KION GROUP AG

Q1 2021 Update Call

Conference Call Transcript

28.04.2021

15:00 CET

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

Gordon Riske

Yes, thank you, and welcome to our update call for the first quarter of 2021. As a basis for the call, we'd like to use our Q1 2021 presentation. It's available at kiongroup.com under Investor Relations in the Publications section. We will be presenting today in four parts, as we usually do, and then open up for your questions.

I will begin with the key financial figures for Q1 and some of the highlights for the quarter. This will be followed up by a market update, and then Anke Groth will provide you with the financial update for Q1, and we will close the call with a confirmation for our outlook for the full year 2021 and give you also this time an update on the medium-term targets for the group.

So let me move to our key financial figures for the first quarter 2021. For those following along, I'm on Page 3. So generally, we have seen positive trends from the fourth quarter having spilled over and continued into the current year, so supporting double-digit growth rates in both segments, ITS and SCS.

This supported our order intake, surpassing €2.6 billion, so up 26%, and revenue reaching €2.4 billion, up 17%. With an even bigger increase, the adjusted EBIT, which was almost up by 50% up to €215 million, representing an improved adjusted EBIT margin of 9.1%. Our free cash flow for the group came to a positive €262 million. So in a nutshell, we saw a very strong start into the new year 2021.

Moving onto Page 4, let me describe a couple of selected highlights for the past quarter. All of our brands, our entire company, play an important part in handling the distribution of COVID-19 vaccines around the world as smoothly as possible.

Throughout the entire production environment, the absolute priority is maintaining a maximum degree of hygiene and speed. This is why electric forklift trucks sourced from Linde and STILL play a crucial role in the intralogistics supply chain moving the vaccine around the world.

Thanks to the powerful lithium ion batteries, these forklifts are available around the clock, working three shifts. And they do meet every hygiene requirement and contribute to the distribution of billions of doses of vaccine throughout the world.

Additionally, we’re very proud to have completed a new automated distribution center for the Landmark Group in Dubai, UAE. Landmark is a large retailer in the Middle East and India. From its new distribution center, the Landmark Group distributes garments, furniture, toys, small goods and more to the nearly 1,400 retail stores that it serves and from there directly to the end customers.

The new warehouse is as large as 40 soccer fields, or around 265,000 square meters. It consists of a climate-regulated, high-bay warehouse that stores temperature-sensitive items and a garment-on-hanger system that can store up to 2 million clothes, and up to 15,000 totes per hour can be transported to the picking stations. It is the largest and fastest warehouse Dematic has ever installed. And thereby, it sets a logistics benchmark for the entire Middle East.

And last but certainly not least, KION brands sold a comprehensive intralogistics solution to Trelleborg Sealing Solutions in Stuttgart, Germany. Trelleborg is a preeminent developer, manufacturer, and supplier of precision seals and guides. And Trelleborg commissioned Dematic to develop the intralogistics solution, including a high-density storage solution, a pallet warehouse, and an automated guided vehicle, AGV, system with automated forklift trucks from STILL.

Construction work on the new service center has already begun, with commissioning planned for the end of 2022. And so you see, again, an example of all of the KION Group working together.

Let me move onto the market update. On Page 6, the industrial truck market shows a global market development by region for the first quarter 2021. And based on the significant growth across all the regions, the global industrial truck market reached a new record level and grew by 71% in the past quarter.

Within EMEA, all core markets were contributing to the extraordinary development, with growth rates ranging between 30% and 70%, and thus reaching a plus within Western Europe of 40% and 49.6% in Eastern Europe, with the strongest growth seen for electric counterbalance trucks.

After a sustained low level, North America picked up speed again and increased by 71.1% in Q1. And almost the same picture was visible for South and Central America, which showed another strong quarter in Q1, increasing by 76.6%, driven by counterbalance trucks in Brazil. The Chinese market was able to grow by 131% compared to a very low base in Q1 2020 due to the hard lockdown during that time in China.

So overall, the global recovery for the second quarter of the COVID-19 pandemic led to a new record order level in the market for industrial trucks of 592,000 trucks.

Page 7 shows a breakdown of KION's unit growth by region. The unit order intake in Q1 reached a new all-time high for us with a record level of 67,600 units globally.

In Western Europe and Eastern Europe, we recorded significant growth rates of 35%, respectively 44.4%, which was over proportionally driven by counterbalance trucks, including a good demand for our new Linde truck generation 12xx.

Thus, we gained, regained market share in the counterbalance segment, where we were lagging behind in the market because of stronger development of warehouse trucks. In Western and Eastern Europe, we see carryover effects from 2020, and the markets are catching up within key industries, like manufacturing, automotive, and logistics. Those were the ones where we were hit harder during the height of the pandemic last year.

Looking at China, KION's unit order intake significantly, by more than 100%, improved across all product segments, but was lagging slightly in the market due to an even stronger performance among entry-level warehouse trucks.

In North America, KION grew faster than the market. This was also due in part to a large one-time order.

In South and Central America, our unit order intake grew only by 12.2%. The gap to the market development results from a very high number of stock orders that are traditionally placed in the market in Q1. We expect this gap to be close in the coming months.

