KION GROUP AG

FY 2022 Update Call

Conference Call Transcript

02.03.2023

15:00 CET

Speakers: Rob Smith (CEO
Marcus Wassenberg (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.

Rob Smith

Good afternoon, ladies and gentlemen. For today's call, please refer to our Q4 and full year 2022 presentation on the IR Website.

Before we kick off with our call and the traditional quarterly presentation, I'd like to ask our new CFO Marcus Wassenberg, who joined KION on the 1st of January this year, to quickly introduce himself to you. Marcus?

Marcus Wassenberg

Thank you, Rob, and good afternoon, everyone. I'm excited to co-host my first earnings call at KION Group.

Most recently, I was CFO of the German SDAX listed company Heidelberger Druckmaschinen. My first and foremost focus was on the successful implementation of a comprehensive transformation program, improving the company's financial performance and profitability.

Before that, I was CFO at Rolls-Royce Power Systems and Senvion, where I not only gained industry experience in both engineering and project businesses but also engaged with capital markets.

KION is a great company with fascinating products and solutions. I'm excited to be working together with Rob and the KION Team on rebuilding confidence, driving performance and transparency as I am aware of the recent challenges. I'd like to engage in an active dialogue with the capital markets, both on the equity and debt side. I do look forward to meeting you in the coming months.

I'm now handing it back to Rob to start the presentation.

Rob Smith

Thanks, Marcus. It's great to do the presentation together today.

Let’s move to Page 4, and I’ll talk you through our key financial figures for the fourth quarter. Each of the KPIs came in within the implied fourth quarter guidance range that we gave in the middle of September ‘22.

Group order intake of €2.5 billion was down 27% year-over-year and showed flat development on a sequential basis. Group revenue came in at a strong €2.9 billion, up 5% year-over-year and 7% versus the previous quarter. After the loss in the third quarter, the adjusted EBIT turned positive again in the fourth quarter, and we finished with a positive €82 million in the fourth quarter.

Free cash flow showed a substantial positive swing in the quarter and reached €256 million, reflecting an initial unwinding of the net working capital and improved earnings. And earnings per share in the quarter was €0.27.

I continue on Page 5 and talk you through our full year figures for 2022. Order intake of €11.7 billion was down 6% year-on-year and remains on a high level. Revenues increased to a record level of €11.1 billion, up 8% versus last year.

Adjusted EBIT was €292 million, 65% below the prior year, due to significant cost increases and inefficiencies coming from supply chain disruptions.

And despite more than a €600-million positive sequential swing in free cash flow in the fourth quarter, we finished the year with a negative free cash flow of €716 million. There is still a lot of cash

tied up in working capital, and we expect to further unwind some of that this year.

We will be proposing to the AGM on the 17th of May a dividend payment of €0.19 per share, which represents a payout ratio of 25%, which is at the bottom end of our payout policy guidance of between 25% and 40%. In a difficult financial year with declining earnings and negative free cash flow, we think this is the right decision on the dividend. Improving our financial results, revenue, profitability, and free cash flow, is a key focus for us this year.

Let’s go to Page 6. I’d like to recap the measures we have underway to increase our agility, our resilience, and our profitability.

We made four price increases last year and became much more agile on pricing in our ITS business. We also achieved good results with our backlog repricing, where we generated €75 million in additional revenue and bottom-line EBIT. About two-thirds of that contributed to last year`s earnings. And this reflects the excellent relationship and the long-term relationship that we have with our customers.

We also put in place a number of measures to improve our procurement processes and strengthen our supply chain, significantly reducing the number of critical suppliers. We qualified additional suppliers. And our engineering team redesigned components to make use of better available material.

In Supply Chain Solutions, we’ve introduced fundamental improvements on how we manage, execute, and monitor our

projects to enable us to perform with good profitability in a volatile market environment.

And by introducing price adjustment clauses in both operating segments, we're now better protected against the kind of inflationary pressures we experienced last year. And in both of our businesses, we're continuing to enhance our service offering.

These actions are already contributing to our performance, and we are focused on their continued and successful execution this year. This will improve our resilience and profitability going forward.

On Page 8, let's talk about the unit order intake development of the industrial truck market and how KION performed relative to that market.

We now have the data for the global industrial truck market for the third quarter, which declined globally by 14% on a unit basis and was thus broadly in line with KION's development in the third quarter as well.

In the fourth quarter, we expect that the market did not reach previous year's levels, mainly driven by a substantial decline in EMEA.

And as far as KION's performance, Q4 order intake came in at 41,000 units, which was 23% lower quarter-on-quarter and down 49% year-on-year due to the continued softening demand in the market.

Do bear in mind the comparison. In late 2022, we didn't have a prebuying effect like we had in the fourth quarter 2021, which went -- the prebuying effect -- ahead of our January 2022 price increases. And looking at the full year 2022, the unit decline was 10% compared to the record level of last year.

Marcus will take you through our financials now. Marcus?

