KION GROUP AG

Q3 2021 Update Call

Conference Call Transcript

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Anke Groth (CFO)

Gordon Riske

Yes, welcome to our update call for the third quarter 2021. And as a basis for the call, we'd like to use our Q3 2021 presentation. It's available on kiongroup.com under Investor Relations on the Publication section.

We will, as usual, be presenting in four parts today, and then we'll open up to the discussion for your questions. I'll begin with the key financial figures for the 9-month period 2021 and then present some strategic highlights from the past quarter for you. Anke will then provide you with a financial update, and we'll close with a confirmation of our outlook for the full year 2021.

So let's get started with our key financial figures on Page 3. Overall, during the 9-month period, we're seeing very strong KION results substantially surpassing prepandemic levels. Supported by a very strong growth in both segments, our order intake for the group grew by around 34% to €9 billion.

Revenue reached €7.5 billion, up 26%, and adjusted EBIT almost doubled, reaching €691 million, representing a margin of 9.2%, and free cash flow for the group ended up at a positive €135 million.

So in summary, we saw very strong growth across all metrics, which makes us feel well positioned within our guidance ranges that we have confirmed, so a very, very good third quarter.

Moving on to Page 4, one important field of action -- and we always talk about these strategic highlights within the framework of KION 2027 -- is energy and energy efficiency. And so we've decided to purchase a 20% stake in ifesca, which developed software for energy management.

ifesca's software is an innovative forecasting software that uses artificial intelligence to predict how much energy will be consumed and generated particularly from renewable sources nearly in real time. This will allow customers to plan the optimum operating times for their fleets of industrial trucks to avoid peaks in loading and unloading and, in doing so, significantly reducing their energy costs.

Another important aspect of our long-term strategy is innovation. And the LoadRunner fits perfectly into this category. The LoadRunner from Fraunhofer Institute for Material Flow and Logistics, IML, represents a new generation of AGVs with substantial sorting capacity. Its distributed, intelligent vehicle coordination is designed to lift the high-speed AGVs to a new level of swarm robotics.

The common goal of KION and Fraunhofer IML is to optimize the AI-assisted swarm technology from basic sensor to overarching platform and launch it into the market by around the year 2025. KION will license the LoadRunner technology from Fraunhofer for use in its international group of companies.

Performance is also shown by using synergies from our multibrand group approach and jointly selling solutions and also an important aspect of the KION 2027 strategy.

In Q3, our brands STILL and Dematic jointly won a tender for Beiersdorf's state-of-the-art production center for cosmetic products near Leipzig. Beiersdorf's new plant is a multimillion euro project and actually one of the largest investment projects in Europe. The task was to combine all intralogistic steps from goods received, quality control, internal transport and storage of incoming materials up to making them available for production.

For goods, receipt, and dispatch, manual STILL electric trucks and warehouse technology are used. Conveyor technology from Dematic provides the link between the goods-in area and the narrow-aisle warehouse, where six fully automated trucks from STILL are in operation, so autonomous trucks.

In addition, the conveyor system ensures onward transport from warehouse to production, where six fully automated high-lift stackers from STILL provide the fully automated transport of Beiersdorf facilities, so a nice project together with STILL and Dematic.

So let’s move on to the market update on Page 6. The industrial truck market, again, showing strong growth across the regions, the third quarter was showing a very robust development with some normalizing rates across coming after a very strong Q2 and was predominantly driven by core markets in EMEA and Americas.

Western Europe was up by 38% during Q3, particularly driven by Germany, Italy, and France. Eastern Europe grew even faster with around 57%, warehouse trucks having contributed in a large part to this growth.

In North America, the strong market demand continued and thus reached a growth of 68% supported by good development of warehouse trucks.

With 67%, the growth rate in South America normalized as well and is still acting on a very high level, particularly driven by warehouse and IC trucks.

And in China, unit order intake with the market decreased slightly by minus 4%, predominantly based on weaker IC truck environment.

So overall, the global market for industrial trucks started to normalize. Certainly, the comps will become more difficult as we go since already last year we had stronger growth, but still with 25% at a very high base level, a very robust market, so our market does remain solid.

On Page 7, the breakdown of KION's unit growth by region, our unit order intake after an outstanding second quarter reached a very solid 63,100 units globally. In EMEA, we saw demand levels normalizing after a very strong Q2, record results in Western Europe. Orders grew by 25%, while Eastern Europe recorded growth of around 54%. Both regions especially benefited from good development of warehouse trucks.

Looking on to China, KION again outperformed the market based on strong development of all truck types and reached a plus of around 26%, mainly driven by new product additions and further progress in expanding our sales and service network.

During Q3, North America benefited from the improved footprint, and thus unit orders more than doubled. Hence, KION outperformed the market, which was predominantly driven by warehouse trucks in South and Central America. Unit order intake grew by 5% compared to a very, very strong Q3 2020 based on good performance on warehouse trucks.

