



Leasing Business Deep Dive

Update 2022

Frankfurt, November 2022

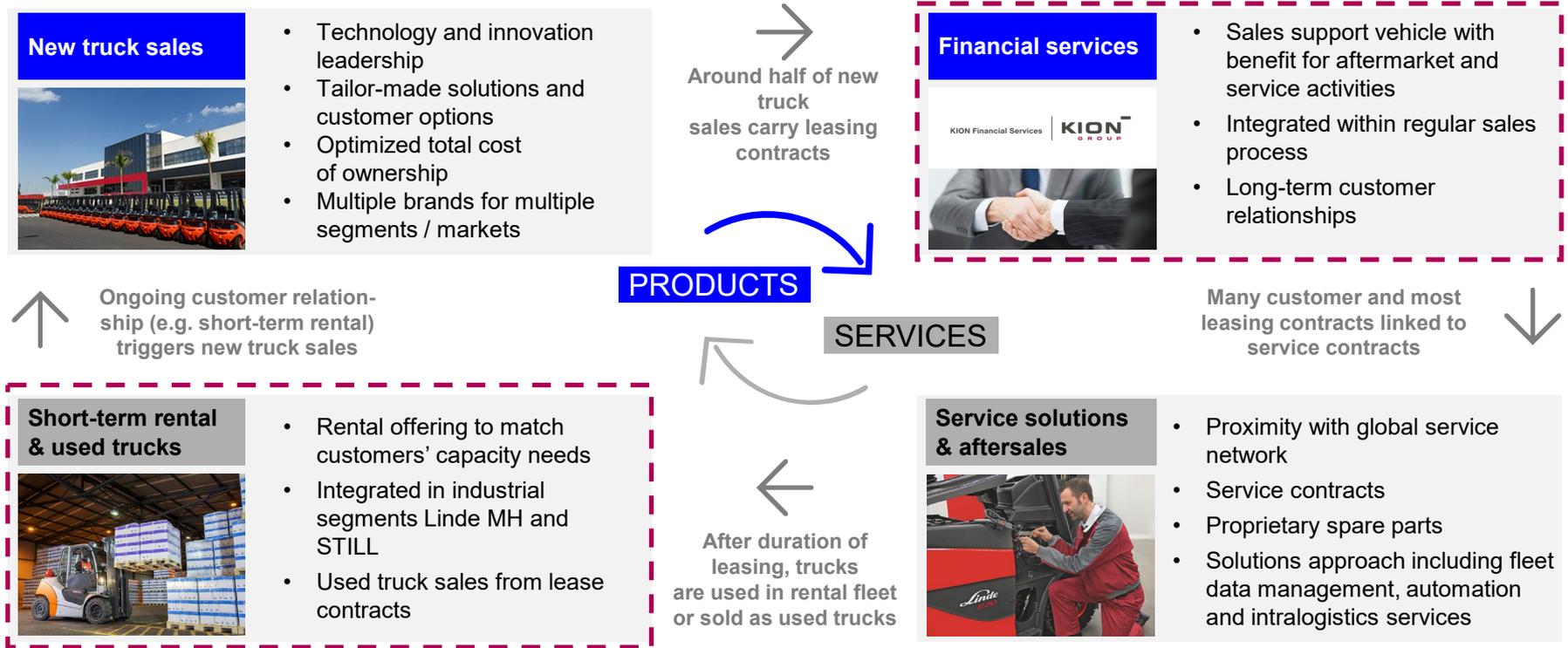


Agenda

1. **Business Model and Strategy**
2. Funding
3. Risk Management
4. Lease Accounting & Reporting
5. Key takeaways