Marcus Wassenberg

Thank you, Rob. Turning to Page 9, you will see the key financials for the ITS segment.

Although the order intake in units was down 49% year-over-year, the order intake in euros declined not as much and was down 30% to €1.7 billion. The reasons for this are the positive effects from the 2022 price increases and continued growth in services.

The order book with more than €3.8 billion remained at a high level and covers more than a year of new truck sales. Now, almost half of it includes price adjustment clauses.

With revenues just over €2 billion, we reached a new quarterly record level. Main drivers of this are: We saw a 29% growth in new truck sales. We were able to reduce the number of semifinished trucks from less than 8,000 units in Q3 to less than 4,000 units at the end of Q4, and our price increases started to take effect.

Revenue and adjusted EBIT also benefited from the successful order backlog repricing exercise, as Rob explained earlier.

Thanks to the higher volumes, adjusted EBIT in the fourth quarter increased by 17% sequentially to €120 million, leading to an

adjusted EBIT margin of 5.8%, despite continued higher procurement costs for materials, energy, and logistics.

Let’s turn to Page 10, which summarizes the key financials for Supply Chain Solutions.

Q4 order intake at €882 million rebounded by 44% from the previous quarter. The share of orders from pure play ecommerce customers remained very low at 4% compared to 38% in Q4 2021. This explains the entire year-over-year decline in the order intake, while other verticals remained stable. In addition, the overall uncertain economic environment has led some customers to draw out decisions on certain projects.

At the end of last year, the order book finished at €3.3 billion and continues to provide good visibility for the quarters to come. Despite a growth in service business amounting to 22%, revenue in the fourth quarter declined by 17% year-over-year to €836 million. This is also a result of the lower share of pureplay e-commerce projects which is likely to continue impacting revenue this year.

Adjusted EBIT in the fourth quarter of minus €13 million improved substantially compared to the prior quarter but continues to reflect low- and no-margin legacy projects. As we have flagged before, the adjusted EBIT will continue to be depressed until all lower-margin orders have been worked through. We expect this effect to last at least throughout 2023.

Page 11 summarizes the key financials for the Group. Order intake at €2.5 billion in Q4 is down by 27% as demand in both segments is softer following a record year in 2021.

Order book remains high at €7.1 billion and continues to provide good workload for the quarters to come. At €2.9 billion, revenue remains at a high level, driven by the solid performance at ITS and the resilient services businesses in both segments.

As mentioned before, the lower-margin legacy projects impacted the Group adjusted EBIT and adjusted EBIT margin in Q4 2022.

Let's move to the free cash flow statement on Page 12. In the fourth quarter of 2022, free cash flow was positive at €256 million. The expected improvement compared to the third quarter relates to improved earnings and an initial unwinding of net working capital, such as the reduction of semifinished trucks and the completion of project milestones in SCS, leading to the agreed milestone payments. Net working capital optimization remains a key focus for 2023.

Let's turn to Page 13 and our leverage ratios. In Q4, our net financial debt decreased by €186 million to around €1.7 billion, resulting in a slightly improved leverage of 1.4 times.

At the end of financial year 2022, the RCF-relevant leverage on industrial net debt excluding pension liabilities stabilized on the Q3 level at 2.3 times. This leaves plenty of headroom under the covenant, which is currently not tested, as we have two investment grade ratings.

Including pension liabilities, the leverage on industrial net debt amounted to 2.8 times at the end of fourth quarter.

Improving our working capital position and generating positive cash flows to support our two investment grade ratings is another focus area for this year.

Let us now move to our outlook for 2023 and beyond. Page 15 lays out our guidance for 2023. For 2023, the IMF expects global economic growth to slow again to 2.9% versus 3.4% in ’22, with developed economies expanding by just 1.2% and the Eurozone by 0.7%.

This economic environment and the softening of the market in 2022 make it unlikely that the figures for the global material handling market in ‘23 will match those achieved in ‘22.

Overall, for the KION Group, we believe we are well prepared for the future in view of the steps that we have taken to boost resilience.

We expect revenue on Group level to remain above the record level of €11 billion and a strong rebound in profitability, with the adjusted EBIT exceeding €550 million. We anticipate a positive free cash flow of at least €500 million and a ROCE of at least 5%.

Profitability and resilience are supported by the decisive steps we took in both operating segments. Our measures underway will further support our earnings this year, predominantly in the second half. This is one of the reasons why we’re expecting a substantially stronger second half compared to the first half in 2023.

We believe that the market for industrial trucks in units will decline by a high single-digit percentage in new trucks ordered mainly

driven by EMEA and the Americas, while APAC should grow slightly.

Regarding top-line development in ITS, given that the availability of materials is predicted to improve, we expect further growth, primarily driven by our large order book from 2022.

We assume the adjusted EBIT to be substantially stronger in the second half of the year, as both the improvement in supply chains and the 2022 price increases take full effect as the year progresses.