So in total, we did see a very strong solid third quarter. I particularly like the numbers on the world level. It's not so often that we do outperform in a quarter across the globe and for the year-to-date so far. And this is truly despite all of the challenges that we have and the availability of supplies and logistic bottlenecks that we continue to face.

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

Anke Groth

Yes, thanks a lot, Gordon, and hello to everybody from my side. If you turn to Page 9, you will see the key financials for the IT&S segment.

During the quarter, we saw an ongoing strong demand for industrial trucks and a growth rate of around 20% for order intake, despite the noticeable prebuy effect we saw in Q2 already.

At the end of September, the order book for the IT&S segment stood at almost €2.4 billion, significantly up with 67% versus December 2020.

As you can see by the numbers, we had a very solid third quarter, with sales growing 60% to €1.6 billion. Higher volumes in new business and a strong service business were a major contributor to our improved adjusted EBIT, up 53% to €144 million, lifting the adjusted EBIT margin to 8.9%.

However, as you know, higher raw material expenses and tight supply chains and, with that, inefficiencies in production remained a challenge in Q3. In addition, higher personnel expenses compared to prior crisis year also impacted our profitability. A positive price assertion and further savings from our structural program partially offset the negatives.

And very importantly, do not forget, if components were available sufficiently, we could have shown higher revenues and EBIT in the third quarter as well as in our year-to-date.

During the first 9 months of 2021, ITS recorded an order intake of €5.7 billion, revenues of more than €4.7 billion, and an adjusted EBIT margin of 8.9%. So overall, ITS is showing a strong performance also especially in the service business.

Turning to Page 10, I want to give you an update on our capacity and structural program. As flagged with our Q2 results, we are currently only focusing on the structural optimizations rather than on capacity needs, quite obvious, looking at order intake.

We confirm the targeted €80 million to €100 million cumulated cost savings by 2023. We expect €35 million to €40 million to drop through this year after €11 million savings in Q3 and €29 million in the first 9 months. So you can see we are very well on track here.

Page 11 summarizes the key financials for the segment Supply Chain Solutions. SCS developed very strongly, reaching a new record high order intake of €1.4 billion. Regionally, demand increased substantially in North America and APAC, while slowing somewhat down in Europe. Overall, the order intake was driven by projects for the e-commerce, general merchandise, and grocery vertical.

The order backlog at the end of September increased to roughly €3.7 billion, of which around 22% remains to be converted into revenue during the fourth quarter, of course, provided the sufficient availability of intermediate products, but with that covering more than 85% of our targeted revenue in Q4.

Revenue grew significantly, reaching €937 million in Q3, clearly fueled by business solutions, up by 53%, and customer services growing around 10%.

Higher volumes were the main margin driver during the quarter, lifting the adjusted EBIT margin to 11.7%, despite the ongoing negative shift in the sales mix caused by the strong project business, clearly outpacing currently the service business.

Material cost increases are a slight headwind in addition to the buildup of our workforce in order to prepare for the further growth of our business.

While we hardly had any inefficiencies yet from tight supply chains, this might impact us more during the fourth quarter in the SCS segment.

For the 9-month period, SCS recorded an order intake of around €3.3 billion and revenues of €2.8 billion with an adjusted EBIT margin of 12%.

So overall, demand for warehouse automation solutions remained very strong, and we have continued building up resources, ensuring the execution of our strong order book also in the future.

Moving to Page 12, the summary for the key financials for the group, during the third quarter, KION saw an order intake of €3.1 billion, up 34% versus prior year, benefitting from the strong demand for material handling solutions. With this, the total order book grew 35% to almost €6 billion by the end of September, driven by both segments.

Based on the strong performance of our businesses, revenue increased by 24% to €2.6 billion in the third quarter. The adjusted EBIT for the group increased to €229 million for a margin of 8.9%, which is stronger than the level seen in 2020, somewhat lower than in Q2, mainly impacted by the rising material costs, and ongoing tight supply chains, causing cost inefficiencies, as you know, and limiting revenues and EBIT generation.

For the first 9 months of 2021, KION saw an order intake of close to €9 billion, revenues of €7.5 billion, and an adjusted EBIT margin of 9.2%.

Page 13 shows the reconciliation from adjusted EBITDA to the net income for the group. Reported EBIT included positive nonrecurring items of €1 million in the past quarter. Net financial expenses decreased substantially to only minus €6 million, supported by a positive interest result from our leasing business, lower expenses for pensions, and a lower FX impact from financing.

Taxes, of course, increased nominally, reaching minus €64 million in Q3, equal to a tax rate of 31.5%. The tax rate for the 9-

month period, however, was 28% and there was in line with the corridor we anticipate for full year 2021 of 26% to 31%.

Overall, we ended the third quarter with a net income of €140 million and an EPS of €1.04, while we saw a net income of €431 million and earnings per share of €3.26 in the 9-month period.