Integrated Business Model within Industrial Trucks and Services

Leasing is an important component growing the business

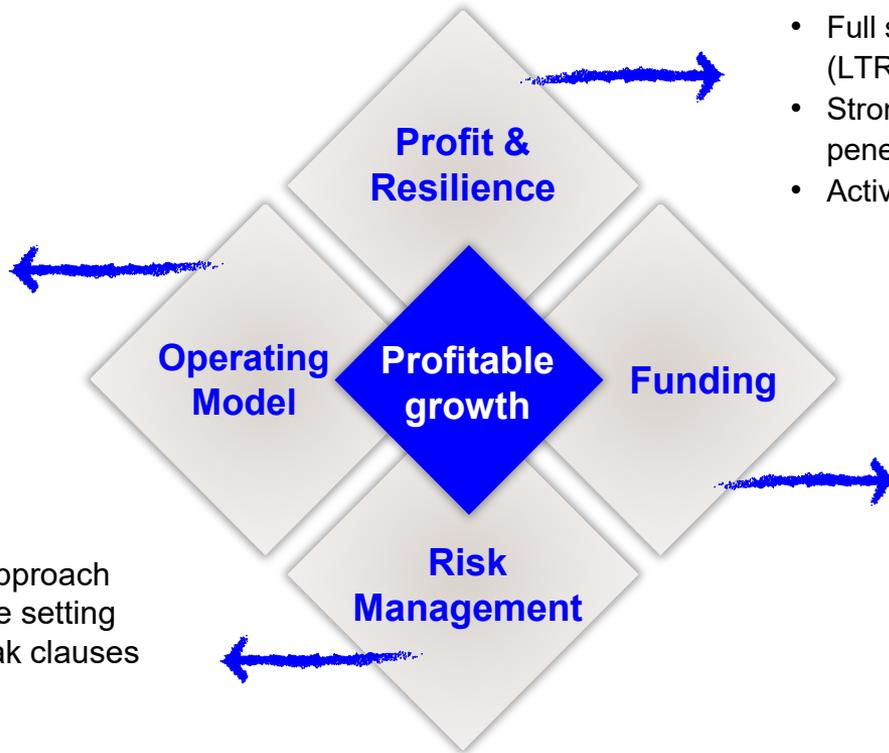


Leasing and Rental Strategy

Integrated approach to drive profitable growth

- Serve customers' needs
- Full integration into regional sales structures
- Central steering body for setting guard railing
- Separated captives in bigger markets

- Asset focused credit risk approach
- Conservative residual value setting
- Close management of break clauses