We expect to see a slightly contracted SCS market this year due to the continued weaker demand from pureplay ecommerce sector and the uncertain economic outlook in an intense geopolitical environment, resulting in potential project postponements.

This explains why we expect that the revenue in the SCS project business will decrease in 2023. However, continued revenue growth is anticipated in the high-margin service business.

In terms of adjusted EBIT, particularly in the first half of the year, we'll still be significantly impacted by the legacy projects.

Instead of providing ranges in our guidance, like in the previous years, we have decided to guide minimum targets for all core KPIs, which we are absolutely committed to deliver.

During the process of finetuning our KION 2027 strategy, we have also reviewed our management model and KPIs to steer the Group.

The outcome of that review was that the Executive Board sees revenue, adjusted EBIT, free cash flow, and return on capital employed – ROCE – as the core KPIs, supporting our profitable growth strategy. Therefore, we no longer guide order intake.

I now hand back to Rob, who will talk about the long-term expectations for our markets and update you on the KION 2027 Strategy.

Rob Smith

Thank you, Marcus. Moving from a view on ‘23 to the longer term, on Page 16, you've got a reminder of why we expect growth to return after 2023.

Speed of fulfilment and delivery is and will remain a key performance factor for our customers, and that gives them a competitive advantage. And automation is the key to achieving that. As a global leader in intralogistics, we'll benefit from the structural growth in our attractive end markets.

We believe that the services business will continue to strengthen our resilience and post further strong growth.

For our Supply Chain Solutions market, we expect that pureplay ecommerce customers will come back with new investments in the medium term, given that the importance of online sales remains high, and customers will continue to expect short delivery times.

In the longer term, through our strategic planning period through 2027, we believe that the market for Supply Chain Solutions will grow by a compound annual growth rate of more than 9%, as the

structural trends and drivers such as automation, wage inflation, and labor shortages remain intact.

Looking at the global ITS market in the longer term through our strategic planning period until 2027, we expect it to grow again towards the long-term trend of around 4% compound annual growth.

Please turn to Page 17. I'd like to talk you through our updated building blocks on our KION 2027 Strategy. The attractive market growth I just described will support our KION 2027 Strategy, which we updated and refined over the course of last year. We reviewed it and further finetuned our strategy. Our target is to achieve profitable growth fueled by six defined fields of action.

In multibranded go-to-market, we're positioning each KION brand successfully in the market. And on top, our KION brands are teaming up to provide customers comprehensive integrated intralogistics solutions.

With our regional specific growth plans, KION supports growth in all business segments with regional growth strategies that take local market needs into account. In ITS, for example, growth is in the APAC and America regions, where we're expanding production footprints and sales networks.

In sustainability, we develop and manufacture products and solutions that are environmentally friendly and safe. Focusing on people, planet, and profitable growth is our triple bottom line.

And through automation and software, we're offering customized and scalable solutions for a wide range of customer

requirements, from individual industrial trucks to automated warehouse equipment and full automation, including AMRs, supporting our customers on their way to lights-out warehousing.

We're strengthening the resilience of our business model by continuously increasing our performance and agility. One example is our global KION business transformation initiative. We're working on harmonizing our processes and data and systems across the Group and across functions.

And the foundation for all of this are our KION values, our KION people, and our leadership. Our HR strategy focuses on global recruitment and development, equipping our teams with all the necessary skills. We support a diverse, equal, and inclusive culture that promotes the commitment of employees and unleashes their long-term potential in the best way possible.

And as our first next step in delivering our KION 2027 Strategy, it is our ambition to improve our adjusted EBIT margin so that it's permanently above 10%. That's for the KION Group as well as both of our operating segments. And we expect to achieve this within our strategic planning period.

We are committed to continue our focus on further adjusted EBIT margin expansion once we've achieved this milestone as our first next step.

So on Page 18, I summarize my key takeaways for you for today. We are fully focused on executing our measures, which have been implemented to improve our operational and commercial agility. We're doing this to sustainably strengthen our business

resilience and sustainably strengthen our profitability in a volatile environment.

We plan to deliver a strong increase in adjusted EBIT and free cash flow this year, and we expect a significantly stronger second half of 2023.

We've updated our KION 2027 Strategy with its six fields of action, and with these, we will achieve our profitable growth target. The material handling market remains attractive. It's a very attractive market, and the long-term fundamental drivers of this market are strong. We support our ambition to become a strong double-digit EBIT margin company, both on the KION Group level and each operating segment.

This concludes our presentation. Thanks for your interest. Marcus and I would be delighted to take your questions, please. Go ahead, Emma.

Operator — Ladies and gentlemen, at this time, we will begin the question-and-answer session.

Sven Weier — Yes, good afternoon, and thanks for taking my questions. The first one is regarding Supply Chain Solutions. And I was wondering if you could give us a sense on the legacy backlog. What percentage of the backlog is still corresponding to the projects that are in trouble? And maybe you could give also the feeling how much of that is going to be executed in the first half and how much is then left over for the second half.