Moving to the free cash flow statement on Page 14, in the 9-month period, free cash flow amounted to €135 million. The main driver for the free cash flow development was the increase in net working capital, driven by significantly higher inventory levels in ITS. And in our SCS segment, the tight supply chain triggered some delays in certain project milestones, resulting in delayed milestone invoicing and, therefore, later cash in.

In Q3, we recorded a negative free cash flow of minus €167 million. This is, of course, also impacted by the higher net working capital needs.

As illustrated in the graph at the bottom, this year's free cash flow development does not follow the typical seasonal pattern. However, based on the unchanged outlook for free cash flow as well as for the other KPIs, we expect a strong cash in, in Q4.

Page 15 shows our net debt as well as the corresponding leverage ratios of the business. At the end of September, net financial debt increased by €51 million to €931 million, mainly driven by the buildup of net working capital, particularly in the third quarter.

However, our leverage ratio, based on net financial debt, improved to 0.5 versus 0.6 at the end of 2020, as the only slight increase in net debt was more than compensated by our sound operating performance.

Our net pension liabilities decreased further during Q3, falling below €1.2 billion end of September, mainly due to higher discount rates. So leverage on industrial net debt decreased substantially to 2.2 down from 3.1 December 2020.

Yeah, and with this, back to you, Gordon, for the outlook 2021.

Gordon Riske

Yes, thank you, Anke. I'm on Page 17. So based on our positive business situation and financial performance year-to-date, which we just explained, at KION Group, we anticipate that we will achieve the already raised targets of 2021. Remember, we upgraded our targets some time ago, Q2.

And so given the current order situation that is very healthy in both segments, we do expect that order intake at both the group level and at the individual segment level to be at the upper end of the target range.

Despite the current situation in the procurement markets and all the logistics problems and material costs, etc., we do believe that we are still well positioned to reach the targets for all the key performance indicators, including revenue, adjusted EBIT, free cash flow, and return on capital employed.

Even though the outlook remains positive, there is always uncertainty in the economic environment, particularly the risk of further increases in commodity prices and the availability of intermediate products.

Looking on to Page 19, you see our financial calendar. We will meet again soon in a virtual format. You are all invited to attend our Virtual Analyst and Investor Event, which will take place on November 3rd, 2021, at 2:30 p.m. CET.

And on a personal note, as this is my last update call as CEO of the KION Group, for those of you that are on this call but will not participate in the November 3rd event, I'd like to personally thank all of you for the dialogue and the great questions and inputs that you've given to us and your coverage of a very special company called KION Group and wish you all continued success in the future.

And with that, we'd like to close the formal part of this update call and hand it over to the operator so that we can answer 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, good afternoon, Anke. Good afternoon, Gordon. Thanks for taking my two questions. The first one is actually a follow up on your guidance that you've just talked about. And I was just wondering, what is the rationale for not taking the adjusted EBIT guidance also towards the higher end of the range like you did on the order intake? Because if we look at the implications for Q4, let's say, at the midpoint of the guidance, that would be quite a drastical sequential decline on the EBIT side. And we also had obviously one of your biggest peers last night raising guidance by 10%. So I was just wondering, what's different in your case? That's the first one. Thank you.

Gordon Riske

Yes, maybe not so much difference. Fact is, in all the material supply, cost of raw material is quite uncertain at this moment and has not really recovered. Just one small example, a €0.24 rubber gasket prevents you from delivering a €25,000 forklift truck. And so if you look at the whole thing, yes, we have a great quarter. We have great momentum in order intake.

Who knows how the next couple of weeks will pan out? But we definitely know we are missing material. We are having some issues getting the stuff out the door. And that's recent. We took a somewhat precautious outlook. Anke, maybe you want to add a couple of comments to that?

Anke Groth

No, you're fully right, Gordon. So I would say material cost headwinds, that is not too difficult to predict that now. We are end of October. And I think we gave a very decent estimate to the market. But the whole point of supply chain inefficiencies that will, as I said, cause some additional cost in SCS in the fourth quarter and also the predictability is somewhat more difficult than with respect to material costs. So that's the reason why, on SCS, we do not give a more narrow guidance range. And for ITS as well, we have supply chain inefficiencies, as Gordon has just described.

Sven Weier

And can I just follow up on that regarding the raw mats? Because I think you're obviously for the full year expecting high double digit, low triple digit. How much of that did you have so far this year? What's left for Q4 on that side?

Anke Groth

Yes, we can definitely, first of all, give the good message that, for the full year, I would rather say it will not be hitting triple digit. But it will hit high double digit. If we look into the ITS segment, the peak was reached in Q3 for material cost headwinds. That is based on the fact that we had some negotiations with suppliers ongoing throughout the year. So in Q3, we also had some one-offs in our numbers. But in Q4, it will still be a low double digit for ITS. And on SCS, it will be somehow mid to high single digit. But in total for the full year, we will reach a high double-digit margin impact. Again, the low triple digit we can rule out, but it will be high double digit.

