

KION GROUP AG

Q2 2021 Update Call

Conference Call Transcript

29.07.2021

15:00 CET

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

Disclaimer: This document has been prepared by KION GROUP AG (the "Company") solely for informational purposes. This disclaimer shall apply in all respects to the entire presentation (including all slides of this document), the oral presentation of the slides by representatives of the Company (or any person on behalf of the Company), any question-and-answer session that follows the oral presentation, hard copies of the slides as well as any additional materials distributed at, or in connection with this presentation (collectively, the "Presentation"). By attending the meeting (or conference call or video conference) at which the Presentation is made, or by reading the written materials included in the Presentation, you (i) acknowledge and agree to all of the following restrictions and undertakings, and (ii) acknowledge and confirm that you understand the legal and regulatory sanctions attached to the misuse, disclosure or improper circulation of the Presentation. The Presentation is private and confidential and may not be reproduced, redistributed or disclosed in any way in whole or in part to any other person without the prior written consent of the Company. None of the Company, its affiliates or KION Finance S.A. or any of their respective directors, officers, employees, agents or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of the Presentation or its contents or otherwise arising in connection with the Presentation. The information and opinions contained in this Presentation do not purport to be comprehensive, are provided as at the date of the document and are subject to change without notice. The Company is not under any obligation to update or keep current the information contained in the Presentation. The Presentation does not constitute or form part of, and should not be construed as, an offer to sell or issue, or the solicitation of an offer to purchase, subscribe to or acquire, securities of the Company, its affiliates or KION Finance S.A. or an inducement to enter into investment activity in the United States or any other country. No part of this Presentation, nor the fact of its distribution, should form the basis of, or be relied on by any person in connection with, any contract or commitment or investment decision whatsoever. Certain industry, market and competitive position data contained in this Presentation, if any, come from official or third party sources. Third party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. While the Company believes that each of these publications, studies and surveys has been prepared by a reputable source, the Company has not independently verified the data contained therein, and the Company assumes no responsibility whatsoever in respect of the accuracy and completeness of any such data. In addition, certain industry, market and competitive position data contained in this Presentation come from the Company's own internal research and certain estimates are based on the knowledge and experience of the Company's management in the market in which the Company operates. While the Company believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. The Company, therefore, also assumes no responsibility whatsoever in respect of the accuracy and completeness of any such research and estimates. Accordingly, no reliance should be placed on any of the industry, market or competitive position data contained in this Presentation. Statements in the Presentation, including those regarding the possible or assumed future or other performance of the Company and its affiliates or its industry or other trend projections, constitute forward-looking statements. These statements reflect the Company's current knowledge and expectations and projections about future events and may be identified by the context of such statements or words such as "anticipate", "believe", "expect", "intend", "project" and "target". By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Company. Such factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. Accordingly, no assurance is given that such forward-looking statements will prove to have been correct. They speak only as at the date of the Presentation and the Company undertakes no obligation to update these forward-looking statements. IFRS financial information for any previous fiscal year figures is adjusted in the Presentation as necessary pursuant to changes to IFRS or other mandatory reclassifications. The addition of the totals presented may result in rounding differences. In addition to figures prepared in accordance with IFRS, the Presentation also includes certain non-GAAP financial performance measures (e.g., EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net profit, free cash flow, gross debt, and net debt, order intake, order book and ROCE). These non-GAAP measures have been included because we believe that investors may find them helpful to measure our performance as reported under the relevant IFRS measures. However, these non-GAAP measures should be considered only in addition to, but not in isolation or as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles, and other companies that report similarly named non-GAAP measures may define or calculate these financial performance measures in different ways.

Gordon Riske

Yes, thank you. Welcome to our update call for the second quarter of 2021. As a basis for this call, we will use our Q2 2021 presentation. It's available on kiongroup.com under Investor Relations in the Publications section.

We will be presenting as usual in four parts today and then open up the discussion with your questions. I will begin with our financial key figures for the first half year and then present selected business highlights from the past quarter. This will be followed by a market update. Anke Groth will then provide you with a financial update. And we'll close the call with a presentation of our outlook for the financial year 2021 before we turn it back over to you for the Q&A.

So let's start with our key financial figures on Page 3. So overall, during the first half of the year, the KION Group continued its recovery after the pandemic year of 2020, and we did achieve significantly improved KPIs compared to the same period of the previous year.

Supported by a very strong rebound within the ITS segment, our order intake for the group grew by 34% to €5.9 billion in the first half of 2021. Our revenue reached €5 billion, up 26%, driven by both operating segments, including a successful order book conversion in SCS.

Even more pronounced was the increase in adjusted EBIT, which reached €462 million in the first half of the year, resulting in a great margin of 9.3%. Our free cash flow for the group improved further and came in at €301 million.

So in a nutshell, we saw a significantly increased profitability as well as continued strong demand that provides us with a good basis for the remainder of the year. And that is now reflected in our raised guidance.

Moving onto Page 4, let me describe a few selected highlights in the past quarter. We continued to stringently implement our 2027 Strategy and further strengthened our position through new products and an expanded footprint.

Linde introduced the new line of the Linde X20 to X35 electric forklift models with load capacities from 2 to 3.5 tons. These are the first electric Linde trucks that are comparable with the performance and robustness of Linde's IC hydrostats, while offering additional environmental benefits. They represent a real alternative for our demanding customers with high-intensity applications.

Another feature is the full truck connectivity so that these trucks offer all advantages of a digitalized industrial truck. Dematic together with our ITS brands Linde and STILL and the Digital Campus have jointly developed the Dematic conveyor ConfiKIT, an app that makes configuring a conveyor line at the customer site much easier.