And maybe also maybe a more qualitative sense how you have progressed in terms of the risk control since September, right?

September was all still pretty early and probably hard to get the total oversight. But now half a year later, maybe you could also give us a qualitative feeling on how the risk control and oversight has improved since. Thank you. That's the first one.

Rob Smith

That sounded like two, Sven. And it's good to talk to you. Thanks for your questions. Look, we've continued to make good progress on completing our lower-margin projects. And as we're doing so, we are reviewing each opportunity for cost mitigation, change orders, and additional customer recoveries.

These low-margin projects will continue to impact our Supply Chain Solutions results until those projects are finished. Most of the low- and no-margin orders are planned to be completed by the end of 2023. And some project inefficiencies are certain to remain as long as the supply chain issues remain.

Internal processes that we've been updating, I covered those before, but those are very important to touch on, on a qualitative basis as well. Look, we've enhanced our commercial agility. We've been taking risk out of our contracts with our contracting. We've been working on our procurement processes and our project execution processes and have been adding capabilities in project management and in project controlling and working on these processes in our system to make it robust and deliver good profitability in a volatile environment.

Having said that, this is not a fast fix, Sven. And we will be making improvements to our robustness and improvements to our profitability over time. And it'll certainly be helpful to be burning through these low- and no-margin projects in the quarters to come.

KION GROUP

Sven Weier: Good to hear. Thank you, Rob. And the second question, if I may, is just -- I understand you're not guiding for order intake, and the focus is on normalizing lead times. Is it fair to say that it will probably take you at least the entire year to get back to normal lead times in basically both divisions and that the order intake doesn't really need to catch up before the second half when we think about 2024? Is that a fair statement, or how would you respond to that?

Marcus Wassenberg: I think, Sven, that is a fair statement. We're actually looking at an area of 1 year. So I would agree on that.

Sven Weier: Okay. Thank you, Marcus.

Sebastian Growe: Good afternoon, all. Good afternoon, Rob and Marcus. Two questions then from me as well. The first one would be around the IT&S market. You pointed to steep decline in the high single-digit percentage range for the year. And the first question related to it, should we expect a similar rate of decline for your IT&S business? And would it be right to assume that any such rate of decline would then have to be applied to the H2 order run rate and not to the full year? Maybe we can start there.

Rob Smith: Hello, Sebastian. Good to speak with you as well. Yes, the market in ITS was still very strong in the first half of last year and then cooled down, as you see in the market numbers for Q3 and also our expectations for the market for Q4.

We expect and have noticed, in the first months of this year, continued momentum from Q4 but not at the rate that we saw in Q4. Our overall expectation is coming off a record year in 2021.

Last year did finish in line with our expectations. You'll recall we were calling for a lower 2022 than 2021. And it came in that way.

Our expectation this year is, also, we have a view that it's going to be lower this year than last year.

Sebastian Growe

Okay. Understood. So if one looks at this massive disconnect between the H1 orders and then the H2 orders, and if I was to assume that H2 is sort of the right yardstick to work from, as of what point would it really start to hurt in the sense that you have buildup obviously also as tough base in ITS close to 30,000 people? And if then we are going from a run rate of 270,000 units that you recorded on '22 to a run rate of sub-200,000, yes, what would you say to this?

Marcus Wassenberg

I would say that the order book covers more than 1 year of new business. Service business is expected to grow additionally. In SCS, the order book does not fully cover our minimum revenue guidance in '23. But as we laid out in our presentation, demand from verticals other than pureplay e-commerce is stable, and the service business is expected to show continued healthy growth.

So therefore, we feel comfortable with the guidance. When it comes to the question about the trucks per quarter, we would like to refer to our expectations of the market declining by a high single digit percentage, and that KION on a full year basis, would not be able to decouple from that trend. But you often see some volatility between quarters.

Rob Smith

What I'd point out to you, Sebastian, is we've got a very strong order book in both of our businesses. And the order book we've got in our Industrial Truck and Services business easily covers a

year of production. And the macroeconomic expectations are that things are picking back up in '24 and '25. So we feel good about our guidance. We feel good about our strong order book. It gives us a very good situation going into this year. And our service business is very strong. So we're on a good way.

Sebastian Growe

Okay. Helpful color really. Thanks to both of you. And the second aspect, if I just may, is on free cash flow. If I try to decompose your minimum free cash target of €500 million in '23, I would expect that this contains working capital tailwinds of about €200 million to €300 million probably.

So first one around this one is if you could comment on the key drivers because I would've expected that there are no real further positive impacts from the reduction in semifinished trucks because that looks at least for me to be widely behind.

I heard your comments, Marcus, around the milestones and that this would help here. What are the other key levers that we should think of? And the reason I'm asking that question is simply, if I hear your comments around IT&S order funnel, if I hear also your comments on what you said before, Marcus, potentially slightly contracting environment for SCS in '23, then how should we think about potential prepayments that might kind of unwind and bite simply into what otherwise might be working capital tailwind?

