a considerable improvement over the B rating that we have had in the past 2 years, and we will continue to focus on our target of reducing our energy-related CO2 emissions by 30% by the year 2027 compared to 2017.

Last year, KION Battery Systems, a joint venture between KION and BMZ, started the production of lithium-ion batteries for industrial trucks. KION Battery Systems is expected to extend the lithium-ion product range and expand the production capacity in order to meet the rapidly growing demand for lithium-ion battery systems in the intralogistics market, especially in the EMEA region.

In order to diversify our refinancing toolbox, we successfully established a euro medium-term note program with a volume of up to €3 billion, under which we successfully placed a corporate bond amounting to €500 million at the end of September.

In addition, in order to strengthen our balance sheet, we completed a capital increase with gross proceeds of €813 million in December. The proceeds were used to reduce KION Group's level of indebtedness to below pre-COVID levels. All this represents another significant step in strengthening KION's financial position and is expected to comprehensively support us in our future growth path.

So let me move now to the market update on Page 7. Here, we focus on industrial trucks, and this shows the global market development by region in Q4 and for the full year 2020.

Within the ITS market, all regions further improved from the trough in Q2. Western Europe saw an increase of plus 10.5% in Q4, making it the best quarter of the year, but also the best in history with around 150,000 units.

This development was driven by Germany with plus 13.8%, Italy 13.2%, France 11.7%, while the UK decreased minus 8.3%.

Summing up the quarters, the ITS market in Western Europe decreased on the full year by minus 6.3%.

In Eastern Europe, the biggest increase was seen in Russia, with plus 23.4% and Poland with 10.2%, leading to an overall growth of 14.6% in Q4 in an almost flat market for the full year, being slightly down with a minus 0.6%.

North America saw an increase of plus 9.3% in Q4 and a slightly lower market, down minus 1% for the full year. And the negative development is due to Canada and Mexico, whereas the US on a standalone basis was slightly positive for the full year.

South and Central America showed another strong quarter in Q4, increasing by 31.4%, still driven by pent-up demand after the lockdowns in Q2.

The Chinese market, which recovered already strongly in Q2 and Q3, was able to show another significant growth rate of plus 56.8% in Q4 of 2020 and 37% for the full year, driven by warehouse pedestrians and IC trucks in the economy and value segments.

As a result of these regional developments, the global market increased by 24.7% in Q4. Hence, the global market for industrial trucks grew despite the economic very challenging conditions by 8.7% for the full year.

Page 8 now shows the breakdown of KION's unit growth by region. Also, for KION, Q4 was the best quarter in our history, reaching a record unit order intake of 60.8 thousand trucks globally. In EMEA, we recorded our second-best quarter ever.

However, the Chinese players pushed entry-level warehouse equipment and low-cost IC trucks, which inflated the market. And aside from the Chinese competition, the development in the fourth quarter was in particular influenced by our exposure to certain industries that were significantly impacted by COVID-19, such as metals, logistics, and chemicals. Additionally, we did have lower additions into our rental fleet as well as by our dealers.

Looking at China, KION's unit order intake significantly increased in Q4, however, lagging the market due to our different positioning, as we are mainly positioned in the premium segment as of now.

Moving onto North America, in Q4, KION performed stronger than the market based on stronger dealer business in Mexico and Canada. For the full year, KION was underperforming due to the market challenge and the tariff situation between China and the US.

In South and Central America, KION's unit order intake decreased in Q4, driven by the development in IC trucks, where competition from Chinese players was strong. On an annual basis, KION declined due to its previous year's record order intake, particularly driven by Chile.

In total, KION finished the full year with a decrease of minus 7.2% after having recorded an all-time high of unit order intake with an increase of 8.5% in Q4.

Moving onto Supply Chain Solutions market on Page 9. In the full year 2020, the global market for Supply Chain Solution was adversely affected by the significant slowdown of global economic activity and the associated reluctance to invest. Despite these negative effects, an increase in the global order volume in the area of warehouse automation of plus 8% is estimated to have been achieved in 2020.

Demand in the Americas region grew fastest, supported by the US market, which is characterized by e-commerce and was followed by Asia-Pacific and EMEA regions with only slightly lower growth in demand.

Looking at e-commerce specifically, the tendency to shop online and have goods delivered to your home has been fueled by the pandemic. The latest market indicators suggest that the global e-commerce sales have grown by plus 28%, which is significantly up from previous projections.

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

Anke Groth

Yes, thank you very much, Gordon, and also, welcome from my side.

Turning to Page 11, you will see the key financials for the segment Industrial Trucks & Services for Q4 and the full year 2020. Let me start with Q4, which was marked by an improvement in business activity.

Our order intake fell to €1.7 billion in Q4, a decline of minus 3%, driven by our new business. At the end of December, the order book for the ITS segment stood at €1.4 billion, up by 8% versus September and down minus 1.8% versus yearend 2019.

Revenue fell by minus 7% to €1.6 billion in Q4 and was mainly impacted by our new business, which declined by minus 12.9% in the past quarter. Our service business was able to show a more resilient development with only a small decline of 0.7% due to a slightly lower level of our aftermarket business as well as by our short-term rental business.

Looking at the performance, we generated an adjusted EBIT of €100 million in Q4, significantly down versus prior year, resulting in an adjusted EBIT margin of 6.3%.

