KION GROUP AG

Q2 2022 Update Call

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Rob Smith

Thank you, Natalie. Good afternoon, ladies and gentlemen. For today's call, please refer to our Q2 presentation on our IR Website.

Today, I'll be taking you through our Q2 key financials and strategic highlights and then a market update and financials in more detail, and I'll be ending my presentation with some key takeaways and then looking forward to your questions for the Q&A session at the end.

So I'll start on Page 3 with our key financial figures. Despite increasing economic uncertainties from rising interest rates and recession fears in the capital markets as well as the continuation of the war in Ukraine, demand for our products and solutions remained healthy in most regions.

Order intake was up 15% year-on-year to €3.8 billion, growing 29% sequentially. The KION team overcame many challenges with regards to supply chain disruptions and was able to increase revenue in the second quarter versus the first quarter, reaching a record level of €2.8 billion.

During the second quarter, we faced intensified material cost inflation as the higher raw material, energy, and logistics costs resulting from the Ukraine war began to flow through our P&L. And paired with intensified supply chain disruptions, this negatively affected our adjusted EBIT and free cash flow during the quarter.

Our adjusted EBIT reached €141 million versus €247 million last year and €170 million in the first quarter and was a margin of 5% of adjusted EBIT. As I'll explain, we've initiated many measures

to address the decline in profitability and to sustainably strengthen the resilience of our business in the second quarter.

As in the first quarter, our free cash flow was impacted by substantially higher working capital requirements. However, we were able to reduce the cash outflow to €159 million negative as we dramatically reduced the net increase of semifinished trucks going into inventory during the second quarter.

And during the second quarter, we returned close to €200 million to our shareholders in the form of dividends following our AGM in May. Earnings per share was €0.60 in the second quarter.

The substantial and intensified uncertainties in our procurement markets, including disrupted supply chains, remains a very volatile challenge. The consequences of the war in Ukraine and the looming energy crisis cannot be reliably determined at this present time.

For the remainder of 2022, the ongoing disruption to supply chains and further rises in the already high costs of materials, energy, and logistics will continue to have a negative impact on adjusted EBIT and related key performance indicators as well as on free cash flow.

As a result, these figures for 2022 are expected to fall short of the levels achieved in the prior year. Once we have better visibility, we intend to update the markets with a new outlook for the year.

On Slide 4, I'll explain to you now what we've been doing during the second quarter to sustainably strengthen the resilience of our business. We've become more agile on pricing and commercials.

So far this year, we've adjusted new truck prices on a quarterly basis, in January with a mid-single-digit increase, in April again with a high single-digit increase, and just this month, a third time, with further mid-single-digit increase.

The agility on pricing and commercials also holds true for our services business.

During the quarter, we've also started to look into our backlog. As indicated in our Q1 call, the new truck backlog is not a taboo. Even though there were no contractual escalation clauses in place with our customers, our sales teams have begun discussions with thousands of customers to participate in the higher procurement costs on orders that we received before April of 2022. This is being done in a cooperative and respectful manner to safeguard our longstanding and trustful customer relationships.

To strengthen our resilience of our business going forward, we're implementing price adjustment clauses in both our business segments. And taken all together, that's what we refer to as commercial agility.

We're also working on our operational agility. During the quarter, we successfully managed to limit the net increase of semifinished trucks going into inventory to less than 200 units versus around 4,000 incremental units in the first quarter. That leaves the total number of semifinished trucks in inventory stable at about 12,000 units.

To improve the availability of components, we're also enlarging our supply network. We're not only qualifying additional suppliers, but we've also done redesigning of our electronic components to switch to different chip technologies, which are better available in the market.

That is the commercial and the operational agility actions that we're putting in place to make our business very sustainable and robust on a go-forward basis.

Moving now to the strategic highlights, I want to mention two today which illustrate quite well how we're continuing our implementation of the KION 2027 strategy.

Dematic entered into a partnership with Google Cloud, combining Dematic's supply chain expertise with Google Cloud's cutting-edge technologies in Cloud, artificial intelligence, and machine learning.

Secondly, KION Group successfully industrialized the production of AMRs. Our plan to do that was first shared during the CMD at the end of last year, and today, we have a success story to share. Dematic has won an order to deliver around 300 autonomous mobile robots, AMRs, to Radial Europe's logistics center in Groningen, Netherlands. For Dematic, this is the largest AMR-based order in the EMEA region to date.

Let's move now to the market and financial update. And on Page 6, I talk you through the financial update for KION as a whole.

Turning to Page 7, I'll talk about the unit order intake development of the industrial truck market and how KION has performed

relative to that market. We now have the data of the industrial truck market performance in the first quarter of 2022, and it confirmed our assessment that KION gained market share across all regions.

Coming now to the second quarter, our assessment is that the market in EMEA was down strongly, while we expect the Americas to have seen moderate growth in the second quarter. And due to the corona pandemic in the Asian region, we expect the APAC market has been under substantial pressure in Q2.

The market dynamics are expected to normalize in the second half of this year after exceptional demands in the recent quarters. The long-term compound annual growth rate of about 4% on the ITS market remains valid, and we expect to remain stronger than global GDP growth.

KION's Q2 orders came in at 86,300 units and thus close to the record levels of the previous year. Growth during the quarter was mainly supported by electronic counterbalance trucks, while IC and warehouse equipment was not at last year's levels.

In EMEA, our order unit intake came close to last year's record level mainly supported by electric counterbalance trucks. And with our improved dealer network in the Americas, we were able to achieve a 9% growth in order intake driven by counterbalance trucks, more than offsetting lower demand for warehouse trucks.

In the APAC region, the second quarter was down 9%, impacted by the corona pandemic. And in total, our share of electrified products at 88% increased slightly, both sequentially as well as compared to the prior-year levels.