Marcus Wassenberg

So basically, there's several ways to look at that. And I'm thinking of walking you through that actually. But I think, first of all, your assumption for the reduction in net working capital is a fair number. That is something that we see as well, and that's one of the main drivers. Don't forget then the EBIT improvement, which

KION GROUP

is the second driver. I don't think we are predominantly dependent on downpayments. This is not really what we see.

If you want, allow me to maybe give you some sort of a bridge that might help you actually coming from the other end, which is maybe starting from the reported EBIT, which is roundabout €450 million. This number includes around €93 to €96 million PPA. You then add back the D&A, which is €500 million. You add the release of net working capital, €250 million. You ignore maybe the taxes and others, which is €100 million. You come to a free cash flow of operating activities of around €1.1 billion. You subtract the capex of €500 million, and then there might be some room or not for other activities such as M&A. And then you get to a free cash flow of €500 million.

So that is, I think, the way to look at things here. And that basically should give you an idea. And don't forget project milestones as well giving us cash. And if we work through those projects,actually, I think we're amply covered.

Sebastian Growe — Okay. No, this is helpful. And then would you mind putting a number behind those milestones that you would see coming through in '23?

Marcus Wassenberg — That's difficult to say. So I wouldn't like putting a number here.

Sebastian Growe — Okay. Fair enough. Thanks, both.

George Featherstone — Hi, afternoon, everyone. Thanks for taking the questions. Just a real quick one just on the back of that last question in terms of clarification about kind of what you're expecting here in terms of

units, I think you said, Rob, originally expect the IT&S market from a unit perspective to be down high single digit this year.

And I think you also just said in answer to the last question you expect unit volume to grow for KION. Just would like to have a bit of clarity on that and kind of embedded within that really just an understanding about the IT&S guidance.

It looks quite conservative. You also said services business there should grow actual sort of headline numbers that like, from the guidance, you're expecting about 5% revenue growth year-over-year. Just like to understand how much OE growth we should see, how much is price, what you expect in terms of volume. I appreciate the supply chain is still difficult to understand. But you've got a year's worth of units. So just trying to understand how much of that year's worth is yet to be delivered this year. Thanks.

Marcus Wassenberg

So basically, we're seeing shipments coming from the order backlog. And that is the driving for revenue as we produce through the order backlog.

George Featherstone

Okay. So sorry, you mean in terms of your revenues there. I was asking after orders really in terms of incoming orders from a unit perspective. Just wanted to clarify what you meant. Do you expect a decline in line with the market from a unit perspective or something else?

Rob Smith

George, you're asking us to guide on things we don't guide on. As a matter of fact, our core KPIs are revenue, our EBIT, our free cash flow, and ROCE on a go-forward basis. We shall be

reporting our order intake as we go quarter by quarter, but that's where we are.

George Featherstone — Okay. Understood. Let's go back to the revenue question then if we can. How much of the units that you're sort of seeing in your backlog do you expect to deliver this year, and can you talk about that sort of component from your guidance in terms of a euro EBIT, so euro revenue growth? How much of that is price versus volume component?

Rob Smith — So as we talked about with the €3.8 billion backlog starting the year, George, we've got a very good position for our ITS business through the coming quarters, and it's easily more than a year of production.

And so as we go through that and the supply chain keeps up with us, we do expect continued supply chain volatility this year, hopefully less so in the second half than the first half. But as the supply chain flows, we're able to build through that backlog, and we're looking forward to the revenues coming from that, especially as the supply chain volatility lessens in the second half as we hope.

Marcus Wassenberg — So there's a price effect of 10%, but it's already included in the backlog.

George Featherstone — Okay. So underlying volume is down 5% then. Is that what you're effectively saying there?

Rob Smith — Why don't you take that offline with Sebastian and the IR team after the call? I think you want to be doing a walk with your model, and Sebastian would be more than happy to help you with that.

George Featherstone: Okay. Fine. My next question, just on SCS, if we can on the sequential orders, can you just help me understand? I think you said in Q3 that you had cancellations that amounted to sort of high double-digit million and just try and understand a little bit more about that in terms of if we think about a gross order intake that that would be then for Q3. Have you actually improved orders sequentially if we were to add back those cancellations in Q3?

Rob Smith: The thing on cancellations is you can't add them back. But there was a definite good rebound from Q3 to Q4 on the order intake. And we were really proud of our SCS team in bringing in that order intake in the fourth quarter. It was a good rebound.

George Featherstone: Okay. Thank you very much.

Akash Gupta: Yes, hi, good afternoon, everyone, and thanks for your time. My first question is on Slide Number 16, where you showed the market outlook in the medium term. If I look at the slide here, you are indicating that Supply Chain Solutions and Industrial Truck global market in terms of revenues would be flat in '23. But when we look at your guidance, you are implying at least 7% growth in ITS and maybe double-digit decline in SCS revenues.