Sven Weier

Okay. Thanks for that clarity. And the second question is more of a strategic question I had. Obviously, you had another very strong performance on SCS orders. And yet when I look at the share price, when I look at the implied valuation multiples, there is not much of a big difference between the truck and the SCS business. Now you have a pure play listed peer with AutoStore. And obviously, the valuation is quite punchy there.

I was just wondering, what is your strategy to crystallize the value of SCS more tangibly? Is it that you would like to make the synergies between the two businesses clearer, or is it also an option for you in the long term to be open minded to what's a listing and a minority stake in the business?

Gordon Riske

Yes, we don't want to jump ahead. And that's certainly a task for the next CEO and team coming up. But that's a clear invitation to come to the Virtual Analyst and Investor Event, where you'll get a little bit more flavor on what we're doing and what measures we're undertaking to increase our great performance and kind of the perspective of the coming years of our KION 2027 strategy.

And I do believe that, at some point, logic does win, and the high -- you called it punchy -- valuations may not always be the true underlying value. And I think we still have a lot of potential in our shares as that becomes more evident of what capabilities and what kind of real results we deliver, not only in revenues, but in true profitability.

Sven Weier

Okay. Thank you, both.

George Featherstone

Hi, good afternoon, Anke. Good afternoon, Gordon. Thanks for taking my questions. My first one would be close and good order momentum so far in Q3 and also in Q2. Just wanted to talk maybe about the margin quality of the backlog in both of the businesses. Could you give us some color there? Is it accretive to where you see current margins?

Anke Groth

Yes, thanks for the question. Margin quality of the backlog, I would say, in ITS, it's rather in line. But what we have seen is a positive price assertion for our products in the market environment we are in. You know that we had a second price increase for ITS, which we have put in place beginning of July. And with the long lead times, it takes a little bit of time until that will be visible, but that will definitely impact our business in 2022. And you know that, beginning of the year, we will also always consider another price step.

In SCS, I would also say that's very much in line, so no noticeable difference in the backlog margin we are seeing. You know the mix, if we are selling a project in North America versus Europe, that's always somehow an important factor, as there is a margin differential between the two regions and then what kind of revenue conversion we have in that region. But from an as-sold margin, no major differences visible.

George Featherstone All right. Thanks for that. Second question would be on the truck market. The data suggests that you've had solid outperformance in the global truck market. I wondered if you could provide some color on what exactly is driving this. So are there any particular end markets where demand has been strong, and also if you could elaborate on the dynamics in some of the regions like China and North America, where you've material outperformed, but also in Europe, where performance appears to have lagged the wider market?

Gordon Riske Well, as you see recovery, you know we were hard hit last year in IC trucks and in general counterbalance trucks. And all of those heavier industries have come back. So that's been one of the cornerstones of our improved performance.

In China, we have introduced new products, and that is also helping outperform in China. But I would say mainly, in the world, looking at it, this whole topic of electrification, electric trucks and warehouse trucks are perhaps the biggest driver.

And we're able to deliver that. And I think, looking forward to this year and next year, we ramped up three factories this year. That can't be forgotten, Poland, Stříbro 3, and Jinan is being ramped up, which goes into full swing next year. So that capacity will be in place to continue the good drive that we have in the growth of the forklift business.

George Featherstone Great. Thank you very much.

Katie Self Hi, good afternoon. Thanks for taking my questions. Just a couple. Firstly, just on the cash, I was wondering if you could give us a kind of breakdown of the key drivers into Q4. I think it's going to require quite a substantial cash inflow to get to the sort of midpoint of the guidance, something around €300 million, €400 million just in the quarter. Could you just elaborate a bit on how much of that is inventory unwind and how much is down payments from SCS, those different factors?

And then secondly, Gordon, probably just a bigger picture one for you, we're hearing a lot of mixed messages around the issues in the supply chains, not just for the industrial trucks manufacturers, but for broader industrials. I wonder if we could get your view on, A, when do you expect those to normalize? I appreciate that's a crystal ball question, but just from the conversations you're having with customers on the ground, have you noticed any changes already, or is that still seeming a way off?

And then B, for KION, how quickly can production and shipping to customers ramp back to full speed once that supply chain normalizes?

Gordon Riske

Yes, I'll start with the second question while we look at the cash flow calculation. We had at the beginning of the Q1 2021 a scenario that would start to get better towards the end of 2021 and the first quarter of '22. I would say that's out 6 months. So I do expect that the -- because demand is simply higher, and supply logistics paths are probably not to be so greatly improved until somewhere mid-2022 or beyond, so that's something that we're going to have to deal with and live with.

I am a little bit more upbeat about our own ability to recover somewhat. We do have a high inventory level. We have a huge order book. The forklifts alone are 67%, bigger order book than December 2020.

So we have been preparing for that, and we have also upgraded our supply chain management, so back to our key suppliers and kind of planning the volumes of 2022 and ’23. So I think, once things start to clear out, we will be able to recover fairly quickly. Normally, a forklift you can get in 8 to 12 weeks. And we’re at a half year and beyond right now. So that can turn around fairly quickly.