The app enables our brands to implement customer requirements even faster and in an even more personalized way in the future. As such, it supports our customers at the start of their automation journey.

Last but certainly not least, we have commenced production of our forklift trucks at our new Polish plant in Kołbaskowo. The new

plant has the size of roughly 44,000 square meters. It produces counterbalance trucks that were relocated from Western Europe to Poland and, in the coming years, will produce products localized in Xiamen, China, to speed up delivery times. We expect to invest a total of around €80 million and expect to create up to 400 new jobs by the end of the year 2023.

So let's move on now to the market update on Page 6. The focus on industrial trucks shows the global market development by region in the second quarter of 2021. After an already very strong development in the first quarter of 2021, the momentum further increased in the second quarter and resulted in a unit order intake of almost 74% compared to the pandemic-induced weak Q2 2020.

This growth was predominantly driven by core markets within EMEA and Americas based on the strong carryover effects for counterbalance trucks combined with pull-forward orders of customers in anticipation of longer production lead times based on the tight supply situation around the globe.

While Western Europe was up by 117%, unit order intake in Eastern Europe increased even stronger at 134%. In North America, the market gained further momentum, almost doubling year-on-year, thereby expanding further from the very solid level seen in the first quarter of 2021. This was primarily driven by IC trucks.

Looking at South and Central America, the market more than tripled, not only due to the low comparison base of the last year, but also due to strong demand of IC trucks.

In China, where the market was already experiencing significant postpandemic growth during Q2 2020, unit order intake showed a slowing momentum, however, still growing at a plus of 36%.

So overall, the global market for industrial trucks reached a new record order intake level of 625,500 trucks. So 625,000 trucks is an amazing number for the first half of the year.

Page 7 shows a breakdown of KION's unit growth by regions. KION's unit order intake showed an outstanding performance and reached also a new record level of 87,900 trucks globally.

In EMEA, we saw a strong growth driven by carryover effects, pull-forward effects, but also some prebuying ahead of the announced price increase, which started in effect for July.

In our most important end market Western Europe, unit order intakes more than doubled, while Eastern Europe recorded a growth rate of 80%. However, we were lagging behind the market based on some of the ongoing strong competition of Chinese players, nonetheless a very, very strong quarter.

Looking at China, we were even able to outperform the market with a plus of 82.6%, mainly driven by new product additions and further progress in expanding our sales and service network.

Likewise, in North America, KION's unit order intake increased by more than 300% compared to the prior year based on further successful implementation of our KION 2027 Strategy, including cross-selling new products and an improved footprint.

In South and Central America, our order intake almost tripled, driven by core countries Brazil, Chile, and Argentina and a good performance in the IC segment.

In total, KION saw a very successful second quarter with global unit orders having more than doubled.

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

Anke Groth

Yes, thanks a lot, Gordon, and also a warm welcome from my side. We start with ITS. So please turn to Page 9. During the second quarter, we saw a significant demand for industrial trucks, leading to a record order intake of €2.2 billion in the quarter, partially also driven by prebuy effects due to our list price increase in July. At the end of June, the order book for the ITS segment stood at almost €2.3 billion, which is up by 64% versus December 2020.

Revenue increased by around 26% to €1.6 billion, supported by our new business, despite ongoing supply chain issues. On top, our service business also grew significantly.

Looking at the operating performance, we generated an adjusted EBIT of €148 million, resulting in an adjusted EBIT margin of 9.2%.

Let me address here one point, the often-done comparison with 2019 margins. So some of you rightfully point to the fact that, despite comparable sales levels to Q2 '19, our margins are not yet back to historical double-digit ranges.

The main reason for that is an increased fixed cost structure. We mentioned several times higher depreciation and our strategic expenses, for example, the Polish factory ramp up, and of course, we see raw material price increases.

During the first half year of 2021, the ITS segment recorded an order intake of €4 billion, revenues of more than €3 billion, and an adjusted EBIT margin of 8.9%. So overall, we can say the ITS segment showed a very strong second quarter and a good first half year.

However, we expect the second half of 2021 to be impacted by certain headwinds. We already mentioned increasing material costs and some component shortages. So therefore, the margin expectation for the second half of 2021 is slightly lower than seen for the first half of this year.

Turning to Page 10, I want to give you an update on our capacity and structural program. Based on the recently very strong improvement in customer demand, we have adapted our expectations for the financial impact of our program. So going forward, we aim to focus only on the structural optimizations, rather than on the capacity needs.

Thus, for the program in total, we are now expecting €5 million to €15 million lower savings, which come with €20 million to €30 million NRIs and cash out, which makes the program more efficient.

But all in all, we still expect for 2021 around €35 million to €45 million of savings. Around €20 million is already achieved.

Moving onto Page 11, here we have the summary of the key financials for the segment Supply Chain Solutions. SCS developed or showed a strong performance in the second quarter and achieved FX-adjusted growth in order intake slightly positive.

However, including FX effect of €44 million, order intake was slightly below the record order intake level of Q2 2020, which again, was a record quarter and that in the midst of the pandemic.

Regionally, demand remained strong in North America, while it accelerated in Europe. And the order backlog at the end of June increased slightly versus yearend 2020, reaching almost €3.2 billion, of which around half is for conversion into revenue in the second half.

Revenue grew significantly, reaching a strong level of nearly €1 billion in the second quarter, driven by business solutions increasing by 69% and customer services with a growth rate of around 20%.

The high profitability of 12.6% adjusted EBIT margin was supported by volume effects and a disproportionate increase in G&A cost.

For the first half year of 2021, SCS recorded an order intake and revenues of €1.9 billion and an adjusted EBIT margin of 12.2%.