So can you tell us, how shall we reconcile it? Are you basically telling us that you might lose market share in SCS and gain market share in ITS?

And then maybe if we extend that to 2027, how do you see your market share or overall in terms of your growth versus market growth in both of the segments? So that's question number one.

Rob Smith

Good to speak with you, Akash. Appreciate your questions. Yes, we on Page 16 are pointing out that our expectation is that the 2023 market in both industries basically is not bigger than the 2022 market. It's about flat year-on-year. We'll see how that develops.

Over the longer term, our expectation is in that strategic planning period easily 9% CAGR in warehouse automation and 4% or better in the Industrial Truck and Service markets.

I think it's a mix. The significant growth that we had in '20 and '21, especially with the pureplay e-commerce players, put a lot of capacity in the market for those pureplay e-commerce players. And they're slowing that down while they're growing into it.

Our expectation and their expectation is that, in the medium term, they're coming back. Some of that pureplay e-commerce business is a very fast turn. So when it comes in, in the year, sometimes, it goes out in the same year as opposed to coming in this year and being built over the following -- over the subsequent years.

So as we had lower pureplay e-commerce last year, there'll be less execution on pureplay e-commerce this year. And some of the longer-term projects in other verticals take a bit longer.

So our expectation is growing our profitability and growing our business over the strategic planning period. And as we have a very strong position in the market and we intend to improve on that, I think you'll see that position in the market grow over time as well.

Akash Gupta — Thank you. And my second one is on these price adjustment clauses which you said you have now embedded in both of the segments. Can you provide more details on how exactly they work in reality? Like which are the underlying parameters that you use as, let's say, indexation or adjusting the price depending on how the input cost is moving so we can see what sort of impact is covered in these price adjustment clauses and what may not be covered if we have any surprising input costs down the line? Thank you.

Rob Smith — No, Akash, I ask you to please understand our commercial agility and our operational agility are very important for our company. And how we do these adjustment clauses is basically how we do these adjustment clauses, and I'd rather keep those good ideas for ourselves as opposed to having anybody else be taking them.

So we do have those adjustment clauses. They went in, in the second quarter from last year. There's an indexation review at the point of delivery. There are other ways of doing that and different ways of doing that. What's important is we've given ourselves protection against inflationary pressures, like we saw last year on a go-forward basis.

And last year, you recall we didn't have those protections in place until we started doing so in the second quarter going forward. That will benefit our business, and that makes us more resilient in volatile times.

Akash Gupta — Thank you. And maybe a final follow up quickly. You mentioned in the presentation that pureplay e-commerce orders were 4% of orders in Q4 versus 38% last year. Do we have the number for

the full year as well? Like what was full year order intake from pureplay ecommerce companies in 2022 versus 2021?

Marcus Wassenberg — Let's take that offline. Sebastian will provide the number to you. We don't have it right now.

Akash Gupta — Thank you.

Gael de Bray — Thanks very much. Good afternoon, everyone. Thanks for the time. The first question I have is on the margin objective, the 10% margin target by 2027. So it's for the two operating segments, right? But I wonder if you actually expect IT&S margins to reach the 10% mark before 2027 because, just looking at the pricing actions you took last year, it could perhaps happen maybe as early as the end of this year or early 2024, or is this really only a 2027 objective? So that's question number one.

Rob Smith — Gael, I appreciate you picking up on that. Those are important messages. Our expectation and what we're working hard to deliver and what we're committed to delivering is, over the course of our strategic planning period, driving the EBIT, adjusted EBIT profitability of our company over 10% on a continued basis, applies to the Group, and applies to both operating segments.

And that's our first next step. Once we achieve that, we'll be coming with our second next step, which is to improve beyond those levels on a go-forward basis.

So we expect to do that during the strategic planning period. And when we get to that first step, we'll come back and talk to you about our next step beyond that.

Gael de Bray	Okay. Then the second question is about SCS. I'd be interested to know which proportion of SCS backlog has been reset already at a zero gross margin level, and can you confirm you've now fully reviewed the entire backlog for SCS?
Rob Smith	So, Gael, we most definitely are scrutinizing the entire backlog and going project by project every single month. As we explained in September, less than 10% of the backlog was lossmaking projects.
Gael de Bray	Okay. Thanks very much.
Alexander Hauenstein	Yes, hello. Thanks for taking my questions. First of all, Mr. Wassenberg, I've got a question to you, please. What has actually surprised you when you were looking the first time into the KION Group in detail? And what is the midterm issue apart from the things we discussed so far that you as a CEO want to tackle and change here? That would be my first question, please.
Marcus Wassenberg	Thank you very much. Actually, it's quite exciting to work for a company with intact fundamental long-term trends. And that provides me with a lot of confidence. Secondly, I was really overwhelmed with the action that Rob and the Board team have initiated following a very difficult situation last year. And I hope that I can contribute bringing in my experience that I, for example, had in Heidelberg, where I really helped improving profitability, strengthening resilience, and strengthening the key financial parameters, such as leverage, for example, which I think is key for KION in the future to give us the tailwind to invest in other activities.