Let me highlight the most important aspects driving the development of our adjusted EBIT margin. Again, we had lower volumes and, consequently, a lower fixed cost coverage, which was almost offset by our cost-saving measures of approximately €19 million. Approximately one-third of the EBIT margin drop is due to a more competitive ITS market and additionally a negative shift in the mix geographically as well as product wise, i.e., stronger growth in warehouse than in counterbalance and stronger growth in Asia.

The remaining portion is attributable to the swing up in one-offs that turned negative this year, including write-offs on inventories, receivables, and intangible assets largely caused by the ongoing COVID-19 pandemic.

What does this mean for the full year 2020? The order intake in ITS fell to €5.8 billion, down by minus 8.8% year-over-year. Revenue fell by minus 11.1% to €5.7 billion. And in the full year, our adjusted EBIT dropped to €305 million, mainly triggered by the aforementioned negative impacts, such as lower volumes, mix effects, and the competitive market.

But even in a crisis year like 2020, we kept our strong commitment to R&D and other strategic projects that affected our adjusted EBIT by around €44 million.

And we also achieved significant cost savings with our crisis measures, supporting our adjusted EBIT by more than €110 million last year.

Page 12 summarizes the key financials for the segment Supply Chain Solutions. Again, I'll comment first on the fourth quarter. The order intake increased by 24.2% to more than €1 billion in Q4 2020, up from an already very solid level in the past year.

The very good development in Q4 was driven by strong demand in North America as well as parts of Europe, especially from pure play e-commerce customers as well as from the grocery and the apparel vertical.

With this, the order book for the segment reached €3.1 billion at the end of December 2020, representing an increase of nearly 38% versus yearend 2019.

In terms of backlog conversion, we are expecting to convert around 70% of the December 2020 backlog, which includes services, into revenue this year.

Revenue grew significantly by 31.7% to €747 million in the past quarter, strongly driven by EMEA and the US. Business solutions revenues grew by around 41% year-over-year, whereas customer service revenues grew with a rate of around 6% in Q4.

With respect to profitability, our adjusted EBIT in Q4 improved significantly with plus 80% to €94 million, equal to a margin of 12.5%, driven by a volume-related growth within business solutions, but also within customer services.

Looking at the full year 2020, order intake increased by 31.9% to €3.7 billion. Revenue grew by 10.4% to €2.6 billion. And adjusted EBIT amounted to €278 million, resulting in a double-digit margin of 10.6% versus 9.6% last year, and that is predominantly based on the significant volume growth as well as a good project execution.

Overall, SCS again showed a very strong growth momentum as well as a very solid project execution. And based on a significantly increased headcounts of almost 1,800 FTE to more than 9,000 employees now in total, we expect also to further gain momentum in executing on the strong order book in 2021.

If we move to Page 13, we have the key financials for the group. First our fourth quarter, KION saw an order intake of €2.7 billion in Q4, up by 5.8%, strongly benefiting from the Supply Chain Solution business, but also from ITS being only slightly down.

With this, the total order book grew to €4.4 billion at the end of December 2020, representing an increase of 22.3% versus yearend 2019.

Revenues increased by 2.6% to €2.3 billion in Q4, driven by the strong SCS performance. Due to the already mentioned underperformance of ITS, the adjusted EBIT for the group fell by nearly 19% to €183 million, reaching a margin of 7.8%.

Looking at the results for the full year, KION saw a solid increase in order intake of 3.6% to €9.4 billion, benefiting from our very strong and less cyclical SCS business.

Revenues declined by minus 5.3% to €8.3 billion in full year 2020, and the adjusted EBIT fell by 35.7% to €547 million, which equals an EBIT margin of 6.6%.

In summary, despite a continuous improvement in the ITS segment since Q2 and a very positive development in SCS, an exceptional year with COVID-19-related challenges ended with decreased revenue and margin for the group.

Page 14 shows the reconciliation from adjusted EBITDA to the net income for the group. As mentioned before, adjusted EBIT stood at €183 million. Non-recurring items increased slightly to €41 million with the major part of €34 million being driven by our capacity and structural program, as well as by an impairment related to non-current assets within SCS.

Net financial expenses increased to €24 million, which was predominantly driven by one-offs due to our refinancing activities. Thus, we ended Q4 with a net income of €78 million.

Looking at the full year 2020, adjusted EBIT amounted to €547 million. And besides the main topics mentioned already for Q4, non-recurring items also resulted from an impairment in the minority stake of Linde Hydraulics.

Reported EBIT amounted to €390 million in the full year 2020.

Our effective tax rate in the full year was 30.1%, slightly up against last year, due to higher non-tax-deductible expenses and some tax expenses related to prior years.

Overall, net income declined to €211 million in the full year, which represents an EPS of €1.81, and that is based on an average share count of 118.9 million.

Let me move to our free cash flow, which is shown on Page 16. With the Annual Report 2020, we adjusted the presentation of the lease and rental business within the cash flow statement to support transparency and understanding. Most important is the disclosure of the depreciation for these businesses now in its corresponding cash flow line.

Let me now give you some insight into our free cash flow generation. In the past quarter, we were able to generate a positive free cash flow €235 million. And therefore, the free cash flow in the full year amounted to €121 million.

The most important drivers for the free cash flow on a full year basis were our reduced operational result, as well as the acquisition of DAI, and the participation in Quicktron.

Higher tax payments due to higher earnings in 2019 burdened our cash flow. And if you look at the impact of our lease and short-term rental operations, you can see that that was fairly limited, as the numbers including the depreciation are very small, and it's a limited impact. And please bear in mind that the earnings effect is included within the EBIT reported. So overall, as we frequently mention, our lease and short-term rental business contributes a positive cash flow to the group.