So overall, again, another notable quarter, especially looking at the successful order book conversion.

For the second half, we expect, if you look at the midpoints of the guidance, slightly lower revenues due to the seasonality of the

project business and a lower margin based on the lower volume, material costs, and some investments into SG&A.

Moving to Page 12, you see the key financials for the group. During the second quarter, KION saw an order intake of €3.3 billion, up by 40% versus prior year, benefitting from the strong demand you have seen for our products and solutions. With this, the total order book grew to €5.4 billion by the end of June 2021, representing an increase of 22% versus yearend '20, mainly driven by ITS.

In particular, based on the strong performance of SCS and to a somehow lesser extent ITS, revenue increased by 36.5% to €2.6 billion in the second quarter.

Due to the already mentioned improved performance in ITS and the ongoing strong development in SCS, the adjusted EBIT for the group increased to €247 million, which equals a margin of 9.5%.

For the first half year of 2021, KION saw an order intake of around €5.9 billion, revenues of close to €5 billion, and an adjusted EBIT margin of 9.3%.

So in summary, we had a successful second quarter, and the half year results provide a good basis for achieving our uplifted guidance.

Page 13 shows the reconciliation from adjusted EBITDA to net income for the group. Reported EBIT included nonrecurring items of €5 million in the past quarter. Net financial expenses decreased to minus €9 million, supported by a positive interest

result from our lease business, lower expenses for pensions, and generally lower financial debt.

Taxes increased nominally, reaching minus €58 million in Q2, equal to a tax rate of 27.3%.

And overall, you can see that we ended the second quarter with a net income of €154 million and earnings per share of €1.17, while the first half of 2021 saw a net income of €291 million and earnings per share of €2.21.

Moving onto the free cash flow statement on Page 14, we adapted the free cash flow disclosure in this presentation, and we think it gives you a better visibility on how we use our cash.

In the first half year, our free cash flow amounted to €301 million, of which €39 million were attributable to the second quarter. Besides the strong operating performance and a favorable development in trade payables, a further buildup of inventories caused by the continued tight supply situation impacted our free cash flow development negatively. In addition, we saw an increase in contract assets due to a high level of project execution in the SCS segment.

The generated cash was predominantly used for the early repayment of promissory notes.

As illustrated at the bottom of the page, this year's free cash flow development does not follow the typical seasonal pattern, starting rather weak the beginning of the year with Q4 normally being the strongest, as you have seen it many times in the past.

If you look at the guidance for the full year, you could question somehow why the remainder of the year looks quite soft. So let me comment on that one. First of all, we had a very strong first half year and a rather untypical pattern, as we explained to you also during Q1.

We expect inventory buildup due to the supply chain issues. Additionally we intend to fund our pension CTA with around €50 million in Q3 or Q4. And if you look at our CapEx, we also expect the payout for our CapEx program to be higher in the second half. So overall, we left our CapEx guidance unchanged.

Moving to Page 15, that shows the net debt as well as the corresponding leverage ratios of our business. And you have seen the use of the funds already at the end of June 2021. The net financial debt decreased by €162 million to now €718 million due to the positive free cash flow development.

As a result, leverage on net financial debt stood at 0.4x at the end of June 2021, which is down from 0.6 seen at yearend. Our net pension liabilities decreased to €1.2 billion, mainly due to higher discount rates. And therefore, the leverage on industrial net debt decreased substantially to 2.2x, down from 3.1x at December 2020.

And with this, over to you, Gordon, for the outlook for the full year 2021.

Gordon Riske

Thank you. I'm on Page 17. As you've seen, we have just recently increased our outlook for the financial year 2021. This updated outlook is based on the achieved results in all key performance

indicators during the first half year, which were significantly better than our original forecast.

And in addition, we expect that the current positive projections for global economic growth over the year as a whole as well as the upturn in revenue to continue during the remainder of the year. So for the KION Group, you can see the detailed ranges of our updated outlook on the slide.

The order intake for the group is expected to be between €10.65 billion and €11.45 billion. The target figure for consolidated revenues is in the range of €9.7 billion to €10.3 billion, and the target range for adjusted EBIT between €810 million and €890 million.

Our free cash flow outlook is unchanged and is expected to be in the range between €450 million and €550 million for the reasons just explained. And the target figure for return on capital employed is in the range of 9% to 10%. This includes an adjusted outlook for the segment Industrial Trucks and Services with respect to order intake, revenue, and adjusted EBIT.

For the segment Supply Chain Solutions, we increased our outlook for revenue and adjusted EBIT as well. Our free cash flow guidance remains unchanged based on, as we planned, additional buildup of inventories, respective the working capital due to the ongoing tight supply chains.

Now however, there are still considerable uncertainties in the assessment of our business performance for the remainder of the year due to the unpredictability and the further course of the COVID-19 pandemic, the risks there associated with further

development of end markets and raw material prices also with a regard of availability of intermediate products.

Our 2021 outlook adjustments are based on the assumption that there will be no further far-reaching lockdown measures or plant closures in the course of the year and that the availability of intermediate products will not tighten further.

An economic downturn in key sales markets or worsening of procurement risks could cause the KION Group's performance and financial results to deviate in such a case significantly from the outlook.

Looking onto Page 19, you see our further financial calendar. Next event is the publication of our Q3 results, which will take place on October 26, 2021, shortly before our Virtual Analyst and Investor Event scheduled for the 3rd of November, 2021.

Until then, we 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 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.