Alexander Hauenstein

Okay. Thank you. And coming back to Akash's question with regard to Slide 16 and your guidance, and I hear what you answered here, I'm wondering, looking into ITS top line, let it be like 7% growth plus, so more than €7.8 billion, and does that actually imply that, potentially in 2024, you expect this momentum quite to slow, or is that a slower slowdown, let's say, going into '25 in order to come back to the CAGR that you pointed out of 4%? So that needs to slow obviously. The question is, how quickly? Is that baked into your guidance? How quickly would it potentially slow down, or is it fair to say that it's 1 year of slower growth in 2024, and then we move back to the maybe 4% plus again?

Because with SCS, you pointed out that it could be some time until it comes back again to the normal 9%. So yes, also here, how quickly are we seeing a quite big snapback? Is it potentially 2024 again or more likely '25? Thank you.

Rob Smith

All right, Alexander, let's primarily focus on 2023, which is the guidance period that we're giving. And we're talking about our expectations for '23 today.

Midterm, though, macroeconomic expectations for '24 and '25 following a slower year this year are returning to growth on a worldwide basis in '24 and '25. So we expect that'll have a good impact on our market, and we would expect that's a good impact on our business.

As I pointed out earlier, we're starting this year with a very good order book level for both of our businesses. And the ITS order book is one that provides for production of over 12 months of time, carrying us well into 2024.

So that's how we expect our revenues to develop. And in terms of the medium term, the market outlook is for growth in '24 and '25. And we'll talk about our own guidance for '24 as we get to this time next year.

Alexander Hauenstein: Okay. Thank you. But still another question on the 2027 targets. You made some comments about the ITS margin, let it be 10% even earlier than 2027. So this is understood. But it is also a valid -- let's say, a valid point to make that, also for SCS, you probably could go for 11% or 12% over time. So this is not ruled out explicitly, right?

Rob Smith: I think you're getting to what Gael said as part of what I was saying. Let me try it again, Alexander. Our expectation and our objective is to deliver EBIT, adjusted EBIT profitability better than 10% for the KION Group and for both of our operating segments within our strategic planning period. And that's our first next step.

And when we've achieved that one, we will continue to drive our profitability for the group in both operating segments beyond that.

Alexander Hauenstein: Okay. Thank you.

Christoph Doleschal: Thanks very much. Good afternoon. I've got 2.5 questions. One is, again, concerning your midterm guidance in a more general kind of point there. Is it fair to assume that, in your midterm guidance, so the 2027 guidance, you're working on a, say, normalized level of 200,000 to 220,000 units, which is also the level obviously that you encountered before, say, the boom in 2020 and 2021?

KION GROUP

And the second or the 1B question to that is also regarding your e-commerce or pureplay ecommerce business that you said is expected to come back. When do you think it comes back? And how much of that is factored into your 2027 targets?

And then I had one question on your financial expenses. The guidance there is pretty significantly up, i.e., I think the market had like €50 million in the making, and you're guiding for €90 million to €120 million. Could you just elaborate what the reason for that is? Is it purely interest expenses going up, or is there other things in there?

Rob Smith

So let me take the first one, Christoph, and then Marcus will take the second one. The guidance we're providing is for revenue, is for adjusted EBIT, is for ROCE, and is for free cash flow for 2023.

What I'm describing are our 2027 targets, where we expect to deliver an adjusted EBIT margin above 10% on a sustained basis for our Group and for both of our operating segments. And we expect to achieve that during the strategic planning period.

Once we've done that, we'll come back and talk about how we intend to increase it beyond that as a second step.

Marcus, do you want to talk through the second part of Christoph's question?

Marcus Wassenberg

Absolutely. Christoph, I understand where you're coming from, but you shouldn't look at the '22 numbers for financial year but actually use Q4 as a starting point. And that gives you a different plateau to start with.

Secondly, obviously, you're spot on. Interest rates are higher. We're coming from a different plateau. That's the second thing. And I think my colleagues have explained in the last quarters that, basically, we saw changes in fair value in interest rate derivatives, and therefore, we had compensating effects that we cannot anticipate going forward.

So therefore, it is rather difficult to come up with a number here, and we've been more on the cautious side, as I think the whole of our guidance is right now. So take it in that light, and we're happy to discuss offline in more detail. But basically, I would directionally say this is what it is.

Christoph Doleschal

Okay. Thank you very much. Probably one question which just popped up is on the supply chain just because we heard from some machinery companies, not direct competitors but others, saying that the supply situation is getting tighter again. Have you experienced similar things?

Rob Smith

Christoph, you're doing a good job actually describing the volatile environment that industry's living in today. It is our view that things have got a bit better as the year ended last year. On the other hand, our team has been doing a lot of very, very good work to enable a better material flow ourselves, qualifying new suppliers, helping suppliers that were having difficulties, second sourcing.