If we move to Page 17, you see the net debt of our business. At the end of December 2020, our net financial debt decreased significantly to €880 million versus €1.6 billion at yearend 2019, mainly due to the capital increase.

As a result, our leverage on net financial debt decreased to 0.6x compared to yearend 2019, which was 1.0x, and is now well below pre-COVID-19 levels.

Liabilities from short-term rental financing have decreased to €506 million, which reflects the development within our short-term rental fleet. As a result, the leverage on industrial net operating debt at the end of December stood at 1.8x, down from 2x in prior year.

Finally, our net pension liabilities increased to €1.4 billion due to lower discount rates. And therefore, the leverage on industrial net debt increased slightly to 3.1x.

Page 18 shows our liquidity situation at the end of December. Our free liquidity amounted to €1.5 billion, consisting of a cash position of €307 million and fully committed and undrawn credit lines of €1.15 billion.3

At the end of September, we established a euro medium-term note program with a listing in Luxembourg and used that program for an initial placement of a €500 million bond with a 5-year maturity, and thereby diversifying our funding sources. The bond proceeds were used to refinance outstanding debt maturing in

2022 and thus pushing out maturities to outer years. The capital increase completed in December was used for the repayment of outstanding debt as well.

Lastly, we terminated the syndicated liquidity line backed by KfW also in December 2020.

Overall, KION has significantly diversified its funding sources, improved its debt maturity profile, and reduced debt.

After having guided you through the development for 2020, I would also like to point you to Page 19 and provide an update on our capacity and structural program, mainly within our ITS segment.

The aim of the program is to compensate reduced fixed cost absorption related to certain overcapacities as well as to align with medium-term employment needs, ultimately resulting in leaner structures. We are not only aiming to reduce indirect costs, but also to optimize our capacity and production network.

Remember, with Q3, we have been indicating total annual cost savings ranging from a high double-digit to low triple-digit million euro with related charges slightly below that level.

Today, if you look at the chart, we can fully confirm our targets and provide some more details to you.

Overall, we target substantial recurring annual cost savings between €95 million and €105 million, which will not come into full swing before 2023, as we agreed on socially responsible solutions with our employee representatives.

These savings are expected to replace and enlarge our initial short-term personnel cost savings, which we had in 2020, and to prolong them into the future.

Already this year, we expect notable cost savings amounting to €40 million to €50 million with related cash outs in the range of €25 million to €35 million.

Overall, we expect NRIs related to this program in total between €90 million and €100 million, of which we expect to book €20 million to €30 million this year. And as you can see from the chart and in our accounts, the majority of NRIs we booked already.

With this, I hand back to Gordon for the outlook for the full year 2021.

Gordon Riske

Very good. Let me now present you with the outlook for the full year, which you will also find in our Annual Report 2020. I'm on Page 21.

So for the market environment, in our view, the global material handling market should see strong growth in 2021 if economic conditions improve as we expect.

This is being driven by the increasing market momentum of the Supply Chain Solutions market and the further gradual recovery of the global market for industrial trucks.

Overall, the global material handling market is expected to grow at a higher rate than global GDP. KION is expecting a gradual market recovery for new business with industrial trucks in 2021, with a percentage rise in unit sales that is in the mid-single-digit range and above the medium-term growth of around 4%.

This rise is expected to be driven primarily by the recovery of the EMEA region, which was heavily affected by the pandemic in 2020, and by sustained growth in China. However, the latter is likely to be significantly lower than the exceptionally strong growth we have seen in 2020.

The market for Supply Chain Solutions is likely to continue expanding in 2021, particularly as a result of the sustained uptrend in e-commerce, which was further reinforced by the changes in consumer buying behavior during the pandemic. The trend for micro-fulfillment warehouses is also expected to continue.

From a technology perspective, automation in robotics solutions will remain the main drivers. In the mid medium-term, double-digit market growth is expected.

For the KION Group, you can see the detailed ranges on the slide. In the fiscal year 2021, the KION Group plans to fully participate in the market recovery and has laid the foundations for this in 2020, both in terms of technology and production, as well as in terms of financing.

In the global market for industrial trucks, the KION Group is aiming to outperform market growth, thanks to high proportion of revenue that it generates in markets that are likely to bounce back strongly.

The KION Group's portfolio in the market for warehouse automation and Supply Chain Solutions covers all of the main growth drivers. In 2021, we expect, therefore, that the revenue will increase at a rate above the expected medium-term growth rate for the global market in part due to the strong order book at the start of the year.

The order intake for the KION Group is expected to be between €9.7 billion and €10.4 billion.

The target figure for consolidated revenue is in the range of €9.15 billion to €9.75 billion. And the target range for adjusted EBIT is €720 million to €800 million.

Free cash flow, including the effects of the capacity and structural program started in 2020, is expected to be in the range between €450 million and €550 million. And the target figure for ROCE is in the range of 8.2% to 9.2%.

Overall, we anticipate that we will return to growth this year, but expect that our adjusted EBIT and thus our profitability will remain below the pre-crisis 2019 level. This is mainly due to the anticipated rise in commodity prices and the continuation of extensive expenditure aimed at strengthening future growth. However, there should be a sharp improvement compared with the 2020 level, which was adversely affected by the pandemic.