In total, KION saw an extraordinary Q1 with global unit growth of 47.3%, benefiting from a significantly improved market.

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

Anke Groth

Thanks, Gordon. And also, a welcome from my side. Turning to Page 9, you will see the key financials for the segment Industrial Trucks and Services for Q1 2021.

During the quarter, we saw a strong demand for industrial trucks, leading to an order intake of €1.8 billion. At the end of March, the order book for the ITS segment stood at almost €1.7 billion, up around 20% versus December 2020. Revenue increased by almost 5% to €1.5 billion, supported by our service business that enjoyed very healthy growth, particularly in aftersales and used trucks.

Looking at the operating performance, we generated an adjusted EBIT of €131 million, significantly up versus prior year, resulting in an adjusted EBIT margin of 8.6%.

The main driver for the adjusted EBIT development was a strong growth in our service business. In addition, savings from our capacity and structural program of around €10 million also contributed to the good adjusted EBIT development in Q1.

The increase of the adjusted EBIT margin is predominantly driven by the under proportional growth of our fixed cost and to a smaller extent by the over proportional growth of the service business.

Overall, the ITS segment showed a strong start to the year. However, we expect certain headwinds, predominantly during the second half of the year, such as rising material costs and component shortages, which we expect will to some extent lead to production inefficiencies and also an increased level of inventories.

Page 10 summarizes the key financials for the segment Supply Chain Solutions. The order intake increased by almost 21% to €830 million, showing a continued strong demand driven primarily by the grocery vertical, including one single order near the level of around €150 million, but was also driven by the general merchandise and e-commerce vertical.

While demand remains strong in North America, it further accelerated in Europe. The order backlog at the end of March increased slightly versus yearend 2020, surpassing €3.1 billion.

In terms of backlog conversion, we are expecting to convert around 60% of the March 2021 backlog into revenue during the remainder of the year.

Revenue grew significantly by 48%, reaching a record level of €861 million in the past quarter, driven by the ongoing execution of our order book.

This includes an increase in business solutions revenues of around 70% year-over-year, whereas customer service was slightly down, decreasing with a rate of around minus 4% due to FX effects.

With €102 million adjusted EBIT, we saw a very good quarter translating into a margin of 11.8%, which was driven by volume effects as well as under proportional growth in R&D and SG&A.

Overall, SCS again showed another notable quarter.

Page 11 summarizes the key financials for the group. KION saw an order intake of €2.6 billion in Q1, up 26% versus prior year, strongly benefiting from SCS as well as from the recovery trend in ITS. And with this, the total order book grew to €4.8 billion by the end of March 2021, representing an increase of nearly 8% versus yearend 2020, mainly driven by ITS.

In particular, based on the strong performance of SCS, revenue increased by 17.1% to €2.4 billion. Due to the already mentioned improved development in ITS and the ongoing strong performance in SCS, the adjusted EBIT for the group increased by nearly 50% to €215 million, equal to a margin of 9.1%.

In summary, we had a very sound start to the year, providing a good base for the remainder of the year.

Page 12 shows the reconciliation from adjusted EBITDA to the net income for the group. Let me comment only a few highlights. As mentioned before, adjusted EBIT stood at €215 million. PPA is almost stable. Net financial expenses decreased to €10 million driven by FX valuation effects and significantly lower financial liabilities.

Taxes increased nominally, reaching €47 million. However, the tax rate amounted to 25.4% in Q1 and was thereby lower than the level of 28.3% seen in Q1 2020. The lower tax rate is mainly attributable to nonrecurring tax effects and a higher EBT. And this is driving the lower tax rate.

Overall, we ended the first quarter with a net income of €137 million and EPS of €1.04.

Moving onto the free cash flow statement on Page 13. In the first quarter, our free cash flow was positive at €262 million. Besides the very good operating performance, the main driver was the release of net working capital. The buildup of inventories was more than offset by a positive development in trade payables and contract liabilities. We further strengthened our sales and service network in Europe by fully acquiring an ITS dealer, impacting our free cash flow with a small cash out of €12 million.

Page 14 shows the net debt of our business. And as at the end of March, the net financial debt decreased to €656 million, of course, mainly due to the positive free cash flow development we just commented about.

As a result, the leverage on industrial net operating debt stood at 1.5x at the end of March, down from 1.8x at the end of 2020. And finally, our net pension liabilities decreased to €1.2 billion, due to higher discount rates, and therefore, the leverage on industrial net debt decreased also substantially to 2.6x.

Looking ahead, we expect to improve our balance sheet metrics and financial debt maturity profile further by an early repayment of around €167 million of promissory notes by the end of April.

And with this, I hand back to Gordon for the outlook and our midterm targets.

Gordon Riske

Yes, thank you, Anke. I'm on Page 16. So as you've seen in the presentation and the documents, KION had a very strong and solid start into the new year 2021. However, the economic environment is still characterized by great uncertainty with respect to end market developments, component availability, and some commodity prices. Therefore, we do reiterate our outlook for the financial year 2021 with lots of confidence.