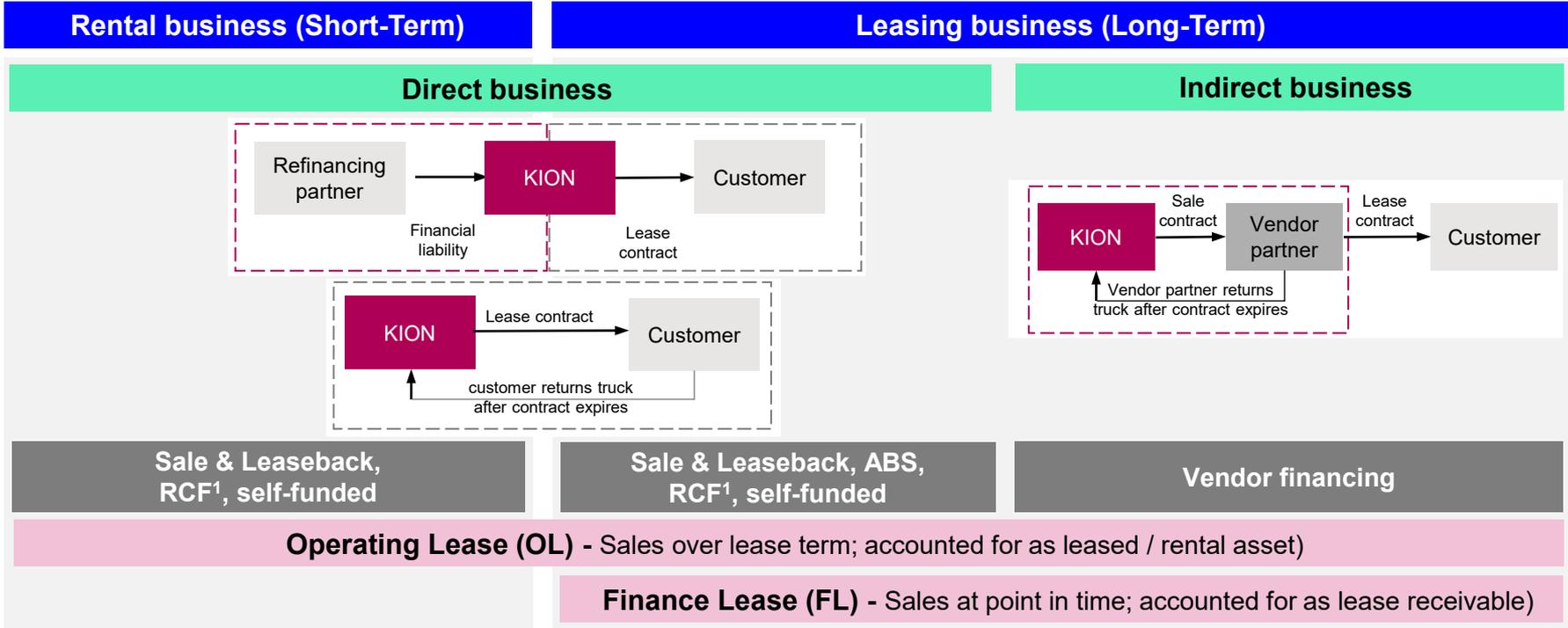
- Full support of life cycle management (LTR¹, STR², service, used trucks)
- Strong customer focus to optimized penetration and retention
- Active asset management

- Optimized structure to offer competitive funding
- Diversified funding-partner portfolio for stable access to market
- Matched funding (currency, interest rate, maturity)

1. Long-term rental 2. Short-term rental

Lease Accounting – KION’s Leasing and Rental Business

Contract and financing structure overview



1. RCF leasing replaced lease facility and includes Credit Enhancement, LTR and STR from Q2 2022

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Funding Structure of Leasing & Short-Term Rental Business

Increasing share of ABS / RCF optimizing funding condition

Instrument	Balance Sheet Position in €m ¹	Maturity Matched Funding	Interest Matched Funding
ABS		☑	☑
SALB (Sale-and-Lease-Back)		☑	☑
Indirect Leasing		☑	☑
Lease facilities ^{2,3}		☑	☑
Credit facilities ³		✗	☑

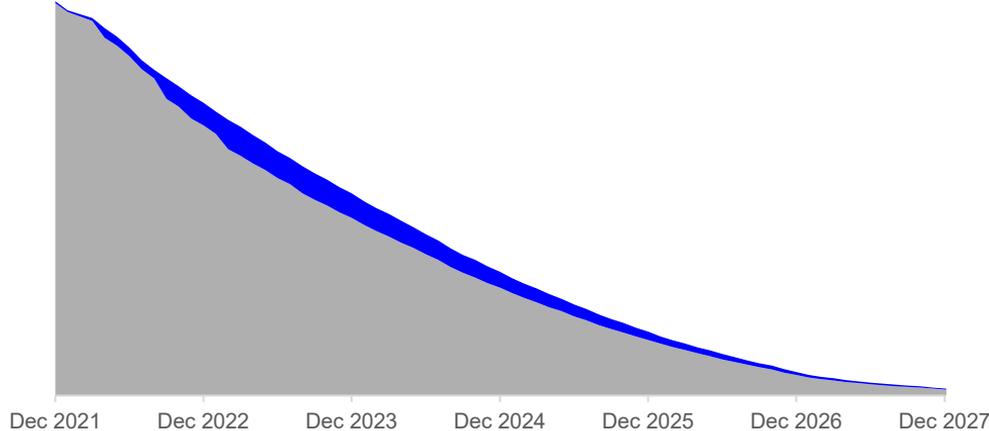
1. Excluding deferred income
2. RCF leasing replaced lease facilities and includes Credit Enhancement, LTR and STR from Q2 2022
3. Credit facilities are included in lease facilities since FY 2020