So looking onto Page 22, you see our financial calendar. The next event is the publication of our Q1 2021 results on April 28th, 2021, followed by the publication of our 2020 Sustainability Report on April 30th. Our Annual General Meeting will take place on May 11th, 2021 and will be held virtually.

Until then, we look forward to meet with you at conferences and roadshows, hopefully some nonvirtual. And with this, we'd like to close the formal part of this update call and hand over back to the operator so that we can take your questions.

Operator

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

Arsalan Obaidullah

Hi, good afternoon, and thank you. So my first question is just to understand a bit more, just to get a color on the margin growth because I see, obviously, going up from using the midpoints of your guidance for '21, you've got sort of headwinds coming through from rising raw materials prices and potentially FX. And also, I think you suggested one of the other sorts of squeezes on margin was competition, which I guess would still also be coming through. Obviously, that's offset by a volume effect. So, I just wanted to understand a bit more how sort of the transition from 6.6% to an 8% kind of mid-margin that I get to on the guidance.

Anke Groth

Yes, hi. This is Anke. These are predominantly volume and, therefore, scale effects.

Arsalan Obaidullah

Okay. All right. And for my second question, I just wanted to understand, in terms of the competition that you're seeing that's coming through from China, is it sort of purely a price-driven competition, or is there more to it from that than that?

Gordon Riske

Very much a price competition, and with the low price and especially for entry-level pricing, also new markets. Years ago, there were hand pallets without electrical motors. They were purely manual. Now it's with electrical motors. So these very simple low-cost units are also introducing new markets.

Arsalan Obaidullah: Okay. Thanks.

Sven Weier: Yes, good afternoon, Anke. Good afternoon, Gordon. The first one is on warehouse automation. So as we've all seen, you now had 32% order growth last year. And I guess, after such a strong year, we wouldn't have been surprised if at least the lower end of your guidance would be looking for a breather. But it doesn't. So you expect even 4% growth at the low end, 15% at the high end.

So maybe you could give us some color what's driving the strength here. Is it new clients? Is it existing clients who continue to spend?

And also, related to that, in your prospectus for the capital increase, you basically increased your revenue growth expectations for the business, right? When I read this correctly, pre-COVID, you saw more than 10% of revenue CAGR. Now you basically said in the prospectus it's going to exceed that. So would obviously be also curious to see, where do you see it now actually? Thank you. That's the first one.

Gordon Riske: Yes. Good. Growth is happening in all markets. We have seen, as you said, significant growth over 32%. But as you know, the project business can vary between years. And over the past couple of years, we've seen a CAGR, if you take full 2019 into it, between 17% and 23%.

But I think the big thing is the pandemic has shown our customers need very reliable solutions, people that can actually install these things, no matter what happens. And so we have seen an uptick in larger systems with existing customers. So I think some innovative things, be it micro-fulfillment or the AMCAP, automation for grocery business, we've really come a long way, cold storage. So we have also increased the breadth of our customer offering in the last couple of years. And I think the third thing is really to bring the profitable growth behind that. We've done a heck of a job to improve our project execution part of the business significantly.

Sven Weier — And related to that, Gordon, project execution, you seem to have really had a good project execution in Q4, with contribution margins of over 20% in SCS. If I look at the 2021 guidance, you look for like more like 13% contribution margin in the business. Is that because you assume somewhat less seamless project execution, or why are you more cautious on the contribution margin there?

Gordon Riske — Well, we also have lots of new customers coming up. Our order book is full. So it's comfortable to meet the targets in 2021. The win and do is smaller part, as it normally is. But fourth quarter was, let's say, exceptionally profitable. And since the new business is growing so significantly, it could be that we have a little less service as a proportion in the year 2021.

Sven Weier — And the final one is then maybe a question for Anke regarding the leverage, right? You've shown how you now stand at 1.8x on your key criteria there, and I remember from the past that around 2x is your comfort level.

But if I now take the free cash flow guidance for 2021 plus the increase in earnings that you foresee, the leverage is clearly going into the direction of 1x and maybe somewhat above that, but let's say much better than your comfort level.

How do you look at that? If the situation out there economically stabilizes further, there is no new headwind there, do you see also an option for returning cash again back to shareholders, or how do you think about that leverage?

Anke Groth

We just did a capital increase in order to be financially stronger and have a sound and solid balance sheet. And we also said there are a lot of opportunities out there in the market. Our market is highly attractive with very good growth rates, and we definitely want to participate in that. And therefore, I would say I still feel comfortable, but when we have a Capital Market Day, and we intend and plan one this year, then we will also talk about the financing strategy more in detail.

Sven Weier

Okay. Thank you, both.

George Featherstone

Hi, good afternoon, and thanks for taking my questions. My first one would be, it'd be good if you could give us a little bit more color on the key moving pieces behind the relative underperformance of ITS versus the wider industrial truck market and why perhaps you're not enjoying as much leverage through recovery. And also, in doing so, can you outline your expectations by vertical and product mix for 2021, please?

Gordon Riske

I'm not sure if you're referring to market share or earnings. Somehow, they do fit together, but I think, clearly, in our statements, in the year 2020, the pandemic hit our traditional industry where we sell counterbalance trucks more significantly than in the warehouse segments where perhaps some of our competitors and Chinese entry level and warehouse equipment products was a strong factor.

So the product structure that we have, IC trucks and warehouse trucks were quite a bit more balanced. Many of our competitors are mainly focused on warehouse trucks. And the verticals that we serve were hit harder.