Sven Weier

Yes, thank you. Good afternoon, Anke. Good afternoon, Gordon. The first question is on the truck order intake guidance that you've given. And as you said, it's implying quite a bit of a slower second half, which of course, I understand you had some prebuy. You had some pent up in the first half. But I was also curious, to what extent are you also limiting the order intake because you're

conscious of capacity constraints, conscious of supply chain constraints? So is it also kind of voluntary from your side?

Gordon Riske

Yes, we're a larger company than we were several years ago, but we're not that strong to tell customers no. And I would never tell a customer no. So no, we are not limiting in any way. You can see that even the strong order book and strong order intakes, despite some of the, let's say, delivery promises that are stretched out, and customers still sticking with us. So it shows there's quite a bit of patience in the market.

But I think you made the right statement. We have pent-up demand from last year. People were ordering prebuys. We did have just a huge second quarter. I've never seen anything like it before. And I just don't expect that range to continue in the second half of the year, and it already shows in China: 36%, between us, is not that bad. But I do see some normalization in the second half of the year.

Sven Weier

Okay. Yes, that makes sense. Second question, please, is on Supply Chain Solutions. I was just curious how the pipeline has evolved between the last quarter and now. Is it still as upped, or are you seeing any signs of saturation? Did you maybe have some order slippages more than usual into the third quarter? That would be the second one. Thank you.

Gordon Riske

No, I'm amazed at some of our customers when they talk about 5 years, 10 years, 15 years. So no, actually, the order project pipeline I would call it is as full as the last time we talked in the last quarter. I just think the skillset that we've been able to acquire and the expansion into the grocery business and fashion business and so forth, and we've increased our presence in

Europe and made a lot of progress around the world. It's a fast-growing company and a really, really solid market.

And the pandemic has kind of just inflated all of that and put a turbocharger on customers' behavior that a lot of people will no longer return to stationary buying and stick with the online business. And it's our job to make that as seamless as possible. And that is really adding up to a lot of orders.

Sven Weier

Yes, maybe in that context, Gordon, I saw in the quarterly report that you seem to be buying a company in India. Can you maybe elaborate a little bit on that? I think it's in SCS, right? So maybe you can elaborate a little bit on that one as well.

Gordon Riske

Yes, you've followed us a number of years, and the message has always been, where do we have a technological white spot, or where do we have a regional one? And fact is that many of our big customers -- and it's publicly noted. So it's -- I'm not telling any secrets -- have made huge bets on the Indian continent and have committed -- Amazon being one of over €1 billion investment into these markets.

And so if our biggest customers are going there and investing in a big deal, we have to follow that and be there to make sure that we're the ones that then provide the backbone so that all of this can happen. And that's just simply -- we found a very good partner, and we're already in the forklift side one of the leaders in the market, I'd say right up there at the top. And so we're following, as we have all along, where our customers are to provide them with very local, very strong presence.

Sven Weier

Understood. Thank you, Gordon.

Sebastian Growe

Good afternoon, everybody. Thanks for taking my questions. Hi, Anke. Hi, Gordon. The first one is a follow up to Sven's question on your whole situation in ITS and then the volume trajectory. The question is, more after having seen this pent-up demand and certain prebuying or pull-forward, as you phrased it, can you comment on the potential impact from the prebuying? So if you could put a number behind, it would be helpful, and also talk around the margin quality on the orders that you have taken so far.

And related to it, I would be interested in the midterm outlook because you're scaling back on the capacity part of the overall improvement program. I would be just interested in hearing your thoughts around your assessment on the underlying market growth in ITS.

So if this has notched up a bit eventually from a structural standpoint, but things are going extremely well in China, but also within other geographies, and if I just look at the market being 40% or so above the 2019 levels, I would be just interested in hearing your thoughts around the kind of structural growth in ITS. And then I would have one more around SCS.

Gordon Riske

Yes, again, we're not pulling anything back in terms of volumes. I know what you mean about our restructuring program because we do have to focus on delivering our promises to customers.

But structurally -- and I think we've alluded to it a few times on these calls -- I would say we have our our core ITS business, especially the brands of Linde and STILL, which are certainly high-profile, high-usage, sometimes we call them premium

customers. That is a pretty steady business and has had some suffering. I talked about it last year when those went down, and that has disproportionately come back in the market. That's the one area.

But what we are seeing structurally is a lot of products that -- handheld small pallet trucks -- also legally, ergonomics, people are not allowed to use those anymore. So that's really driving the conversion to electrify that. So that is a structural thing. We call them entry-level warehouse trucks. That is really moving. We have a partner in China, and we have some low-cost products ourselves. That's one area that will continue to be very robust.

Then we have the whole emissions drive. Today, we are 87%. We just introduced within the big product family that we launched last year with the first truck was an IC truck. Now the electric trucks are coming behind with the same functionality as a diesel truck. And so structurally, we've become much more of an electric company.

And then you put the whole value part of it in with our China effort with good enough trucks for medium usage type of equipment. And what we see in SCS simply has an effect on ITS over time. More people buy things online. Yes, they need complex distribution centers to do that, but at the end, closer to the delivery point to the customer, you simply need more forklifts.

There's more packages. There's more parcels. There are more small bits being moved around on pallets, and that's structurally driving the market. And so it is a positive area to be in for exactly the type of products and services that we offer.

But again, 2021 second quarter will go down, at least in my mind, as absolutely outstanding. I just don't believe that that's the norm. But we do have structurally I think a great position that we're in to address the further growth trends that I just mentioned.

Anke Groth

Yes, and, Sebastian, hi. With respect to your question to quantify the prebuy effect, quite frankly, that's really difficult to say what is now normal customer behavior, what is based on the list price increase we announced. So it would really be a superficial estimate and could only be wrong. So no number on that part.