Refinancing of Leasing Business

The majority of KION's leasing portfolio is matched funded

Maturity profile as of September 31 2022



Hedged

Unhedged

Refinancing structure

- ABS are prolonged on a **yearly basis**
- Very high share of **matched funding** which benefits from **optimized cost structure**
- Due to **better funding conditions** and higher degree of flexibility, the share of ABS / RCF is increasing
- Optimized refinancing structure offers **competitive funding** for customers
- Some leasing contracts (e.g. for **li-ion batteries**) run up to 10 years

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Risk Management Categories

All risk categories are actively managed and mitigated

Residual Value Risk

- **Conservative residual value strategy** in place since FY 2001
- LTR¹ residual values allow for attractive profit margins in our used truck business
- KION has never recorded significant aggregated residual value losses

Customer Default Risk

- Customer **default costs** are at a **level of roughly 20 basis points** per year
- No significant increase of default costs in FY 2022 YTD
- Differentiated, asset-based risk approach leads to very low refusal rate
- Increasing use of automated scoring

Break Clause Risk

- Only **single digit percentage rate** of contracts **carry break clause risk**
- Utilization of break clauses has been rare
- No material impact on results
- Future customer utilization is expected to remain low

1. Long-term rental

Resilient Earnings Contribution

Despite difficult times no significant impact on profitability of existing portfolio

MEASURES

Meeting our customers' needs during this difficult time



- Selective use of contract adaptations to support customers experiencing disruptions
- Utilization of short-term rental fleets to support increased demand for customers engaged in essential industries
- Monitoring independent dealers, some of which hold significant leasing portfolios

RESILIENCE

Leasing profitability continues to support KION EBIT



- Contract adaptations have no material impact on cash flow generation
- KION expects no significant negative impact from the current volatile market environment, disrupted supply chains and geopolitical situation on earnings from leasing in FY 2022

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Lease Accounting – Balance Sheet

Increase in (lease) liabilities resulting from growth of leasing business

Assets		Equity and liabilities	
in € million	Dec. 31, 2021	in € million	Dec. 31, 2021
Goodwill	3,544.8	Equity	5,168.9
Other intangible assets	2,165.9		
Leased assets	1,391.5	Retirement benefit obligation and similar obligations	1,265.3
Rental assets	542.8	Financial liabilities	898.7
Other property, plant and equipment	1,447.5	Liabilities from lease business	1,793.5
Equity-accounted investments	84.3	Liabilities from short-term rental business	321.4
Lease receivables	1,318.9	Other provisions	143.1
Other financial assets	96.1	Other financial liabilities	433.2
Other assets	111.8	Other liabilities¹	198.0
Deferred taxes	449.3	Deferred taxes	523.5
Non-current assets	11,153.0	Non-current liabilities	5,576.7
Inventories	1,632.1	Financial liabilities	151.9
Lease receivables	465.1	Liabilities from lease business	1,277.3
Contract assets	519.1	Liabilities from short-term rental business	167.5
Trade receivables	1,339.2	Contract liabilities	854.8
Income tax receivables	58.6	Trade payables	1,443.7
Other financial assets	62.8	Income tax liabilities	51.4
Other assets	138.0	Other provisions	197.2
Cash and cash equivalents	483.0	Other financial liabilities	218.8
Current assets	4,697.9	Other liabilities¹	742.9
		Current liabilities	5,105.3
Total assets	15,850.9	Total equity and liabilities	15,850.9