Moving onto Page 17 and to show you how confident we are, we have updated our midterm targets for profitable growth based on executing our Strategy KION 2027. Fueled by continued strong SCS growth and the recovery in ITS, we target our revenue to surpass the €11 billion mark by the year 2023.

While managing the above-market growth, we keep our eyes on profitability, of course, allowing us to strive for a double-digit margin. Thus, we can confirm our previous target of reaching a double-digit adjusted EBIT margin in the range of 10% to 12%, but delayed by 1 year from the previous midterm targets.

The levers supporting us on our journey are the following. In ITS, we expect to benefit from the growth fueled by the market recovery paired with cost savings from the implementation of our capacity and structural program scheduled to come into full swing from 2023 onwards.

In SCS, we expect to benefit from strong growth, including business from repeat customers as well as from standardization and further improving project execution. Last but not least, we expect ongoing and continuous improvements in all internal efficiencies.

Last page, Page 19, we'd like to talk about our financial calendar. The next event is the publication of our 2020 Sustainability Report, which will be released on April 30th, followed by our virtual Annual General Meeting, which will take place on the 11th of May. The publication of our Q2 2021 results will take place on the 29th of July 2021.

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

Operator

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

George Featherstone

Hi, good afternoon, and thank you very much for taking my questions. My first one would be on the 2021 guidance for ITS. Following the €1.8 billion of orders in Q1, this leaves you with about €4.4 billion to achieve the top level of the guidance range. Given you did around that level of orders in Q2 to Q4 last year, this would suggest that you're assuming the market environment for the remainder of this year be no different to those quarters last year. Is that correct?

Gordon Riske

A little early to tell at the moment. Right now, we see a strong recovery and, as I said in the remarks, some carryover from last year to this year. So at that point when we have a little bit more visibility, then we can comment on that. But at this point, we fully confirm our guidance.

George Featherstone

Okay. And then maybe moving to my second question on the margin expectations for the remainder of the year, the Q1 adjusted EBIT was significantly above your implied 2021 guidance. Can you help us bridge the moving pieces here for the remainder of the year and whether, in your original planning, you had anticipated such a strong margin performance in Q1?

Gordon Riske

Yes, we have two things that come together with the strong margin performance in Q1. Number 1, as you know, we started last year quite early with our cost reductions and all the short-time work, all those things. And at the same time we have the larger volumes.

Now what we don't see in Q1 yet is any bigger effects on the material costs and those types of things and shortages because we're all pretty well prepared for it. So we do assume that there could be -- I'm not saying it's for sure -- there could be these effects that we said double-digit million euro effects from material cost increases hitting us in the second half of the year.

But it was an outstanding performance, you're right, for Q1, also for ITS and margin improvement versus last year. But as I said, it's a little bit early to take it all home for the rest of the year at those levels at this point.

George Featherstone

Maybe just to follow up really quickly on that, are you saying then that the margin performance in Q1 was consistent with your expectations for this quarter, or was there anything within that that was perhaps surprising to the upside?

Gordon Riske

Well, it was better because we had higher volumes than our underlying cases. So the volume certainly helped us. At the same time, when you're squeezing costs everywhere, so those two things come together.

Anke Groth — And I would also add that the service performance was really strong. We expected the strong service performance and the recovery, but the aftersales market and the used market came back very strongly with really a very good growth rate.

George Featherstone — Okay. Excellent. Thank you.

Sven Weier — Yes, thanks for taking my questions. Hi, Anke. Hi, Gordon. The first one is on the SCS order environment. And you had a great year-on-year growth in Q1, but if you take the Q1 number times four absolute terms, obviously, we're still running a bit short of the annual guidance. So can you steer us a little bit regarding the pipeline, the timing of it? Are you confident you will run into that run rate required for the guidance range already in Q2, or how should we think about the pipeline? That's the first one. Thank you.

Gordon Riske — Well, the fact alone that we confirm the guidance gives us a great deal of confidence to meet that, especially on SCS. Let me put it that way. I've said in a number of meetings that the €1 billion, talking about -- maybe not the new normal yet. It's certainly getting close. I think we're getting close to 3 or 4 quarters in a row, certainly $1 billion quarter again. So actually, we're quite pleased with the first quarter order intake.

Our project pipeline is full enough and more than full enough to fully give us the confidence to achieve all of our guidance targets for this year. So we're in great shape what SCS concerns. It's a lumpy business, don't forget. There are some slight changes. A couple years ago, we had much bigger variations between quarter to quarter. But that was a great first quarter.

Sven Weier

I think you said in the quarterly report that the SCS orders in Q1 were driven also by grocery. Was that the micro-fulfillment business that is now really ramping up on a bigger scale, or is that still outside micro-fulfillment?

Gordon Riske

No, micro-fulfillment is an important new aspect, but that's outside of that. As we've seen in the pandemic, the delivery of essentials, like food and beverage, is in high demand. And through that pandemic, I think our teams have shown a couple of customers some outstanding performance in getting things done. And some of these customers have said, "Hey, well, we'd like to have more from you." And so grocery was a newer area where we had better-than-expected growth rates.