Then you asked for the margin quality. And what we can see and observe is that we do have a very positive development of the price assertion. You know that last year was a little bit more difficult with the pandemic. But this year, we do see a good price assertion in our order intake. So that's a positive development we can report here.

Sebastian Growe

Okay. Sounds encouraging. And the other question I had was around SCS. I keep it really, really short, but there, more interested in the spectrum, potential, and outlook. So I'm surprised, quite frankly, to see that you can earn such good margins while at the same time running the business at negative working capital.

I understand that SG&A was a bit below proportionate in the first half. And that is clearly also then I think reflected in your H2 margin guidance. But from a more higher-level perspective, is there a certain cap really for the business, or if operating leverage was to continue, yes, how should we think about sort of the structural margin outlook in SCS in particular? Thank you.

Anke Groth

You have seen in the second quarter that we achieved a very good margin of 12.6%. So we think the business has a good potential for margin improvement and the good potential for further volume and scale effects. On the other hand, they need to invest also into SG&A. And you see it in absolute terms, but we definitely have the ability to grow that disproportionately to the revenue growth.

Sebastian Growe

So the 12% is sort of definitely the aspiration level, and if things play out nicely as seen in the first half, it could be well better. Is that sort of the right way of looking at it, or is there anything in terms of the mix shift, or I think that's also one of the aspects we haven't touched upon yet that eventually will also be reflected in the H2 margin guidance that I think, by nature, it is better margin in the Americas, eventually, or working capital and the other way around in Europe. So how should we think about that sort of structural regional mix shift, to put it that way?

Anke Groth

Yes, you are right. So the regional shift could have a slight impact because we often spoke about the lower margins in the European market. And the European demand has really accelerated. So that could be a slight negative impact. But if I look at the margins for the second half of the year, that is really driven by the slightly lower volume we are guiding on the midpoint as well as the material cost headwinds.

So SCS is not as affected as ITS. It's lower components, lower material. But still, it is affected, and you will see that in the margin development in the second half of the year.

Sebastian Growe

Okay. Good. Thanks, both.

Philippe Lorrain

Yes, good afternoon. A couple of questions. I start with ITS. Would you mind sharing with us whether the share of service within the ITS order intake was extremely high perhaps in Q2 2021 versus normal levels?

The reason I'm asking is because I'm stretching a bit my head because, if I'm doing some kind of back-of-the-envelope calculation around your ITS order intake, I come to the result that the price mix effect on the year-on-year growth of the order intake in value must have been actually huge. I've got something like plus 30% year-on-year or so, assuming some kind of rounding errors.

So on the one hand, you've got the mix shifting more in favor of counterbalance trucks. So that must have helped anyway. But you said actually that the price increases that you are pushing through are going to be only effective from July on the order intake. So I'm wondering what could be the reason for explaining such a strong price mix parameter.

To give you an indication to my calculations, I'm just assuming that the service order intake equals the service sales, which is perhaps the wrong way to do in the current trading environment. So that's the first topic.

Anke Groth

Hi. Quite frankly, we would propose to discuss your calculations offline. It makes a lot to then go really detailed through your assumptions, through your calculations, and to help you with that, it could take a little bit too long now doing that in that call, if that is okay for you.

Philippe Lorrain

Yes, that's fully fine. I guess it's quite complex anyway. So then I'm going to jump to the second one. In the R&D section of the report, you mention the Linde warehouse manager as a tool helping customers to start using digital warehouse management.

It seems like an interesting add-on for SME customers, from my opinion. And I guess it's all about getting the foot in the door for getting them perhaps to switch and purchase more comprehensive solutions also from SCS when the time comes and their operations change.

So can you tell us a little bit more about that, for instance, like the perceived value for the customer, the competitive position, experience since you mentioned that the competition is picking up further in trucks, especially with the Chinese players, and perhaps as well where the revenues and profits for such business are going to be recognized?

I understand that it's brought to the market via the Linde brand, which means that forklift customers should be receptive to the idea. So yes, so if you have like anything on that, that would be great.

Gordon Riske

As a general trend, our whole software add-ons, whether it's in the truck business or in the SCS business, are for our side efficiency and for the customer ease of doing business. And you know, in the ITS business, much of our fleet out there that we sell these days is on some kind of lease contract, 3 years, 4 years, 5 years. And we have to be extremely competitive with the monthly rates. So the more information and the more data we have to make these things easier, the more correct we can be on our pricing.

What we are not doing yet, perhaps someday because we're not that big into subscription models and those types of things -- what we're not doing yet is listing the software revenues out separately. But that's a thing we've bounced around internally, and we're still talking about how to do that. Maybe that comes out someday, but that is not a revenue stream that we publish separately.

Anke Groth

But, Philippe, that means you find it in the ITS segment, and it will be part of or it is part of the service revenues.

Philippe Lorrain

Okay. Understood. And perhaps just as a follow up also on the topic of R&D, could you add a little more color as well to the four projects that you mentioned in the report as part of the R&D partnerships? I think one that I found like really interesting was, for instance, the robot grips.

Gordon Riske

Yes, the gripping part is kind of the last frontier of how to be able to fully get to a lights-out warehouse. It's one thing to move 400 packages through a sortation system per minute, but it's another thing to put an individual iPhone or whatever into a box.

And so we are trying to find more ways to automate that, and it's still too expensive, but that is where research is going, all companies, to fully be able to automate this part -- I call it one of the last frontiers to be able to have a lights-out warehouse.