And so I do expect as the recovery comes that we will see a quicker return to selling of more high-volume or high-value-based counterbalance trucks. So I do expect to see a recovery there. And that will also, of course, help us in the recovery of earnings. But having said that, the volume and so forth, we do expect the year 2021 to be slightly below for ITS than the record year 2019.

George Featherstone: Okay. Thanks for that. And on SCS, could you give us some color on the further investment requirements that you need to make to capitalize on demand in SCS?

And also, if possible, can you give us an indication of the software growth at DAI over the last year?

Gordon Riske: Let me start with the last question. The last question, the growth, in fact, let me explain it this way. We don't break out the software, but without those software packages and features that we can offer, we would not be able to deliver the large systems -- I'm talking about €40 million and above -- to our key customers.

Another way to look at it, I would say almost half of our R&D spend at SCS is today in software. I think that gives perhaps a good sense of the direction that we're going, that our markets are going, and where we have to focus our activities on to be competitive in this market. Software really does make the difference.

Anke Groth

Yes, and I think you asked for capacity and capacity enlargements. We have built Stříbro 3, how we call it, so a production facility for Dematic at our Stříbro site for capacity enlargements. That was a very low single-digit million investment.

We also have extended warehouse capacities in Dallas, but these are all really very small investments in order to be able to fulfill the requirements of the order intake. And we don't expect much more investments for capacity expansion.

George Featherstone

Great. Thank you very much.

Sebastian Growe

Yes, good afternoon. Thanks for taking my questions. Hi, Anke. Hi, Gordon. First one is around ITS. And thanks for providing the details around the gross profit margin and OpEx quota for the 2 segments.

I think, for SCS, really, the numbers speak for themselves. But for the dynamics at IT&S, if one looks at the 300 basis points decline in the gross margin year-on-year, it strikes me that, in quarter 4, this took a material hit, where the gross margin was down 400 basis points.

You mentioned the mix issues, but I think you also touched on inventory write-downs. Can you just give us a better sense really what is sort of nonrepeat in nature in the quarter 4 when it comes to the gross margin, particular at IT&S?

And if I may then switch the gears to the top-line growth outlook for IT&S, the 4% to 9%, can you also give us a sense what it does imply in terms of growth for the service part within IT&S?

And lastly, and going back to the gross profit margin, your detailed numbers suggest you had a close to 29% gross margin in 2019, in the record year. So if you are really going towards full scale in Poland, China, if new products represent a much greater share of the overall product mix, would it be obtainable, the 29% in the medium term again, or what's your thinking around this question of clearly how much of really a structural change to gross margin this sort of new competitive landscape might have created and what your answer to that is?

Gordon Riske

Let me work it backwards from 3, 2, 1. Let me start with the gross margin and effects, Poland, China, Mix. I think that's kind of behind the question. Do you have lower-cost products and more competition? Can you still make money, if I understood it correctly.

Definitely. China, as you may know, is one of our most profitable markets that we have, and the value segment that we're entering into with the correct product cost -- and the Poland factory gives us that. Jinan gives us that. The new value platform technologically gives us a very, very strong cost position for the product itself.

But customers, especially in EMEA, always look towards a full-fledged service and support organization. I think that combination for us will allow us to get back to the margins that we anticipate.

Also, you know the structural program that we announced, that means also structural programs, so savings, especially at ITS. You saw the new organization that we highlighted on the first page and that we have then taken all of the forklift brands under a common leadership, which also will provide I do believe 2 things. One is better market coverage and, number 2, some added synergies which we haven't had before. And all those things will be able to support our margin development.

The middle question, our growth this year and service, will it keep up? We do expect, as I said to the other question, as we see automotive, metals, and things you can see by the increase in steel price, you can see by the development of energy cost that the economy is coming back.

And this type of robust upturn in the economy does drive counterbalance trucks. And so I do expect that the new truck business again will grow a bit more rapidly. The service, we're already at about 50%, 49% of revenues are after the sale of the truck.

Part of that revenue is, of course, the rental business, short-term rental. As the pandemic kind of calms down, and hopefully, the vaccinations and so forth do take hold, hospitalization rates go down, I'm sure the events and other things will open up in the second half of the year. You saw the US even said some predictions after the passage of the $1.9 trillion rescue package that they could have quarterly growth rates of 7%.

So we are rather optimistic about the second half of the year, the possibilities there. And so I do expect the new truck business to grow again in the second half of the year. And if we keep our services at around where they are, then we will keep up with the margin increases as we do expect for this new year 2021.

Anke Groth

Okay. I try to figure out what are the outstanding parts of the question, Sebastian. If not, please interrupt me, and we start new.

So you asked for which parts of the effects on our margin won't happen again I think in the next year if I understood it right. First of all, let me spend a couple of words on the one-offs I mentioned, which had a large effect in Q4, and especially in Q4, but also an effect on the full-year basis.

So we are in a COVID-19 environment, and we have provisioned more conservatively at the end of the year due to the circumstances and the environment around. So we had write-offs on inventories, receivables, and intangible assets. And I would call all of this COVID-19 induced.

So I would not expect that to happen again in this year once the situation has improved. So these one-offs I don't expect to see in the year 2021. So the fixed-cost coverage will revert with the volumes coming back, as Gordon has described it. The mix will revert, as we will see more counterbalance trucks. That was also described by Gordon.

And on the other side, we have a significant amount of crisis measures of cost savings in place for this year, more than €110 million we have achieved. And you have seen the chart on the structural program we have agreed on with workers' councils. So that will take a while until we reach the same level. So that is somehow on the negative side for next year, but all other points I mentioned are on the positive side for the margin development.