Anke Groth

And also, the large deal I mentioned in the financial section, Sven, the €150 million, was in the grocery vertical.

Sven Weier

All right. Yes, thanks for that. And then just following up on the supply chain issues, right, if I understand you correctly, it's more at this point an expectation for the second half, but you don't really see this hitting you yet in the second quarter.

If I compare this year with 2018, right, when that was the last time you had such an impact, even there, you still had your kind of usual seasonality of almost making 80% -- sorry, 60% of your EBIT in the second half. Do you generally foresee that this time around the supply chain issues, the raw material price issues are simply more severe than back then? And I guess, back then, you were caught a little bit more off guard than this time. Is that the right way of looking at it, or?

Gordon Riske

I would say we're prepared better, simply because we have built additional capacities and factories. So I would say, from an assembly point, it's better. From a supply market, it's actually a little bit tougher because a number of things are happening at the same time, which was not so relevant in 2018.

All of our, let's say, peers and automotives, all hit the brakes extremely hard last year, and a lot of it has to do with electronics and some other components. We shut down suppliers. We really hit the brakes. And a lot of that went into the consumer business of television, mobile phones, PCs, etc.

And now, from hitting the brakes, you're hitting the gas pedal with almost two feet in a super-charged car and trying to get your whole supply base to get not only back up to speed, but much greater speed than what you told them a half a year ago or 8 months ago. And so that is a little bit straining the supply chain base, especially in the area of electronics.

Anke Groth

And if you compare that with 2018, if we look back into the year 2018, the shortage was in the first half of the year, not in the second half of the year. So the distribution of the supply chain issues is slightly different. And if I look into Q1 and there is a very, very minimal impact of supply chain issues, and as we said, material cost increases come with a time lag, and that will really be seen or start to be seen next quarter and then in the second half of the year.

Sven Weier	And you mentioned the auto industry, right? Are you also -- and they are quite cherry picking at the moment, right? So they're focused on the high-margin models. So they might have a sales shortfall, but still very good EBIT. Are you able to do the same and maybe cherry pick yourself maybe more towards counterbalance truck side, or is that not so possible for you guys?
Gordon Riske	I love all of our customers. So we're not B2C, where you maybe make a decision. We're selling to essential industries and keeping things moving. That's our slogan. But the counterbalance trucks and that has driven profitability certainly with all the service work behind it. That has been a good recovery because some of the customers that were hit very hard last year, and we suffered, of course. That's our strong suit. The Deutsche Mittelstand and automotive and manufacturing industry has come back strong. And they buy more counterbalance trucks, and they generally buy them from us.
Sven Weier	So it's more the shift within the mix, but that's not intentional basically from your end.
Gordon Riske	Yes, I think we steer the business, of course, to profitable customers always, but this time, with the counterbalance coming back, that has helped us.
Sven Weier	Okay. Thank you. That's it from my side.
Akash Gupta	Yes, hi. Good afternoon, everybody, and thanks for your time. My first question is, again, on ITS orders. And you said earlier that there was some carryover effect from last year, but even the orders have been very, very strong. Was there any also

prebuying from customers in anticipation of higher prices and that might come, given steel prices and some of the commodity prices have gone up further in recent weeks? So maybe if you can explain that, if that was a factor as well in Q1 orders.

Gordon Riske

Yes, prebuying, we had a pretty strong December that everybody knows, normally, at the end of the year, we have a price increase. So you do see some buying uptick in the first couple of December weeks. That has happened.

And in this case, no, I think we have pent-up demand. We have carryover from last year. And we have general economic recovery all around the world. You wouldn't have, for us, 47%, or for the global economy, 70%, just on prebuying. That would be a little bit much.

There may be some of that in there of people trying to secure delivery dates or production slots. That could be a small effect. But no, we are seeing a very solid, very strong recovery in all of our end markets.

Akash Gupta

My follow-up question is, again, on orders. Given the strong demand that we are seeing in not just you, but I would say entire industry, is it fair to say that probably you would be able to pass on more raw materials to customers than before, like if demand wouldn't have been this strong that it is right now?

And therefore, as a percentage of sales, the raw material impact in second half could be lower than in a weak demand environment.

Gordon Riske	We had a price increase at the end of the year. And price increase in our business, the way we run it normally, is a list price increase. And the sales forces are out there to try to have a price assertion. So how much of that list price can you actually assert? So if we had list prices last year of 1.5% to 2% increase, if we're able now, because of material shortages, etc., to have a higher price assertion, that could happen. That could offset some of the material cost. But we do not expect that to be offset completely. We have, as we've said in previous roadshows and so forth, we do expect a double-digit negative hit from increased raw materials.
Anke Groth	I would say, on the SCS side, it's a little bit easier than on the ITS side to handle the raw material price increases because the contract structure is different, and we have a different risk mitigation on that side. So I would expect the effect on SCS being lower than on the ITS segment. But we have spoken about that when we gave the full year guidance. And I can confirm that the effect is not worse than what we have spoken about back beginning of March. And we also said we factored it into the guidance at that point in time. So it has not worsened. And on the SCS side, based on the contracts, some sort of risk mitigation, but it will hit both segments, ITS a little bit harder than SCS.
Akash Gupta	Thank you.
Sebastian Growe	Yes, thanks for taking my question. Sebastian here. Hi, Anke. Hi, Gordon. Quickly on the fiscal '23 guidance, I would be interested in what sort of growth this guidance really implies by segment. So

the CAGR is 10% plus, as you put it there with the greater than €11 billion. I think, historically, you have been saying that, for ITS, you would rather expect sort of a GDP type of growth as a good yardstick eventually. I would be interested in this regard how we should think about China here on the very journey when it comes to ITS.