Our engineering teams have been redesigning components to use material that's more available. So with a lot of hard work and a little bit of tailwind, maybe things are getting a little bit better vis-à-vis where they were very, very tight earlier last year.

You saw we reduced the amount of trucks that were outstanding waiting for 2 or 3 parts from over 12,000 in the middle of the year to less than 4,000 at the end of the year. We intend to continue to drive that down. Our team's working hard on that, and that's part of our net working capital improvement plan this year.

We do expect volatility in the supply chain clearly to be a part of this year, and we're hoping that the second half could be less volatile than the first half. But we shall see, and you'll be hearing different messages from different companies as the volatility swings affect them over time.

Christoph Doleschal — Yes, thanks very much.

Jorge Gonzalez — Rob and Marcus, thank you very much for taking my questions. Two questions from my side, too. First one is regarding SCS guidance. I was wondering, taking into account the lead times for SCS are quite long, if we should consider this target harder to hit than the one of ITS or if there is any driver that maybe you can share with us that could make this line to beat your initial expectations.

And my second question is regarding China and India. Some of my colleagues have asked you about the midterm targets. And I was wondering if this 10% adjusted EBIT margin is also related to the fact that you are maybe growing faster in those two regions. Can you give us an update, quick update on the last developments in those markets? Thank you.

Rob Smith — Sure, Jorge. Maybe I just cover both of those quickly. Our guidance is our guidance. These are minimum targets that we're very committed to beat over the course of this year, certainly

deliver on these. We're not commenting on whether anything is more difficult or less difficult. These are our minimum targets. We expect to achieve these during the course of this year.

There's about a 6- to 24-month lead time in Supply Chain Solutions, and I think that's an important element to keep reflecting on as you're building your models. We're having a good growth, and our expectation is for good growth on a worldwide basis over the strategic planning period. And over the midterm, the whole -- the macroeconomics are expected to be coming back in a positive way in each of the regions in '24 and in '25.

So China and India will certainly play important roles in our growth, but other markets shall as well.

Jorge Gonzalez — Thank you.

Peter Rothenaicher — Yes, hello, gentlemen. I have a question on pricing. You mentioned, in 2022, you had four price increases. What is the situation looking into 2023? Are you planning further price increases? And the current price level, is it sufficient to compensate for the cost increases, in particular personnel costs? And is it here fair to assume that you will see in Germany also around 5% personnel cost increases? And within that, the €1,500 inflation compensational payments, have you booked something here in 2022 already?

Rob Smith — Hello, Peter. Excuse me, please. So yes, last year, during the course of last year, part of our commercial agility was putting ourselves in a position, and part of our process to be on short cycle time measuring our costs very frequently, couple times a month, and comparing the costing and the pricing.

	And so there's an opportunity to assess our costing and adjust our pricing as appropriate on a monthly basis. Last year, we did that on a quarterly basis out of being pragmatic. And we did increase our pricing four times during the course of last year. So far, the price level increases cover the cost levels. However, part of our process, as I say, is to continue to monitor that a couple times a month and be able to make adjustments as appropriate. So we stay vigilant as part of our commercial agility here.
Peter Rothenaicher	And regarding personnel costs?
Rob Smith	So you did ask -- let me -- my notes tell me you asked about the inflation compensation for 2023, and was it booked? We booked €18 million of inflation compensation in 2022, if that's helpful for you.
Peter Rothenaicher	And on the second question, what do you observe currently in terms of pricing in the market? Are competitors in view of the less favorable market getting more aggressive now?
Rob Smith	No, our best understanding of the market is all competitors are acting on a very rational basis. And the kind of cost increases that impacted our company impacted other companies, too. It's industry wide, and players are operating rationally.
Peter Rothenaicher	Okay. Thank you.
Operator	There are no further questions at this time. I will hand back to Rob Smith for closing comments.

KION GROUP

Rob Smith

Thank you very much, Emma. Let me again come back to our key takeaways from today. We have put measures in place in our company to increase our agility, drive our resilience and our profitability in a volatile market environment.

We expect -- in our 2023 outlook, we expect a substantial improvement in our adjusted EBIT and free cash flow, and we expect a stronger second half than the first half. And we're very pleased on the updates on our KION 2027 Strategy, driving profitable growth with our six action fields, and we expect to deliver during the strategic planning period an adjusted EBIT margin for our company on an ongoing basis for both the Group and our operating units above 10%.

We'll come back to you after we've reached that milestone and talk about increasing it.

Right now, the objective is to get our very strong performance in 2023 to go quarter-on-quarter and drive the guidance that we just delivered. We've got very good actions in place. We're working hard to deliver those, and we'll be talking to you and updating you on our progress as we go through the course of this year.

Thanks very much for your time and attention. We look forward to seeing many of you in the days and weeks to come. Bye, bye.