Sebastian Growe

Okay. That sounds good. Just 2 very quick follow ups. The first one is on the comment, Gordon, you made on service. You said, if service stays where it is, it’s sort of all good for the outlook 2021, if I got that right. Does this really mean remaining at the level of fiscal ’20 overall or at the level of quarter 4?

And the other question for you, Anke, is I think, on a press call, you said that December was actually up year-on-year in 2020 over 2019. I think, for January, figures also suggest a very strong growth volume wise, clearly in China because of COVID recovery, but also in Europe, I think, more than 20% up. So I’m just struggling to really square that up with the volume outlook that you provide. Is it all conservativism, or is there anything else we should better be aware of?

Anke Groth

We are just in the year 2021, and we have seen the January data. So we all hope that this very positive development continues, but it’s still very, very early dates.

With respect to the service, I would translate that what Gordon has described into that we would expect to return to more normal growth rates like we have seen in the past, which was more low to mid-single digit in the service business.

I think we have displayed a chart in our quarterly presentations where you see the growth rate of the service business. And I would expect us to return to those normal levels.

Sebastian Growe

Okay. Sounds good. Thank you.

Akash Gupta — Good afternoon, Gordon and Anke, and thanks for your time. My first question is on raw material headwind and also if we club the FX headwind together with it. So I think, in the year 2016 and 2017, you had €25 million of raw material headwind when steel prices increases was, I would say, less severe than what we have right now.

And the question I have is that, what sort of incremental headwind you have baked in for both of these raw material and FX headwinds, which basically impacting your margins in 2020? And let's say, if down the line when volumes recover, if you can improve the pricing, then what kind of margin uplift we can get in, let's say, FY 2022? That's question number 1.

Anke Groth — So coming to the raw material headwinds, yes, you're right. 2016, 2017, and I think we also spoke about it 2018, when I joined the company, of raw material cost headwinds. This year, we think the situation is worse than what you have mentioned. And we have taken a low to mid-double-digit effect into consideration for the time being. So that is what we see today. But of course, it depends on the further development especially of steel, scrap, and so on.

Akash Gupta — Can you give us a number in terms of like whether it's low double-digit or mid-double digit that you have already baked in, in 2021 guidance as a headwind from raw material inflation?

Anke Groth — Akash, I would prefer to stay to what I outlined.

Akash Gupta — Yes, no worries. And then my second question is on IT&S new equipment business. Can you give us the share of direct sales versus financing for the year 2020? I think it was 51% of total volumes in 2019. But I haven't seen the figure for 2020.

Gordon Riske | We have to look that up. I don't know if we have it right off the top of our head.

Akash Gupta | Okay. And then my final quick one is on these semiconductor shortages. So we have seen from automotive industry players that there is component shortage from semiconductor side which is impacting production. Is that something that has also impact on your truck production?

Gordon Riske | Yes, we do see electronic components and so forth shortages. We are doing everything we can to mitigate those things, but it is a general topic. Anything that has any kind of controlling in it with electronics is in short supply right now.

The effect, we can't disclose it at this point because it's a little bit all in flow at the moment, but the number that Anke gave, the mid- to double-digit material issue is where we have it right now in terms of our baked into the guidance.

Akash Gupta | Thank you.

Anke Groth | Akash, we are not 100% sure we really have understood your question. Could you repeat, please?

Akash Gupta | You mean on direct sales versus financing. My question was that like, in 2019, you disclosed that 51% of new volumes in IT&S came from direct sales, while the rest was financing volumes, where you had financing, both in-house financing as well as thirdparty financing. And I was just asking how that number has moved in new forklift sales for the year 2020.

Anke Groth — Okay. Understood. Sorry for that. It took us a while. So it's somehow stable. It's slightly below 50%, but it's somehow the share of the leasing business in the new business, it is somehow similar to last year's.

Akash Gupta — Thank you.

Martin Wilkie — Yes, thanks. Good afternoon. It's Martin from Citi. So the first question is on your midterm targets. You previously aimed for a midterm staging point for 2027 by going to €10 billion of revenue and 10 sort of margin by 2022. So in your presentation today, it said that those targets are still under review. And I think most people have thought you'd have just deferred them.

Just to understand, is it still a possibility you could hit those targets, or is it more that the process to review, which presumably we'll get an update on at the Capital Markets Day, is still ongoing, and that's the reason that they're still under review? Thank you.

Anke Groth — Yes, Martin, it's still under review is the right expression. We wanted or we are thinking about coming up with the midterm targets either in the Q1 presentation, but it depends a little bit on how stable the situation then is with respect to COVID-19 and the markets, or as an alternative, when we have the Capital Markets Day.

But the target is under revision, and we have taken the midterm guidance from the table, so to speak, when we were hit by COVID-19 back in March. And this year is clearly a setback. So we will come up with our thinking around that and our analysis either in Q1 or at the Capital Markets Day.

Martin Wilkie

Okay. Thank you. And a second question, just to come back to cash flow, which was brought up earlier, now in hindsight, given the results for 2020 and the strong guidance you've given for 2021, it doesn't look like the capital raise might not have been needed. And obviously, I listened to your answer earlier. But given where we are, is it really an indication that you're planning to do acquisitions? Is that the way in which you mean it, or is it more that it was just a buffer that was required, given the uncertainty at the time? Because I think there's still some confusion as to why you need to raise quite so much money and back in Q4. Thanks.