And then obviously, as a residual, would be SCS I think, where in the past, you have been rather talking around 10% plus or so. So just to help us understand how we should eventually put together the 10% and how it breaks down by segment, that would be the first one.

Anke Groth

I'm not sure if I can answer all of your questions right now, Sebastian. But the CAGR, which you then have in front of you, is I think around 6%, so slightly higher than what we had before. I think, before, it was around 5%, 5.6%. And now we are slightly higher.

The contribution, the €11 billion, why have we lifted our target, so to say? It's based on the very good development on the SCS side and a faster recovery on the ITS side. But I would say two-thirds of the increase is attributable to a faster and better development on the SCS revenue side and then the remainder on the ITS side.

Sebastian Growe

Anything to add on China in particular? I think the number that you shared at the Capital Market Day was about €500 million in revenue. So any update there?

Gordon Riske

That's the right number. Nobody expects to have 110% growth in a quarter and still be a little bit behind in market share. That's to me always astounding, the numbers. But you have to realize, against the comps from this time last year, it's a different story. But yes, the number that we're still shooting for is in that range. And if growth continues this way, certainly, that'll be a little bit higher.

Sebastian Growe

Okay. Sounds good. And the second one's around free cash flow. So when I look at the €450 million to €550 million for the full year and I look also what happened on the working capital side, obviously, we haven't seen this usual seasonal (inaudible) because you obviously had already some payables in the fourth quarter. And so we have only seen this €100 million inventory increase.

The question that I simply have is, what is sort of the working capital level that you have in mind? You've been talking around, obviously, your great confidence for the SCS pipeline for the rest of the year, to still make that €2 billion to €3 billion number at the midpoint of the guidance. I would assume it all should come together and result in an obviously better free cash flow than what you are guiding. So any color here?

Anke Groth

Sure. First of all, when we gave the guidance beginning of March, it was formulated and given with the knowledge about the positive Q1 because we, and I think we talked about it as well that we actively steered our payables at yearend to avoid to have too much cash at hand with negative interest rates.

So when we gave the guidance, we expected that the normal seasonality we do face Q1 historically is negative, as you know, that this will not be the case this time. In Q2, Q3, we will somehow come back to the normal pattern of a lower cash contribution. And you know that Q4 normally is our strongest quarter from a free cash flow perspective. And so we feel very well positioned -- let me phrase it like that -- in our guidance range when it comes to the cash flow.

Sebastian Growe

Okay. Let's wait how the year plays out. Thank you.

Philippe Lorrain

Yes, good afternoon. A couple of questions from my side, so one on ITS. The price mix was clearly positive in Q1, hinting at a strong development in the counterbalance trucks, exactly as you said. So I've got a question on chip shortage and supply bottleneck situation here. Is it fair to assume that it's more pronounced in that kind of products versus warehouse trucks, or can we say that this kind of situation would be equally spread across the whole product portfolio?

Gordon Riske

Equally spread. We have some specific electronic topic in the counterbalance truck that we do expect to be mitigated in the second half of the year. But also, the warehouse segment is growing phenomenally. And there, you have the same topics from gears to batteries to you name it across the board. And it all comes back to, what were our original projections and all of our colleagues and peers competing with some of the same resources or trying to get some of the same resources. So it's pretty much across the board.

Philippe Lorrain

Okay. Thank you very much. And then the rest was more referring to the Slide number 4 in your presentation and the contract you have won from Trelleborg. So perhaps you can shed a bit more light on the mobile automation portfolio in ITS and especially what's supplied there. I get from your comments that the AGVs are basically coming from STILL. You have as well some AGVs coming from Dematic. So perhaps you can explain to us a little bit where the differences are and whether they are like even more mobile automation basically offering in the ITS segment.

Perhaps you can also talk to us a little bit whether that was really like a true cross-selling collaboration effort between Dematic and STILL or whether that was really coming from the client who wanted to get like the turnkey solution and, hence, was perhaps talking only with one of the partners and got like the full solution from you.

Gordon Riske

No, Trelleborg was really a co-creation, let's say. That was a very well-orchestrated and aligned process between ITS and SCS. So that was at a very early stage and a lot of room for ideas that both teams worked very well together with.

Sometimes, what you mentioned does happen. There's a full turnkey system, and then we tried to use, of course, as much as we can of our own equipment because it limits the risk of execution.