And with the capacity, as I said, we have a new plant in Poland ramping up. We upgraded another one in Stříbro, and Jinan starting next year. We will also have some capacity constraints lifted that have hurt us in the past years when markets developed quickly. So I’m pretty bullish on when we can recovery. But on the market generally, that’s certainly going to stick with us for a few more quarters.

Anke Groth

Yes, on the cash flow, first of all, Katie, I would say we have given a guidance within a range, and it’s €100 million range. So I -- and that is because there are always some -- I would not say uncertainties, but it depends a little bit also on the project milestones, the billing, when customers are paying prepayments, and so on.

But generally, of course, our inventories will go down, especially in the ITS segment. There, we had the highest inventory buildup in Q3 now. But we will also see a positive impact on the cash assets and liabilities, which is driving SCS because we will get into more milestone billing. Once parts are there, retrofits can be done on the projects, we can also bill the milestones.

And then it's depending a little bit -- because we are already end of October, it's depending a little bit on the payment term of the respective customer, if that still can come in until the end of this year or if there are longer payment terms.

But in general, inventory will go down on the ITS side, and therefore freeing up cash as well as on the contract asset/contract liabilities side. And in total, we stick to the guidance we have given with, I know, quite a broad range. But that's because of the situation we are in.

Katie Self

That's great. Thank you very much.

Martin Wilkie

Yes, thank you. Good afternoon. It's Martin from Citi. So I have a couple of questions, the first one on Supply Chain Solutions. You talked about the backlog conversion. Just to clarify, if we look at your revenue guidance for the year, which implies a low end that less than the 22% conversion that you talk about on Slide 11 would actually happen, just to understand, you have talked obviously about some supply chain friction in components. But is that also site access risk, just to understand what would drive the lower end of that revenue range in SCS, given the strength of your backlog? So that's the first question. Thanks.

Anke Groth

Could you repeat the question? So the 22% of the -- it was -- it will somehow be 85% of the midpoint guidance. And that is quite comfortable because we always have in every quarter also ad hoc service. So the service revenues are coming in. And therefore, the level for reaching the midpoint of the guidance is quite comfortable with the conversion of the backlog into revenues.

It's not only the project revenues which are then bringing -- or the backlog of the projects which is bringing the revenues, but also ad hoc smaller projects plus services.

Martin Wilkie

Yes, and so that's why I was wondering why the lower end of the range was still there because it would look like you'd have to have quite a negative effect for the lower end of the revenue guidance range in Supply Chain Solutions were that to come to fruition. So I was wondering if you had concerns over site access to be able to access projects, just to understand what would drive your lower end of the range if it were to happen.

Anke Groth

Okay. Yes, potentially the availability of components, but we have said that, for order intake, we will reach the upper level of the guidance. For all other KPIs, we have said we deem as well positioned within the guidance ranges we have given. So we have not further specified it for one or the other KPI. Yes.

Martin Wilkie

Okay. No, that's helpful. If I could just get an unrelated question on Supply Chain Solutions, just to understand what the impact is of some of these shortages and perhaps customers keeping older trucks for longer if they can't get a new truck and what that effect has on your leasing business and trucks returned to you and rental, are you seeing tightness in the rental market, or is the sort of end of lease conversion of trucks back into rental, is that sort of fairly unaffected? Thank you.

Gordon Riske

No, we see much higher utilization rate of our short-term rental fleet and so forth, of course, because we are purposely at this point putting the priority on delivery of new trucks rather than backfilling -- as maybe some other competitors have done -- backfilling into and renewing the rental fleet.

So also, the rental fleet is getting a little bit older than it should be because we're sacrificing all that capacity and putting it into the new truck because of the delivery situation. So we have a good -- great utilization rate, but that's perhaps an opportunity next year when things get a little bit more normal to refresh the short-term rental fleet a little bit.

Anke Groth

And let me add, Gordon, if you look at our service business and the split we are giving, you can also see that -- and potentially, it's also based on the situation we are seeing in the new business -- our service business is progressing very well. The rental business is substantially up as well as the used truck business. So one or the other customer might also tend to buy a used truck and not only renting a truck.

Martin Wilkie

Great. Thank you very much.

Gael de Bray

Good afternoon. Thanks very much. Could you talk a bit about the potential lessons you might have learned from the current supply challenges? Did you see a need to change the supply chain organization in one way or the other in the near to longer term?

And do you think you might have to structurally build up higher levels of inventories maybe of certain components? You mentioned gaskets, for example. Could that be something you will have to do in the future?

Gordon Riske

Yes, what we have right now is certainly quite an unusual situation. I don't think there's any time, at least I can recall, that automotive factories and other factories, building homes with wood, and you name it, what material is missing, truck drivers, everything at the same time. I think that's not something that should be assumed as the basis for a business plan.