Philippe Lorrain

Yes, so that's basically -- if I understand that correctly, that's basically shifting from AGVs towards at some point even like AMRs, like mobile robots to --

Gordon Riske

We are one of the larger mobile automation suppliers with a lot of AGVs. And the AMRs, we have the equity participation in Quicktron, which we announced last year, I believe, yes. And we don't just announce it. We actually do things with these acquisitions that we do and are starting to put those into real-life applications and practice. So that you will see much more of in years to come is the automated forklifts driving around and autonomous driving vehicles in the warehouses. That will have a bigger, bigger presence in the years to come.

Philippe Lorrain

Okay. I'm excited to see that. Thank you very much. I'm back in the queue.

Akash Gupta

Yes, hi, good afternoon, everybody, and thanks for your time. My first question is on ITS. I think you have raised prices since 1st of July. And the question is that, are these price increases enough to offset the raw material headwinds that we have seen in the first half of the year, or would you need additional price increases later in the year or maybe next year to fully offset that?

And the second question I have is on SCS demand. You said demand is quite strong, and you commented that COVID-19 has kind of turbocharged demand. Can you tell us where this new demand is coming from in particular context of microfulfillment center? I think it's last year at your CMD, you presented your microfulfillment center plan. So just wondering if these MFC you're planning is accentuating your overall Supply Chain Solution growth, or is it still coming from standard solution? Thank you.

Anke Groth

So, Akash, I think your question was if we intend to go for a second price increase this year, if I understood it right, or the material cost headwinds?

Akash Gupta

The question was that the price increases that you have done, is it enough to offset raw material headwinds, given raw material has been quite volatile and keep on increasing in first half of the year, or do you need more at some stage to fully offset the headwinds?

Anke Groth

No, it won't fully offset the headwinds we see this year. We have increased prices for the second time 1st of July. But somehow, you see the price increase in the order intake. But until we produce a truck and ship it to the customer, it will take a while. So we have lead times. So no, this year, you won't see that we can balance the material price increases out with our list price increase.

Gordon Riske

So and on the SCS demand part, yes, we do have a couple more microfulfillment centers that we have sold and are putting into onstream, especially in North America, with some longstanding customers. But the demand is quite broad based. If I would pick one area out that has started to make a difference, we started several years ago with our AMCAPs for the grocery automation business. We have the second generation. We have the new multishuttle generation coming out now, or that's available on the market.

So we have focused a bit of attention and had some good wins and bigger customers for the grocery automation. But overall, we are seeing simply this trend to automate large-scale warehouses very broad basedly regionally as well as from the customer

segments that we address. So we don't have any particular one other than grocery that has had an uptick in the past half a year or so.

Akash Gupta

Thank you.

Katie Self

Hi, good afternoon. Thank you for taking my question. So I'll give my first one on ITS and then second one on SCS. But so the first one really is around the component shortages or the supply chain issues that you've mentioned in the release. I think you've previously talked about a particular engine supplier, where you're struggling to get the control panels. I just wondered if you could comment on, is it still really one or two suppliers that are having issues? How broad based or how widespread has that tightness come now?

And then my second question, just on SCS, I think we could talk a bit about your account sensitivity. I know, in the past, we've kind of talked about the impact that, for example, an Amazon order could have in terms of like the lumpiness of order intake. Is there any way you could give us an indication of how the nature of that business has developed as you have scaled up so significantly in the last couple of years?

For example, what proportion of your top 10 customers account for in terms of orders of the number of orders or any kind of qualitative sense of how much the business is driven by large key accounts versus a tail of smaller customers would be great. Thank you.

Gordon Riske

Okay. On the ITS business, I don't want to disappoint anybody, but there's good news and bad news. Some of the things have

started to get better. So this engine topic is still there, but we're managing it through. And the electronics part, we have had some pickups.

On the other hand, due to very strong demand of certain things, the suppliers that are having trouble is a bit broader than it was a half a year ago. We have a number of people onsite supporting our suppliers with third parties. The team has done a lot of work to find second sources. Even some of our customers have helped us in certain things.

So it's not just the one or two. From batteries -- do we have enough batteries for our warehouse to do the factories that have made some adjustments based on closing scenarios that were decided last year 2020, and now we figure out, gee, we need twice as many tires as we had planned. And so now because of labor shortages and rubber shortages, maybe we don't have enough tires on time. So it is a bit more broad.

But all things we do have under control because we're not alone. So in this case, customers are being quite patient because all options of all of our competitors are affected in one way or the other.

So it is a little bit broader, but I would say our scope and our understanding of it, our workarounds are also keeping up with the problem. And that's why we're quite confident, if things don't get much worse, as I said in my opening statement, that our uptick in the guidance, we should be able to deliver that through 2021. So on the mix?

Anke Groth

Yes, SCS, that's, Katie, a very interesting and far-reaching question. The whole customer, I would say, diversification is indeed something which is important for the business. We have seen throughout the pandemic the high share of ecommerce customers fueled by the pandemic. But also, in Q1, we have spoken about substantial increase in order intake from grocery customers. And Gordon also just has spoken about it.

So we have seen now in the first half of the year, I would say, a stronger diversification of the customer base than last year, with grocery, general merchandise coming back very strongly. Also, Apparel is ordering very strongly.

And from a regional perspective, we already have stated that Europe has accelerated. So we are strong in North America. We keep to be strong in North America, but also the European market has shown a very strong increase in orders.

So I think the whole customer base, regional diversification is on a very good track with respect to the business. The order size also is very different quarter by quarter. So we have seen a lower amount of large orders in the first quarter. In the second quarter, again, it is a share well above 50% in our order intake.

But still, it needs to be seen if the trend of last year continues, where it was really a tendency towards the very large orders. So Q1 was a little bit more balanced towards small orders, and Q2 is now back, more gearing towards the larger orders.