¹ Also contains non-lease related items

Overview

- Many of KION Group's balance sheet items are related to leasing business, especially:
 - **Leased assets**
 - **Rental assets**
 - **Lease receivables**
 - **Liabilities from lease business**
 - **Liabilities from short-term rental business**
- In general, the **development** on the asset and liability side of the balance sheet are **highly correlated**
- Therefore, an **increase in liabilities is resulting from an increase in leasing business** (i.e., lease related assets) and / or a higher dedicated refinancing portion of our leasing business
- Valuable information on KION Group's leasing business can be found in the Notes to the consolidated financial statements



Source: KION Group, Annual Report 2021, p. 145-146

Lease Accounting – Balance Sheet

Direct leasing business drives KION's balance sheet

Leasing and rental balances as at Dec 31, 2021 (2020)

<p>Leased assets €1,391.5 m (€1,333.3 m)</p>	<p>Liabilities from lease business €3,070.8 m (€2,739.3 m)</p>	Leasing business
<p>Lease receivables €1,784.0 m (€1,595.3 m)</p>	<p>Deferred revenues¹ €241.7 m (€316.9 m)</p>	
<p>Rental assets €542.8 m (€529.6 m)</p>	<p>Liabilities from short-term rental business €488.9 m (€505.6 m)</p>	Rental business
	<p>Deferred revenues¹ €21.7m (€25.4 m)</p>	

Direct vs. indirect leasing as at Dec 31, 2021 (2020)

<p>Leased assets (Operating lease) €1,022.1 m (€880.7 m)</p>	<p>Liabilities from lease business €2,858.3 m (€2,483.6 m)</p>	Direct
<p>Lease receivables (Finance lease) €1,784.0 m (€1,595.3 m)</p>	<p>Deferred revenues¹ €9.2 m (€18.9 m)</p>	
<p>Leased assets €369.4 m (€452.6 m)</p>	<p>Liabilities from lease business (residual value) €212.6 m (€255.7 m)</p>	Indirect
	<p>Deferred revenues¹ €232.5 m (€298.0 m)</p>	

1. Contained in "other liabilities"

Lease Accounting – Balance Sheet

Specific accounts with bigger movements, overall parallel development

(in €m)	FY 2019	FY 2020 ¹	FY 2021	Change 2019 - 2020	Change 2020 - 2021
Sales Industrial Truck & Services (total)	6,410	5,723	6,514	-11%	14%
thereof New Business (third party)	3,346	2,735	3,107	-18%	14%
thereof Rental Business (third party)	926	911	1,001	-2%	10%
Total Assets	3,415	3,458	3,718	1%	8%
Leased assets	1,361	1,333	1,392	-2%	4%
thereof direct	808	881	1,022	9%	16%
thereof indirect	553	453	369	-18%	-18%
Lease receivables	1,421	1,595	1,784	12%	12%
Rental assets	633	530	543	-16%	3%
Total Liabilities	3,560	3,588	3,823	1%	7%
Liabilities from direct lease business ²	2,198	2,484	2,858	13%	15%
Liabilities from indirect lease business ²	297	256	213	-14%	-17%
Liabilities from short-term rental business	616	506	489	-18%	-3%
Deferred revenue (LTR ³ , STR ⁴)	449	342	263	-24%	-23%

1. Effective January 1, 2021, the logistics service companies were transferred from the Corporate Services segment to the Industrial Trucks & Services segment. The segment revenue 2020 has been adjusted accordingly. 2. Reported under "liabilities from lease business" 3. Long-term rental 4. Short-term rental

Lease Accounting – Income Statement

Leasing business contributes 12% to total KION Revenue

Condensed consolidated income statement

in € million	2021
Revenue	10,294.3
Cost of sales	-7,770.7
Gross profit	2,523.6
Selling expenses	-970.2
Research and development costs	-174.7
Administrative expenses	-615.0
Other income	99.4
Other expenses	-81.4
Profit (loss) from equity-accounted investments	13.1
Earnings before interest and tax	794.8
Financial income	121.1
Financial expenses	-156.2
Net financial expenses	-35.1
Earnings before tax	759.7