Regarding mobile automation, I don't want to give a lecture. I could do that, but in light of time, maybe not. But I think, in general, you have to think of that in three categories. The one is the customized, fully one-of-a-kind, bespoke AGVs that a system that a company like Dematic will build for a customer.

The second category is forklifts. Generally, we call them walkies, so forklifts, smaller ones between 1.5 and 2.5 tons that used to have a driver not on the forklift, but driving the forklift or pulling it with an electric motor, of course, so he doesn't have to pull it. And this has disappeared and being replaced by some kind of camera sensor system so that this can take place fully automated.

Then you have the third category of things like what we're doing with Quicktron, turtles or AMRs, autonomous mobile robotics that are basically low to the ground and carrying these things, smaller, larger packages, chassis of cars, etc., that are driving around.

And all of these three classes of products we offer solutions to, we offer software to, and the installation and solutions development that's required around those. And so I think we're in a unique space to be able to offer all three of those, different categories to a customer or to different markets.

Philippe Lorrain: That's good. So is it fair to assume then here that it's more like something from the second category, i.e., more like these automated forklifts?

Gordon Riske: Yes, the Trelleborg is definitely -- that is a forklift that is now no driver anymore. In emergency cases, you could actually go and drive it manually, if required. But that is definitely a typical forklift that's now been automated, and the driver has been taken out.

It's produced alongside all the rest of the series production things, in that case, Hamburg or Reutlingen or France, Chatellerault, and the automation equipment gets installed in the production process as we move along on the delivery process.

Philippe Lorrain: Okay. Great. And is it like lithium-ion powered, or is it like a mix with lead acid?

Gordon Riske

More and more towards lithium-ion. If it's a new installation, new time customer, we're converting, it's easier for customers to use lithium-ion. But we have a lot of repeat customers that have a huge base, huge install base, not only of forklifts, but of charging rooms, which then are quite expensive if you change from one technology to the other. So lead acid will still be there for a while.

Philippe Lorrain

Okay. Perfect. Thank you very much. I'm back in the queue.

Gael de Bray

Thanks very much. Good afternoon, everybody. I think that 3 months ago, you had indicated that one of the assumptions for the ITS full year guidance was that counterbalance trucks would continue to grow at a slower pace than warehouse trucks and probably lead to ongoing negative mix effects this year. So I was wondering, after Q1, if you're changing your view on this. So that's question number 1.

And question number 2 is about how you're thinking on personnel hiring, inventory buildup, and investments to be able to deliver on the planned revenue expansion for 2023. Thank you.

Gordon Riske

As I said, we're at the end of April. We're talking about the first quarter. The mix is a positive development. We did assume that there would be some recovery in the counterbalance if the markets do recover. That has happened. And so yes, a mix of more counterbalance certainly is, from a profitability standpoint, a positive effect.

On the personnel hiring, etc., we have a big program ahead of us, especially at SCS. We have hired many, many new employees, new engineers, worked with third-party partners to be able to handle that. We've installed new factories. So in general, I think, from an investment and from a personnel standpoint, we are positioned enough to be able to at least meet our guidance targets. And if the market grows beyond what our guidance, and certainly, we'll be able to handle that in addition.

Gael de Bray: Okay. That's great. Thanks very much.

Katie Self: Hi, good afternoon. Thank you for taking my questions. Just a couple from me then. The first one, on the ITS side, I wonder if you could just update us on what you see in terms of rental activity. Is that still something that's quite depressed due to the lack of big events and trade fairs, or do you see that as an area that's also kind of back to these pre-COVID levels?

And then my second question, more on SCS or warehouse automation, I want to just -- either currently or if you see signs of this starting to happen -- do you see any indication of the traditional industrial robotics players making some headway in warehouse automation or in AGVs? And I'm thinking players of the likes of an ABB, a FANUC, these sorts of names, where traditionally have been focused on the industrial setting, but they've been talking more and more about logistics. Is that something you see happening at all?

Gordon Riske: Let me just start with the second question. Anke will go to the first one. All of those, ABB, FANUC, one of my old homes, KUKA, we partner with those when we use their robots for picking and palletizing applications. KUKA, as you know, is the owner of Swisslog, so a bit smaller, but certainly an interesting player in this market for automation.

And ABB supplies automation equipment, especially electronics and so forth, all that stuff around it. And Honeywell purchased Intelligrated. So it’s also in some regards automation.

So yes, we do see them, but the traditional -- when you only view those companies as a robot company -- we don’t see the robot companies so active in the logistics market. They’re more invested in automotive, body shop, paint shop, etc. That is more the strong suit. It’s also a little bit different environment for the products and the solutions.

Anke Groth

And, Katie, with respect to short-term rental, let me first comment on rental in total. There is also an increase of more than 4%. It contains long-term and short-term rental. But we also see a strong pickup in short-term, not only in long-term rental. So yes, the market has improved considerably, and we also expect that going forward, as the business economy has picked up and the companies are bridging also sometimes with short-term rental trucks. So yes, very solid and good development as well.

Katie Self

Great. Thank you very much.