Anke Groth

No, I think we described it very well during our roadshows. It was for strengthening our balance sheet. We now have an equity ratio of roughly 30%, which is significantly up. We have reduced our debt burden in this COVID-19 situation in order to be able to participate in the strong growth we see in the market and the order to take part in opportunities which might arise.

And we always made the point it's not a liquidity issue. It's not a cash flow issue. That is what we constantly have told the capital market.

Martin Wilkie

And in terms of those opportunities, are the sort of the equivalent size of what you did with DAI, is that sort of stuff that's in mind, or just how we should think about what your sort of M&A thinking is? Thanks.

Gordon Riske	Well, you know, on any acquisition, there's always 2 at least, availability. So anything that can help us technologically move forward in software and sensors and automation is certainly at the top of the list, or any region where we don't have enough base to expand our business is the other part of it, so regions and technology. And just to underline what Anke said, looking back now, I'm even more convinced that was absolutely the right thing to do because we not only had a very good reception. We also got lucky in the market conditions. So sometimes, luck is when preparedness meets opportunity. So I'm very happy that we did it, and it was a good thing to do.
Martin Wilkie	Okay. Thank you very much.
Will Turner	Hi. Thanks for taking my questions. I just have 3. The first one is on Supply Chain Solutions. And I just want to get a better idea about how you think about your cost base. It's obviously fantastic to see that you're hiring quite a lot of additional employees into that business especially in this year. But if we think out to about -- I don't know -- 3, maybe 4 years down the line, the Supply Chain Solutions end markets may not be as strong as they are now for various reasons. It could be an economic downturn, or it could be interest rate rising or any scenario. How do you think about the flexibility of that cost base? Could there be a potential in the future of having some cost absorption issues?
Gordon Riske	No. That has been a very big focus. Some of you that have been following us a little longer know the term lumpiness. And if you

have big systems, it certainly can be a quarter where you're missing a few. And so if I look at the almost 4,000 some people that we added to the payrolls last year at SCS, less than half of those are actually full-time employees. The other half is contracted workers that we have special agreements with people that do installations onsite, engineering and so forth. So that part of it we've tried to be extremely flexible to be able to maneuver in times when it does go down.

And the other part of it is we have taken our engineering forces in 2 directions. One, we have used a much bigger part of our engineering done in terms of simulation and electronically. So we're able to fully simulate and configure systems with our own software that we've developed.

And the other thing is our best-cost country approach. We have built up engineering centers in Lithuania, in Egypt, in India because one of the objectives was always to try to maintain an hourly rate over years that is at least constant, perhaps even as a general tendency to go down.

So I think your question -- thank you for the question. That's been a very, very heavy focus of the team to make sure that our variable cost does stay variable and that we can adjust based on the business.

Anke Groth

And maybe one point to add, Gordon, to your explanations, in the project business, we also have long duration of projects. That, of course, gives us also some flexibility to react in case of a downturn. So that's an additional point.

Will Turner

Okay. That's clear. Thanks, both. And then still sticking to Supply Chain Solutions, you obviously had a strong quarter in terms of margins in 4Q. Seasonally, like historically, you've always said that 4Q can be weak in terms of margins because of this is not the time when some of your customers want to be building new warehouses.

How much of this quarter do you think is due to the fact that we've obviously had a big shift in online consumption? And there must be some players out there which are rushing to get their online capacity up and, therefore, overpaying or like paying a little bit extra, benefitting your fourth quarter. Do you think that's been a factor?

Gordon Riske

Let me say this. There is a big demand out there, and we have a certain capacity to address that demand. I think we have learned some lessons on how to control the non-conformance cost on the one hand, but in the selection of which projects we actually do, we have become a bit more selective than in the past. And I think that helps make sure that the margins continue to stay stable and even increase a bit.

Anke Groth

I would also like to add here, so the revenues, the billing is based on the percentage of completion method, which is based on the costs of the projects and how much progress we are doing. So it has nothing to do that customers would be willing to pay an extra margin in December or in November to get it done. So I would say that was not a point which has an impact on the margin you have seen.

Will Turner

Okay. Okay. Thanks. And then question on industrial trucks. You mentioned how, obviously, you've had very strong growth in

China during 2020, probably surprised most people how strong it's been. But you have mentioned how, in 2021, you're not expecting a repeat of that level of growth.

Do you have any concerns, though, that by the time that your new production facilities in China and your expansion project is fully up and running -- and I think the timetable for that to be completed is 2025 -- that the Chinese market won't be growing as much as it is now, just given how strong it's been?

Gordon Riske

Well, the Chinese market in terms of volume, 2020 was around 40% of the global volume. And so the idea that it would go down to 20% I think is quite remote. And so it will always be a very important part of our strategy and of the forklift business.

Second thing is that the market shares that we currently have are less than 10%, but we have with the factory a great sales and service team and a supportive anchor shareholder. There's a lot more in it. So we're not concerned that the market, at least for our products and the electrical part of it, will cave in at some point.

The factory goes online in 2022, so not '25, '22. First products come rolling out of that factory. And another thing to always consider is, just as we have certain factories in Eastern Europe or US or wherever that deliver to other places, we will use this base because that is our -- let's say our global competence center for value trucks. We will use this base also to export to other regions, including Europe, to address this market.

So there's a lot of good factors in there that give us confidence that this investment has a great payback.