But all in all, I would say the whole development of SCS, the whole order intake, the customer verticals, the diversification, the

geographical footprint, that all is very healthy and very well balanced.

You asked about the dependency on customers. We have disclosed or started to disclose last year the revenue with one major customer in the SCS segment. And we have also related that customer to the ecommerce segment, as you might remember. In the first half year report, you can also find it. So the share of revenue of that single customer is around €890 million for the first half of the year, which is nearly the number of the full year '20. So you can also see that we spoke about ecommerce and the order intake in '20. We are now delivering on the orders. So the revenue share in the first half year is quite high.

Katie Self

That's great. Thank you very much.

George Featherstone

Hi, good afternoon, and thanks for taking my question, just one from me. Clearly, the growth in SCS over the past couple of years has been very strong. And I wondered if you could help us understand what you think penetration rates are for warehouse automation, both on a global basis and also then by the regions.

Gordon Riske

Yes, you mean how many of the global warehouses are automated. Do I understand that right?

George Featherstone

Yes, more the total addressable market as you see it today, where are we at in that cycle?

Gordon Riske

Yes, that's a pretty difficult one to predict because there are also new warehouses coming up every minute, but it's still less than 50%. So there is still a lot of potential. And we have some customers in the grocery business that are just starting it, even if

they have 50, 60 warehouses around the world. There's still a lot of manual labor being taken. And fully automated is probably less than 25%.

So if you go into a modern warehouse today, the smallest amounts in the world are fully automated. You will more likely see a mix. Some things are high-speed, parts are fully automated, and you still have a lot of manual. So there's still a huge potential, even in brownfield sites, for SCS in the coming years.

George Featherstone

Okay. Great. Thanks for the color.

Martin Wilkie

Yes, thanks. Good afternoon. It's Martin from Citi. Just a question on the technology in ITS. And you have a target for lithium-ion penetration by 2027. Just to understand where you are in that journey.

And related to that, we are seeing -- particularly in the US, it seems to be a bit of more preference for fuel cells rather than lithium ion. And I'd be interested to hear if you agree with that. But if it is the case, is there more investment that needs to be made for you to make your trucks more fuel cell compliant, or is it sort of an agnostic power source that you can plug in either lithium ion or fuel cell, and it doesn't really change kind of how you develop trucks and so forth to hit that 2027 target? Thank you.

Gordon Riske

Yes, very good question. And fact is that the best solution is not always the right solution for our customers. We see the Asian market going for these types of products, full speed ahead on lithium ion simply because cost and efficiency.

Lithium is still the most efficient power source. With a fuel cell, to get hydrogen, you need to put 100% energy in, and you get 70% out. So it's still not the most efficient. However, if you can do it with green energy, then it's at least zero emissions.

So as KION we have addressed, and we have our own R&D research departments for all of the technologies, lithium ion, fuel cell, and let's say, lead acid batteries and combustion engines.

Having said that, 87% of all the trucks that we deliver in the world today are already electrically driven. So I think that's a clear sign of where the direction is.

And to us, it doesn't really matter that much, is it a lithium power base, or is it a fuel cell power base? We have delivered both. And you're right. The US market has a different subsidy and different view on fuel cells. And because, in the US, you have atomic energy plants which you can use then to create hydrogen fuel, which in Europe, especially Germany, is a no-no, so there's a whole different cost basis there. And so that drives that a bit.

But we are delivering fuel cell trucks. We have Weichai Power, which has a cooperation and an equity participation, and Ballard Power, where we are developing fuel cells with for the industry for forklift applications. So we are in all of the propulsion fields very well ahead of the game to be able to deliver what is for the particular market the most reasonable and sensible solution.

Martin Wilkie

Thanks. And related to that, your service business, given that you're already heavily electrified, and obviously, you make servicing from hydraulics and all these things that wouldn't change depending on the fuel source, is it reasonable to assume

that the technology is also agnostic for your aftermarket and service business as well?

Gordon Risko

Well, a diesel engine where you have a lot of consumables has more consumable parts, and a fuel cell also has many, many more moving parts than a battery-driven truck, like lithium ion. So over time, if you did nothing, it would have an effect.

To compensate that for a bit, the electric truck, in general, our vertical integration is much higher. So we make our own electric motors. We make half of our electric power amplifiers. So that puts the energy into the electric motor. We have, as you know, announced a joint venture which is now in production with BMZ, a manufacturer of lithium ion. We make the electronics control systems. So our value add, which means then exclusive spare parts going forward, is quite a bit higher on an electric truck than it is on a combustion engine truck where we buy the engines.

Martin Wilkie

Great. That's very helpful. Thank you.

Alexander Hauenstein

Yes, hello. Alexander Hauenstein, DZ Bank. Thanks for taking my questions. I have two questions. First of all, given what you know today, could you please provide an update about the expected quantified impact of raw material cost increase and supply bottlenecks for ITS and SCS separately, please?

Anke Groth

Yes, we can do. As we did it before, we haven't quantified it really. We have qualified it somehow. But yes, we can do that. So for the full year basis on a group perspective, we have until now always have said that we expect mid-double-digit EBIT impact from material cost headwinds. From today's perspective, we would say mid- to high double-digit EBIT impact on KION Group

in total. And that would mean SCS somehow low mid-double digit and ITS a mid double-digit impact.

Alexander Hauenstein Okay. So I understand this is unchanged, right?

Anke Groth No, I think we are gearing a little bit more towards the higher end. And before, we have said for the group it's mid-double digit, and today, I would say it's mid- to high double digit. So it's slightly higher, but not substantially higher.