Martin Wilkie

Thank you. It’s Martin from Citi. A couple of questions. The first one, you have I think the slide again talking about a transition to lithium-ion over the next, or really by 2027 to get to sort of half the trucks moved across to lithium-ion. Is that accelerating because of the pandemic? If we see, either because of environmental reasons or even perhaps chip shortages, meaning that engine management systems are harder to come by, and if we shift to lithium-ion, could that go faster because of the market environment we’re seeing?

Gordon Riske

What's accelerating is the move to electric. That's for sure. And as the EU and even the US struggles now with, what does Euro 7 mean for on-highway trucks, that will have an effect also for the off highway. That standard is not defined, but everything that we hear and see from our discussions with the European Commission is that it's by far much stricter than anyone had planned. And so the cost of making a diesel engine clean is more than the cost of the engine. So that doesn't really make a lot of sense. So the change to electric also for our types of products will accelerate.

Within that, though, to move to lithium-ion, that is happening on lower-end products, meaning entry-level warehouse equipment because it just makes sense. It's easy. But as I said in another comment, some of the traditional users of electric trucks already have big installed bases of batteries, lead acid batteries. But in general, the trend towards electrification is accelerating. The use of lithium-ion batteries in that change, I don't see a big change at this point. I think that our 50% 2027 is certainly on track.

Martin Wilkie

And then related to that, when you think of -- obviously, your margin this year is held back by steel cost and other pieces. When we think of the technology development costs but also some of your investment in capacity, whether it's in Poland or elsewhere, are those significant margin drags this year, or are they not so meaningful in terms of the P&L, but rather sort of the CapEx side of things?

Anke Groth

Look, we always said there is no fundamental difference between an E-truck which we sell with a lead acid battery or a lithium-ion battery. So from a margin perspective, the shift within electric trucks does not make a fundamental difference in our margin development.

Martin Wilkie — Thanks. And in terms of the -- I know it's slightly unrelated -- but in terms of the capacity ramp ups you're doing in Poland and elsewhere, is that a meaningful part of investment cost this year, or is that more on the CapEx side?

Anke Groth — Poland is more on the CapEx side. So we have invested into Poland, and we see a contribution in CapEx. The factory is coming online now in May are the first trucks coming out of the Poland factory. If I think about lithium-ion investment, you know that we have put our joint venture in place with BMZ already last year, where we invested into lithium-ion production. And therefore, I would say BMZ[1] is directly linked to lithium-ion, and Poland, yes, was a CapEx driver, but now we will see trucks coming out of that factory.

Martin Wilkie — Okay. Thank you.

Richard Schramm — Yes, good afternoon. I have a first question on Supply Chain Solutions, this strong performance we have seen in Q1 in sales and also especially margin wise, I was positive surprised here. Are there any specific effects which have pushed this performance, or would you say this was in so far a pretty normal quarter which could be a kind of benchmark for the coming ones? Thank you.

Anke Groth — We have seen quite a large uptake in revenue. So there is clearly a volume effect in the margin development.

[1] Note: This refers to the joint venture KION Battery Systems for the production of lithium-ion batteries together with BMZ Holding GmbH

Richard Schramm — But there have been no specific effects, be it that there was some very profitable orders, for example, which were exceptionally good in margin here.

Anke Groth — No, no extraordinary effect. Overall, good and decent project execution, but we have shown that also in the last quarters, but nothing really extraordinary which is worthwhile to mention here.

Richard Schramm — Okay. And then a quick one on the financial result, this delta of minus €10 million we have seen in Q1. Is this also the benchmark for the coming quarters, or was this an exceptionally positive development here, and we should go for a higher figure in the coming quarters again?

Anke Groth — We have given our guidance. And it's also -- I think you can find it under housekeeping. So our full year expectation is €50 million to €60 million for the full year 2021. There are in the first quarter some FX effects, and that is always somehow slightly difficult to predict. We, of course, can very well calculate the financial liabilities, but the FX needs to be seen how that develops throughout the year. So guidance full year €50 million to €60 million.

Richard Schramm — Okay. Thank you very much.

Alexander Hauenstein — Yes, hello. Alex Hauenstein, DZ Bank. Thanks for taking my questions. Yes, coming back to FX actually, looking at SCS, you mentioned that, on service, there was some FX weighing on it. I understand that, overall, the EBIT effect was about minus €9 million you mentioned in one of the footnotes. So the question is, what do you think here we might see for the second quarter and also for the second half? Is there some kind of hedging to come, or how do you think about that? Is it possible at all to hedge that out a bit, or how do you expect this to progress? That would be the first one.

Anke Groth

Yes, FX is, as we just spoke about, slightly difficult to predict, quite frankly. And you have translational effects, and you have also translational effects. But what we can say is that we don't do hedging on that one.

We have a strong business in North America, especially on the SCS side, as you know. And therefore, FX is part somehow of the business. Our accounts are euro denominated. And therefore, you have such FX effects.

The comment I made is, if you look at the service business in US dollar, you don't see the decrease you're seeing in euro. And therefore, I made the comment because, normally, our service business also on the SCS side shows a very healthy and steady growth trend. But if it comes to the conversion, that was the main reason.