Having said that, as technology changes and all of our trucks become more electrified, and with the lithium ion or fuel cell technology, it changes a bit of our vertical integration. We announced our joint venture with BMZ for assembling lithium set. We make our own electrical motors. So our value add for the level of vertical integration where we make it ourselves or have a much bigger influence on the delivery of these components, that will certainly increase with the change in the technology.

So I think that will help us deliver better and have it more in grip. But it's more of a result of the change in technology and the need to secure the spare parts business after that.

The other question, the inventory levels, they're quite high right now. A good working capital company has to be an efficient use of capital. We're getting money from investors. So we don't want to solve the problems with building up our inventories. We want to solve the problems with doing the right things and being more efficient where we can. So that's to me not really a strategy just to make your warehouses bigger. It's nice if our customers make bigger warehouses so they have more need to buy forklifts, but we should stay away from trying to solve that problem just by increasing our level of inventory.

Gael de Bray

And so given these delivery constraints during the quarter, what sort of inventory excess did you have for IT&S at the end of September?

Anke Groth	The inventory in excess, It's a little bit difficult. If we look at the level in prior year, we had 277 net working capital, but we also had lower orders. Now we are at 448. And as I said, the build up in inventories came mainly -- is predominantly ITS. So the 448 you are seeing out of that are -- I think 368 is inventory buildup. And again, it's predominantly ITS. But the normalized level, quite frankly, it's depending a lot on the level of business activity we do have. Supply chains do affect it and so on. So I would refrain here. I'm really sorry. But I don't think it would be appropriate to give you a normalized level somehow.
Gael de Bray	Okay. Okay. I understand. But just to be clear, there was no impact on -- from this inventory buildup on the margin this quarter for IT&S.
Anke Groth	No, let me say it like this. As we said, if we would have been able to get all the components for the trucks, we would have seen higher revenues and also higher EBIT and margin, definitely.
Gael de Bray	Okay. Very clear. Thanks very much.
Will Turner	Hi. I have a couple of questions on the order developments during the quarter. And the first one's on Supply Chain Solutions. Obviously, a very strong number for the quarter, but how much of it was made up of large orders? And how come you decided not to increase the overall full year guidance for the order intake? Is there an element of the timing of orders just falling in at the end of 3Q, which would otherwise have fallen into 4Q?

And then the second one is on the additional trucks order book. It's probably somewhere near an all-time high. I can imagine. Do you think within that order book, are there any customers that are potentially double booking orders? Have you done anything to kind of like increase screening or possibly require deposits on orders, given obviously such strong demand that you're seeing?

Gordon Riske

Let me start with the second one and then the first one. We have no evidence of double booking. We know most of our customers pretty well, and our dealers and so forth, a dealer might order an extra forklift at this point, but with the market, you just have perhaps a small safety cushion in there. But really, double booking as a general theme, that's not the case. And we do, as you say, screen those things and to make sure that's not getting messed up. So no, we don't see that right now. And it is at an all-time high. That's right.

Anke Groth

Yes, with respect to the other point, you asked for the large orders and the proportion we have seen in Q3. So 65% of the order intake in Q3 have been large orders. So that's following the trend we have seen already in Q2 that we are somehow back to large orders from only 8% are medium sized, so €20 million to €40 million, and the remainder are small orders. Again, it's nearly the same pattern as in Q2.

And I think then you asked the question why we haven't raised the guidance for order intake, instead have chosen that we are at the upper end of the guidance level. First of all, raising the guidance only for one KPI might be one factor which we discussed, but SCS, it's not very long ahead of -- behind us that we have spoken about or heard from you it's a lumpy business.

And you know that one order, one significant large order can make a huge difference if it comes in Q4 or if there is a slippage into Q1. So we have very large orders. We have orders above €100 million, and that makes a difference. And therefore, we have chosen to tell you that we are at the upper end of the guidance, but we have not changed our guidance ranges.

Analyst: Okay. Thank you.

Akash Gupta: Yes, hi, good afternoon, everybody. I have just one question, and that is on Supply Chain Solutions. So if we look at Q3, and obviously, to date, we have seen very strong growth, and you have highlighted before that this is in part driven by COVID-19, which is accelerating demand.

The question I have is, if we look at your market share, do you see any evidence whether you are gaining market share, which maybe meaning that you are growing faster than the market, or like when you look at your hit rate in your pipeline, what is your sense of your market share compared to where it was, let's say, 12, 18 months ago?

Gordon Riske: Yes, overall, the market has been very strong, but we do have some evidence. I don't have enough independent -- it's unfortunately a lot like the forklift business, where you have independent statistics, though we do have some evidence that we have gained market share in distribution centers and the Dematic SCS business in general in the past two quarters.

Akash Gupta: Thank you. And a follow up to that is that, what are the KPIs that needs to fulfill before you book an order? And is getting down payment is also one of the KPIs that needs to happen before you book any firm order in SCS business?