Alexander Hauenstein Okay. Thanks for the clarification. And another thing, coming back to the cooperation with Weichai, what are the contributions there for your success in China? Maybe you can give us some color here about the success so far. What has been successful? What could be more improved going forward? How is their role in the planned expansion of the sales network in that context in China?

And maybe also, looking for your additional production capacities, I understand they have a 5% stake in that facility. But maybe apart from that, maybe you can give some color here about the cooperation status and what you're planning going forward. Thanks.

Gordon Riske Yes, first of all, there is no operative running business. We run our business. They have a much bigger business in the engine and on-highway truck. Having said that, they are one of our biggest customers. They have lots of warehouses. And Sinotruk is one of the largest truck manufacturers. They're the number one transmission manufacturer. So it's a good customer for forklifts and for SCS. So that's a very good thing.

Second thing is the heavy truck business in China as well as the world moving toward zero emissions, that's a good partner to have for fuel cell technology, as we just discussed in the other question. So there, we have some R&D teams that work very closely together.

Third one is, being such a large player in this market in a very diverse market, it's very helpful sometimes to open doors. For instance, in our project in Jinan, where we are now halfway through or three-quarters of the way through in building our new facility, being a 5% shareholder, we were able then to get all the necessary normal approvals for building permits, etc., hiring people, and all these discussions that you have with the local governments, just as you would in any other country. That has been able to expedite that process significantly.

So there are a lot of different levels. And we do work together. So it's been for our success in the China market extremely helpful. And we see that moving forward as the world becomes more electric, not only for the forklift business, but also for the on-highway truck business.

Alexander Hauenstein Okay. And anything that could even improve further ?

Gordon Riske No, I think we've addressed all the issues, and we're in constant contact with each other. So that's, let's say, an ongoing partnership and business relationship that has led to good results, and I expect that will be the case in the future also.

Alexander Hauenstein Sounds good. Thank you.

Arsalan Obaidullah

Hi, good afternoon, and thanks for taking my questions. Just first of all, in terms of the prebuy sect and just the broader market response, just to understand, so is the sort of price rise that you've sort of indicated in July, is that something that has been seen across the board, or is that sort of unique to KION in terms of -- at least in what you can see?

I guess my -- what I'm trying to understand is, when I'm looking at the kind of the performance versus the market, whether there that kind of -- it sort of comes out in the wash or whether that effectively has inflated the performance and whether that's also that prebuys, if it's sort of equal across regions or whether you're seeing more in some regions than others. That's my first question.

Anke Groth

Hi, Arsalan. Thanks for your question. Yes, prebuy effect, I would say that could be particular for KION, as we have increased our prices 1st of July and announced that beginning of June. And therefore, our customers have reacted potentially to that. And again, we cannot really quantify that effect, as we have already said before. But we assume that it has an effect on the figures we have seen, especially again the June figures after the announcement of the price increase.

And if our competitors are seeing this as well or the whole market, it depends when they are putting their prices up and communicating it. So I cannot communicate on that one. And I would say it's especially for the EMEA region, not so much for the other regions.

Arsalan Obaidullah

Okay. Thank you. And my next question is just on the sort of the new electric product in terms of the -- just the early kind of

demand and sort of suggestion of getting -- how is it being received by the market? Sort of the X20-35 ones you mentioned, how is that sort of going in terms of early orders and suggestions of how that's going to play out? And also, again, is that something you sort of definitely see as a unique sort of offering that other companies aren't offering, and you have a sort of competitive advantage with that?

Gordon Riske

Well, the first part of the question, I'd like to deliver everything that's been ordered. That would be nice. That's not the case. So we have a good order backlog.

Second thing, everybody's working on a solution like that to be able to fully replace IC trucks. I don't think it's going to happen in all applications because you do need a charging system. But at the moment, we do have a, I think, somewhat unique product there that has the full power, the full reach, the full speed, lifting capacity like a typical engine-driven truck. So I do think we have some competitive advantages, let me call it that, in this segment right now.

Arsalan Obaidullah

Perfect. And then just finally, if I may, I noticed, obviously, there wasn't sort of a slide reiterating your kind of medium-term targets. I sort of take that as an assumption that sort of those haven't changed, or they're not under review.

You sort of talked about, let's say, for example, in ITS, this sort of growth, sort of a CAGR of about sort of 4%, I think, if I'm correct between sort of '19 and '23. Is that something that you sort of are still sort of looking at, or do you think that's actually potentially -- now that, given the strong sort of year you've seen, do you sort

of see sort of upside to that, or is that still something under review?

Gordon Riske

Yes, 2022-2023, I don't want to get ahead of the game here. We're still in 2021. Every time I look at the numbers, 2017 and 2018, we're all surprised at these double-digit growth rates. This is the first time we're seeing in big markets triple-digit growth rates. That's not a normal thing.

So we do expect, as I said before, that things will normalize somewhat, and this traditional slightly better than GDP 4% growth rate, I think that's a very realistic number, especially if you perhaps carve out some of these special effects like these mechanical devices being turned into electrical devices, and because they have electrical motor on it now become part of the statistic. I think we have to work that out a little bit for you clearer to the analysts so that that's much more transparent than it is today.

Arsalan Obaidullah

Brilliant. Thank you very much.

Gordon Riske

Yes, thank you.

Operator

In the interest of time, we have to stop the Q&A session, and I would like to hand back to Mr. Gordon Riske for any closing comments. Please go ahead.

Gordon Riske

Yes, thank you, all, for participating in this call after this quite astounding Q2 2021 and raising our guidance. And we look forward to talking to you again when it comes to Q3 and -- in a couple of months and the roadshows and investor conferences that we have ahead of us.