Will Turner	Okay. That's very clear. Thanks. Thanks. No more questions.
Philippe Lorrain	Yes, good afternoon. Philippe Lorrain from Berenberg here. A couple of questions. First perhaps on the topic of the raw mats, if I recall that you said earlier this year that, in December, you increased your list prices by about 1.8 to 2 percentage points. So perhaps you could confirm that that was correct and that that is partly addressing the increase in steel prices that we had seen towards the end of last year.
Anke Groth	First of all, it's 1.5% to 2% is the range in which we increase our prices. And yes, I can confirm that we did it. But it's somehow actually our yearly normal price increase, which is not tied to the raw material price increase we have seen in December, but especially also in January.
Philippe Lorrain	Okay. Understood. Do you think that the fact that, longer term, there's going to be a much, much higher share of electric trucks actually might make your profit much less dependent on what's happening on the raw mat side, especially steel, just because there are less, let's say, kind of counterweights made of steel that are used by the trucks, but perhaps the trucks use more batteries in terms of counterweights?
Gordon Riske	Yes, but to carry 2.5 tons, you still need a good counterweight. So that won't affect it so much. Steel price is a factor for us. There's lots of steel. Some big construction companies tried to use cement, but that doesn't work, the truck gets too big. So no, that will still be a factor.
Philippe Lorrain	Okay. I understand. And then the other question I had was more on your corporate services and consolidation line. I had the

	impression that both me and the consensus as well has a little bit underestimated how negative that part of group EBIT is going to be in 2021. So perhaps you could explain us why this was like so positive actually or so positive or not that negative actually in 2020, and what are the drivers behind that to kind of understand better how this line is going to develop further on your P&L?
Anke Groth	If we look at this year, Philippe, the positive development is primarily driven by our crisis measures which we have put in place, so cost-saving, bonus reductions, and so on, and a positive EBIT contribution from our internal service companies. For next year, I would say the corporate costs are more on a similar level as in 2019, plus some additional costs for what we would call strategic projects, and that somehow causes the swing.
Philippe Lorrain	Okay. But these costs that are going to come on top as like the strategic projects, are they like more of a temporary nature, i.e., once certain measures have started bearing fruits, these costs are disappearing, or they are actually structurally in the P&L?
Anke Groth	No, they are structurally. We have shifted some strategic projects into the central services, and they will stay there.
Philippe Lorrain	Okay. Perfect. I understand. Thanks.
Daniel Gleim	Yes, Daniel Gleim. Thank you very much for taking my questions. Actually, I have 2 of them. Gordon, you gave a guidance for the global industrial truck market is around mid-single-digit figures for 2021. Can you give us a ballpark figure for your European estimate that went into that guidance?

Gordon Riske

No, we don't really specify. What I did say is we do expect Europe to come back, but that's the overall global market. And China will calm down a little bit versus 2020, but that's the overall global situation.

Daniel Gleim

You gave us a little bit of color on the drivers behind the relative underperformance of KION in 2020 in the European market, this by verticals. You also mentioned the rental fleet and your dealership exposure.

When you look at the first 8 weeks of 2021, can you lift the curtain a little bit of what you're seeing on these laggards with the new portfolio? How are they doing into the new year?

Gordon Riske

Yes, it still is a new year, as Anke said. I think I mentioned it in the presentation Q4 was a record for us. And that momentum is unbroken. Let me put it that way.

Daniel Gleim

And on the rental fleet and your dealers, or in the first 8 weeks, has there been a step change that could be meaningful year-over-year?

Gordon Riske

No, I'm just saying it was a very solid momentum in the fourth quarter that has pushed its way into 2021. So the market is robust at the moment, and we hope it keeps up this way and people don't start shutting borders to countries and that kind of stuff in the next weeks.

Daniel Gleim

All right. Thank you very much.

Peter Rothenaicher — Yes, hello, Anke and Gordon. You have order backlog in Supply Chain Solution of more than €3 billion. So considering the strong increase in material costs, to what extent are you hedged in purchasing components and materials, or to what extent you have the opportunity to pass on this higher cost to your customers?

Anke Groth — Yes, we are not hedged. And we think exactly in SCS it's potentially easier to pass increased costs on if you're having a new project in front of you. For the already order intake, it depends on the clauses you have with the customer. And for new orders, of course, it also depends a little bit on the competition, but everybody is facing the same increase of raw material prices.

Peter Rothenaicher — Okay. But for the existing projects which have a long throughput time, partially ranging into 2022, there might be some risk of cost overruns then?

Anke Groth — Yes, there might be also, and not only on the ITS side, but also, SCS is facing headwinds with respect to raw material cost increases.

Peter Rothenaicher — Okay. So to what extent you have included in your guidance for 2021 in the margin guidance, which is considerably up, the strong increase in material cost?

Anke Groth — It's nearly the same amount as on the ITS side, I would say, potentially slightly lower.

Peter Rothenaicher — Then a housekeeping question regarding PPA, it was €91 million in 2020. What is the outlook for 2021? Is it going down, and to what extent?

Anke Groth	It's going down I think to roughly €80 million, €81 million, and then it will also stay on that level.
Peter Rothenaicher	Okay. Thank you.
Operator	We have no further questions. I hand back to Mr Gordon Riske for closing remarks. Please go ahead.
Gordon Riske	Yes. Thank you, all, for participating in our update call here for the full year 2020 and all the questions. And we look forward, again, to speaking with you at roadshows or wherever we can and then on the upcoming Q1 2021 results in April.