Anke Groth

Before we book an order, there needs to be a contract signed. So that's the most important criteria for booking an order. So all commercial terms are cleared. All legal terms are cleared. And there is a contract which is signed, and then we can book it.

Akash Gupta

And is down payment also a KPI? Like do you need to have down payment before you book, or that can come after you booking the order?

Anke Groth

No, that comes after signing a contract, but we get a down payment normally before we start working on an order. So that's, as you know, the beauty of the business. It's normally net working negative. This quarter looks slightly different, as we spoke about, the supply chain inefficiencies and the delayed booking of milestones. But in normal times, it's a net working capital negative business.

Akash Gupta

Thank you.

Philippe Lorrain

Yes, thanks. One question only for me. To come back on Will's question on order intake guidance, is there a specific reason besides your cautious stance and the fact that the visibility might be limited, where you did not increase the order intake guidance for ITS? Kind of the upper end kind of implies about 10% year-on-year and quarter-on-quarter decline, which would appear quite strange versus the typical patterns you observed in the segment. Thanks.

Anke Groth — Yes, Philippe, hi. I said before, so raising the guidance only then for one particular segment and one KPI, we wouldn't do that, to be honest.

Philippe Lorrain — Okay. I get that part as that is also an indication perhaps on what to expect in terms of sales for next year already.

Anke Groth — Yes. Might be.

Philippe Lorrain — Okay. No further comment. Thanks.

Katie Self — Hi. Thanks for taking my follow up. I just wanted to ask around SCS again, as you were talking about, obviously, the possibility of lumpy contracts going forward. Could you give us any indication on how the pipeline looks currently for SCS, either into the next quarter or just generally over the next sort of 12 months?

And secondly, given again we set a sort of huge record order intake, I'm curious, how far do you think KION is through its required kind of capacity and headcount increase in SCS? Are you having to turn down any orders at this stage because you simply don't have the capacity yet to execute on them, or is that not really a problem?

Gordon Riske — Well, we turn orders down all the time. And I don't mean that to be arrogant. There is a very rigorous process of when we bring orders to what conditions. And otherwise, we'd have 100% market share, which we don't. So we do have at this point perhaps more ability to be selective than in the past. But the pipeline is very long and large and, let's say, very well filled.

On the capacity situation, we have done an incredible amount. We've hired at the KION Group this year probably over 2,000 people so far year-to-date. And overall, the group, biggest part of that is in SCS. We've upgraded our factories, but that's an ongoing investment that we will undertake in 2022 and '23 to make sure we do have enough capacity in the market.

SCS in China will start to grow. So what we did for ITS we'll probably have to do in China. Our European activities have been upgraded significantly. The next place to look at is how we're doing in North America, where that business has also expanded. So that will be one of the challenges is getting enough people and the capacities to keep up with the growth.

Anke Groth

And, Gordon, to add to the pipeline, so the pipeline is higher than the pipeline has been last year at the same point in time. So we are seeing an increase in the pipeline based on the customer discussion we do have.

Katie Self

Great. That's all from me. Thanks.

Denise Molina

Thanks for taking my questions. I have two questions, separate questions. The first one is on -- Gordon, you mentioned fuel cells a couple of times in the call today. And I remember that there was a deal announced I think with Carrefour earlier in the year to supply some fuel cell forklifts. Correct me if I'm wrong. But just wondering how that's going, if you've seen any momentum in terms of demand for fuel cells. And how much of that is of the order book currently?

And then the second question was more on competition within SCS and around the material handling robots. It seems like a number of new players are starting to make acquisitions in that space. I'm just wondering if you see any change in sort of the competitive landscape for you there.

Gordon Riske

Well, on the fuel cells, that's still a very small part of the business. We think there's a lot of promise. That's why we have spent quite a bit of effort. And we do get orders every once in a while for this technology, especially if someone has hydrogen available in their site, which in a warehouse is much easier to do than in the passenger car type of industry.

That is -- and we have full development program to be able to provide fuel cells. But it's still today a very minor part of our offering. But it will continue to grow because it does have quite a promise.

On the SCS material handling or mobile robotics part of the business, we announced last year our participation in Quicktron. We have massively invested in our own products. Now we have the cooperation on the LoadRunner. So you're right. This whole market of autonomous vehicles in a warehouse is continuing to grow. We are observing that very tightly to see if there are opportunities in that market. And should something arise, of course, we'll be one of the first to go after it. So it is a competitive market. Others are seeing it.

But the fact is the level of growth that we are seeing in this business and the nonavailability of labor to work in warehouses, those two things just lead to a higher demand for mobile robotics that will continue.

Denise Molina

Great. Thanks very much.

Jorge González Sadornil Hello, Gordon, Anke. Thank you very much for taking my question. I have two questions on Supply Chain Solutions unit again. First one is if you think that the strong growth for the division is coming from the pent-up demand, basically if your clients are catching up with the strong increase in penetration from online sales or if you think that the megatrends are starting to kick in and some of your clients basically investing, looking to the lower end.