Revenue with third parties by product category

in € million	2021
Industrial Trucks & Services	6,503.5
New business	3,104.7
Service business	3,398.8
– Aftersales	1,734.8
– Rental business	1,000.5
– Used trucks	412.7
– Other	250.8
Supply Chain Solutions	3,780.3
Business solutions	3,006.7
Service business	773.7
Corporate Services	10.5
Total revenue	10,294.3

Leasing (FL) = €708m

Leasing (OL) = €537m
Rental (OL) = €463m

- Leasing & Rental business accounts for 17% of total KION Revenue and 26% of total IT&S Revenue
- Leasing only (FL & OL) accounts for 12% of total KION Revenue
- Share of finance lease Revenue from New Business amounts to 23%

Lease Accounting – Income Statement

Timely recognition of income differs between Finance and Operating Lease

FY 2021	LTR ¹ (FL)	LTR ¹ (OL)	STR ² (OL)
Business line	New business	Rental business	Rental business
Recognition			
Revenue (FY 2020)	€708m (€650m)	€537m (€510m)	€463m (€401m)
Cost of sales, SG&A			
= EBIT impact			
Financial income		✗	✗
Financial expense			
= EBT impact			



At commencement of the lease contract



Over time

1. Long-term rental 2. Short-term rental

Finance Lease (FL) vs. Operating Lease (OL)

- (In-) direct leasing business classified as a **Finance Lease** generates Revenue and Cost of sales at commencement of the lease contract
- (In-) direct leasing business classified as an **Operating Lease** generates Revenues and Cost of sales (i.e., depreciation) over the lease term
- Refinancing of KION's leasing business causes financial expenses (finance and operating lease) as well as interest income (finance lease).
- Customer payments made under **Operating Leases** are fully recognized as revenue, covering amortization and interest.



Lease Accounting – Cash Flow Statement

Leasing business is operating cash flow accretive

Condensed consolidated statement of cash flows

in € million	2021
Earnings before interest and tax	794.8
Amortization, depreciation and impairment minus reversals of impairment on non-current assets without lease and rental assets	415.2
Depreciation and impairment minus reversals of impairment on lease and rental assets	525.7
Non-cash reversals of deferred revenue from lease business	-153.9
Other non-cash income (-)/expenses (+)	8.6
Gains (-)/losses (+) on disposal of non-current assets	-5.3
Change in leased assets (excluding depreciation) and receivables/liabilities from lease business	-171.7
Change in rental assets (excluding depreciation) and liabilities from rental business	-196.9
Change in net working capital	-201.9
Cash payments for defined benefit obligations	-31.2
Change in other provisions	36.6
Change in other operating assets/liabilities	63.1
Taxes paid	-201.4
Cash flow from operating activities	881.7

1

2

3

Understanding the cash flow statement

KION's leasing business is presented as operating cash flow

1. *Earnings before interest and tax* is the basis for the (indirect) calculation of the **operating cash flow (OCF)**
→ Contains the EBIT from leasing & rental business
2. Due to the indirect determination of the OCF, non-cash leasing items included in EBIT, i.e., **depreciation** (€525.7m) and **deferred revenue** (-€153.9m) are reversed = **+€371.8m**
3. Changes in **leased assets, rental assets** as well as **lease receivables** and dedicated **liabilities** are off-set against each other = **-€368.6m**. Changes in lease receivables and liabilities also contain interest income and expenses



Taking **all relevant lease positions** into consideration, leasing and rental business activities usually have a **positive OCF effect**

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5. **Key takeaways**

Leasing Business Deep Dive

Key takeaways

1. Leasing business is an **important component** of the integrated IT&S business model
2. **Well managed risk profile** with **resilient income streams**
3. Optimized refinancing structure supports **competitive funding costs**
4. Leasing operations are **EBIT and operating cash flow accretive**



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