Alexander Hauenstein

Okay. Understood. Thanks for that. And coming back to the chip shortage actually, what do you actively do to avoid some trouble out of that? Is it possible to switch here to some other kind of microchips that you normally use or any other way how to work around it? Are you kind of producing in some way some stock, or is it more likely that, in case of difficulty, you will simply see production stops? Thanks.

Gordon Riske: There's a number of cases there. On things that we design and influence ourselves, we try to make it in such a way that you can go to alternatives. That works pretty well.

But we have a couple of particular cases that it's coming from a supplier's supplier. And this particular supplier's, I would say, one of the largest companies in the world. And I'm always amazed. If they can't handle it, how could I handle it? But no, kidding.

Going to the third level is sometimes very difficult to get into their design. We buy a product that meets a function. And this particular supplier has a chip supplier that just was not able to keep with the volumes. That's the simple solution. And the same supplier, you read many famous names of assembly lines being stopped around Germany and other places due to the same issue.

But as I said, that is starting to recover. Capacities are going up. And I think some lessons will be learned on that. Also is how to design a little bit more in the area of being able to replace things with another alternative.

Alexander Hauenstein: So I read between the lines that you're not that much worried about actual production stoppages at your site. Is that correct?

Gordon Riske: We have an issue now. I do believe, though, that second half of the year, we will be able to clean that part of it up. The cost, the material cost is a different story. But from a supply chain, we should be able to clean that up by the second half of the year.

Alexander Hauenstein: Okay. Thank you.

Daniel Gleim	Yes, good afternoon. Thank you very much for taking my questions. There are actually three left. The first one would be, Gordon, what should we expect from the analyst and the investor event in November? More specifically, could there be a new midterm guidance?
Gordon Riske	I'm not sure I got the question because we just did give a midterm guidance today. But maybe just a general comment. I know this whole thing about guidance, and other people have changed guidance and so forth back and forth, and why aren't you guys changing after such a tremendous first quarter? First point on that, everybody knows us. And for those of you that have been following us for the last few years, we are generally very consistent. So we are, I would say, a stability anchor. Second point, we gave the full year guidance only a few weeks ago in March. Now we have April. My third point, the uncertainty in the market in the customer markets is still there. We have the component availability, which I talked about. And so that's an issue. Having said all that, and then with the release of our midterm targets, our new targets, we did give an €11 billion target. So I think you can be confident enough that the general direction is absolutely growth and profit. And the last point is we will see each other in, or hear each other at least on July 29th for the Q2. And then I think we will have a little bit more visibility on all the things that have been asked about in terms of the market, especially for ITS, and then look at it again at that point.

Daniel Gleim

Very clear. You commented on the European warehouse and electric counterbalance trucks momentum in the first quarter. Could you complement that with a comment on the IC trucks, and maybe adding some more color, what is demand holding still back for that product category?

Gordon Riske

All the counterbalance, IC trucks have performed quite well in the first quarter, also in Europe, but that is more due to the customer verticals that we serve, manufacturing, automotive, and so forth, investing again. And also, I think we've seen a little bit of effect with the launch of the new products, the new Linde products out there. That has been well received by the market. But the IC within the counterbalance segment has for us performed quite well.

Daniel Gleim

Very clear. The last question is on SCS. Could you comment on the sequential accessibility to client side into the second quarter? Has there been any meaningful changes with regards to providing access for KION to do service onsite?

Gordon Riske

No, that has all calmed down quite significantly around the world. There's one place where we have had some shutdowns also from suppliers, but it's not critical because the volume for our company is not so large. And that's in India, as you can imagine, especially in Pune, which is one of the hotspots where we're located at. There we had had days of shutdown simply because people couldn't come in, or things like welding equipment. We could not use our welding equipment because we gave our oxygen tanks to the hospitals. But other than that, no, we have full access now to all the sites.

Daniel Gleim	Very clear. Thank you very much.
Philippe Lorrain	Yes, thanks for taking my follow up. A really quick one, it seems like, in Q1, you've shifted like a few of the service revenues around in SCS in the presentation. And I just wanted to know, what was the main driver behind that?
Anke Groth	Yes, shifted around, I would say, is a little bit overstated. There was a rebooking on the SCS service revenue side of one of the projects, and it's around €40 million, which we rebooked from full year 2020 in the first quarter. So it's some kind of restatement of the service revenues. But it's not a change or a reshuffling, I would say. It's a rebooking from last year, some kind of restatement of one service contract.
Philippe Lorrain	Okay. Perfect. No, I was wondering whether that was more of a structural change. Thanks.
Anke Groth	No, no, no. It wasn't, Philippe, or it isn't.
Philippe Lorrain	Okay. Perfect. Thank you.
Operator	There are no further questions at this time, and I would like to hand back to Mr Gordon Riske for closing comments. Please go ahead.
Gordon Riske	Yes. Thank you, all, for participating in today's update call. We look forward to seeing you either on roadshows or in other meetings. And the latest will be another Q2 result then on July 29th. Thank you for participating.