And my second question is if you can give us some detail on the percentage of returning customers that you have for these orders. Thank you very much.

Gordon Riske Look to the team on the second question re percentage of returning customers. But the order level pent-up demand is certainly part of that. That's more last year and the first quarter. What we're seeing now is more of a megatrend, especially in the automation of the food and beverage industry, so grocery business in general, which in some of the bigger suppliers around the world are not that automated in their supply chain in delivering the goods to their local stores in the small cities and microfulfillment centers and all these types of things.

So this whole megatrend of automating because of the increased competition and the nonavailability of labor, that's more based on a megatrend, and that is the bigger part of driving our growth. So it's not just pent-up demand as a result of the pandemic.

Anke Groth Yes, I don't have a percentage for you with respect to return customers, but I can give you a couple of examples. If we look at what we call pure play ecommerce customers, and we have revealed that we have one major customer who has more than 10% of group revenues -- that's a threshold under IFRS -- this customer is a return customer. We have a quite longstanding partnership, I would say. And I would say that's especially relevant for the pure play ecommerce segment.

But also, if we look into food and beverage, you know that's also a very strong vertical of the KION Group. There, we have a (inaudible) grocery as well. So I would say it's a quite solid percentage within our portfolio of satisfied customers who are returning to us.

We also see that customers are placing, for example, first orders in North America. And they are placing orders in Europe with us. And so it's also our global network which facilitates this.

Jorge González Sadornil Thank you very much.

Sven Weier Yes, thanks for taking the follow up. It's just one on the next price increase that you also mentioned earlier, Anke. Was just wondering, now that you said that you got the peak headwind from raw material prices already in Q3, and I remember, I think you said that the next price increase could be a little bit more than it usually was, is that still the plan, or are you going with the usual 1% to 2% this time around?

Anke Groth If I look at the headwinds for the full year, and you know we said it's high double digit, that's still a substantial headwind. And going into 2022, we don't see that this will be somehow significantly lower. So yes, we are discussing a more substantial price increase internally. But there is no decision taking yet. You know that we communicated in December. And then it will be effective 1st of January.

Sven Weier — And is that also because you're planning for more wage inflation than usual? Because, at least for the German workforce, I would imagine that this could be a topic next year.

Anke Groth — Yes, but we still have a tariff agreement in place. So we will see how that then goes in the discussions with workers' councils. But yes, sure, if inflation goes up and so on, we also will have this discussion then. But it's predominantly the material cost increase which will underline our price increase.

Sven Weier — Understood. Thank you.

Daniel Gleim — Yes, good afternoon. Thank you very much for taking my questions. And the first one would be on the European industrial truck market in 2022. How do you think about that market development into next year? What kind of environment are you preparing your organization for? And in case I push my luck too much at this point, any comments on current trading into October in absolute terms would be highly appreciated. That is my first question.

Anke Groth — Yes, let's start with October. We don't give somehow information on a monthly basis of what we have seen. Yes, so let's -- we're just coming out of Q3. So let's please leave it there. Let's see what we can tell you about October once we meet at the Capital Markets Day beginning of November, but October is not even over yet.

Gordon Riske	Yes, you know what you always -- when you say preparing the organization for 2022, and so we always prepare for the worst and hope for the best. That's kind of a good strategy in general. But the past year of 2021, if you look at the global numbers per quarter, plus 24, plus 24, plus 71, plus 73, plus 24, those are pretty high comps. So I think we'll stay at a fairly high level in absolute terms.
	But what we do see -- what we do believe -- we don't see it yet -- what we do believe is that the market will normalize somewhat, knowing that we have these megatrends toward automation. But these astounding 25% or even 50% year-to-year growth rates that we've seen now in 1, 2, 3, 4, 5 quarters, I don't believe that that will be in that range, simply because the comps are much higher than they will have been now in this year.
Daniel Gleim	Very clear. Maybe one clarification, when you're referring to the pipeline being higher than last year at same point, that was specifically for SCS.
Gordon Riske	Correct.
Daniel Gleim	And my second question would be on the upcoming Analyst Day. You already mentioned that maybe we can get some light on the October numbers. Is there anything else we should expect from that event that you can reveal today?
Anke Groth	It will be a great event, of course. So it's worthwhile to join and to listen to us and to ask questions. Yes, what we have said is you know that we receive quite often questions about our midterm targets. And we have it on KION Group level. So we will give more insights into the two segments, what you can expect on the

	respective development. We have Hassan and Andreas leading the businesses. They will speak about the respective developments. We will speak about China. So I think we have a couple of interesting financial topics as well as operational and business market topics.
Daniel Gleim	Looking forward to that. Thank you very much, both of 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, again, thank you, all, for joining us today in this very exciting Q3 2021, and we look forward to hearing and seeing you in a virtual conference in November to dig a little bit deeper into all the great opportunities that lie ahead of us. And with that, we'd like to close this call.