Turning to Page 8, you'll see the key financials for the ITS segment. Although the order intake in units was somewhat down sequentially, the order intake in euros was up 32% to €2.7 billion, supported by an improved product mix, the robust demand for electronic counterbalance trucks, successfully implemented prior list price increases, and a growth in our services business.

With the 32% increase in order backlog now to over €4.2 billion, the order backlog covers more than a year of new equipment sales, which stood at €3.3 billion on a 12-month rolling basis.

While it will take longer for list price increases on new trucks to flow through, the margin quality of the backlog benefitted from recent list price increases.

In addition, adding the price adjustment clauses in our general terms and conditions as well as our backlog repricing work should have a positive impact on the margin quality of our order backlog going forward.

And please note more than 50% of ITS revenue comes from services, where we have shorter lead times, allowing us to be even more agile on pricing.

Despite the further intensified supply chain disruptions, we achieved significant increase in revenue in Q1.

Our Q2 procurement costs for materials, energy, and logistics intensified further versus the first quarter. And we still face inefficiencies in the production process from the retrofit of unfinished trucks that were produced in previous quarters.

Our Q2 EBIT was €84 million, and the adjusted EBIT margin was 4.8%, down 180 basis points from Q1.

Let‘s take a look at the underlying market trends for Supply Chain Solutions now. As we’ve discussed in previous calls, only about 10% of the global warehouses are fully automated, and since the medium- and long-term fundamentals for the Supply Chain Solutions market remain intact, the headroom to grow in this market is substantial.

We expect that the market will on average continue to grow double digits over the years to come, despite news from some e-commerce players saying that they have some overcapacities.

Looking at our project pipeline, it remains robust. Realistically, it can’t be ruled out that near-term economic uncertainty could lead to some deferred investment decisions in the short term.

Turning now to Page 10 and summarizing the key financials for our Supply Chain Solutions, Q2 order intake is 21% above the Q1 level, again surpassed the €1 billion mark and is a remarkable success. We were able to compensate a reduction of demand from pure-play e-commerce customers with orders in the general merchandise, the food and beverage, and also the apparel verticals.

At the end of June, the order backlog was slightly up, finishing at €3.8 billion. Revenues improved from Q1 and approached €1.1 billion.

As in the past two quarters, we continue to focus on safeguarding our customers' schedules, resulting not only in increased pricing in higher priced spot markets in order to secure components, but also keeping our labor forces intact and ready to install equipment at the moment of arrival of the components onsite.

This continued to burden our adjusted EBIT and our adjusted EBIT margin in the second quarter. Q2 adjusted EBIT was €76 million, supported by positive one-time effects, and the adjusted EBIT margin decreased from the first quarter by 30 basis points sequentially to 7%.

Page 11 summarizes the key financials for the group. During the second quarter, we saw healthy demand in most regions. Order intake at €3.8 billion and order backlog now almost at €8 billion benefitted from high demand as well as price increases and positive FX effects.

With €2.8 billion, revenue was at a record level, despite ongoing supply chain disruptions. Group adjusted EBIT and group adjusted EBIT margin decreased sequentially, was €141 million and 5%, respectively, and was caused by a weaker profitability in both of our businesses.

Page 12 shows the reconciliation from adjusted EBITDA to group net income. Supported by lower NRI and taxes versus Q1, net income was €80 million and earnings per share of €0.60, finishing the quarter in line with the first quarter.

Let's move now to the free cash flow statement on Page 13. In the second quarter of '22, free cashflow was negative at €159 million, which is a strong sequential improvement.

Aside from the lower EBIT, the main driver for our negative free cash flow was the further, albeit significantly reduced, buildup of net working capital.

In the second quarter, we distributed some €200 million of dividends to our shareholders, also impacting the net debt development.

Turning to Page 14, you see that our net financial debt increased by €392 million to €1.4 billion at the end of the second quarter.

With our strong financial profile, we were able to cover our capital needs through our commercial paper program and bilateral loans at very favorable conditions. The leverage ratio, based on net financial debt, increased to 0.9x versus 0.6x at the end of the first quarter.

And higher discount rates had a positive impact on our pension liabilities, which further reduced to €767 million at the end of the second quarter. Thus, the leverage on industrial net debt increased to 2.6x.

And with this, let me quickly summarize the key takeaways from this quarter from my point of view. In the current inflationary environment for material, energy, and logistics costs, it's no longer sufficient to increase prices once or twice a year.

We're implementing multiple commercial and operational agility measures in both segments, with the clear intention to sustainably strengthen the resilience of our business.

Despite potential short-term softening in demand, our order backlog provides significant revenue visibility for the quarters to come.

The medium-term and long-term fundamentals of our markets are intact, and with that, so is the demand for KION products and solutions.

We intend to come back to the market with a new outlook for the year once we have better visibility. And when we do so, we plan to also address our medium-term targets.

Our revenue and margin targets communicated at last year's CMD for the group as well as for our business segments are valid. The timing of their achievements is under review due to the ongoing macroeconomic uncertainties.

With that, I'm ready to take your questions. Let's open the line. Please help us out, Natalie. Let's get started with the Q&A.

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

Sven Weier — Yes, hi, Rob. Good to see you. I hope you can hear me.

Rob Smith — It's all good, Sven. Good to hear from you as well. Thank you.

Sven Weier — Thanks. So, my first question for you is on the warehouse automation business. And you obviously had €1 billion of orders in a quarter that was already what we could call probably a tough environment. And now you said there could be potential short-term softening of demand. Is it at this stage something that you

don't see yet, and July has progressed as it was, or is there some evidence already of that softening?

Rob Smith

It's a good question, Sven. It's what I said as our order pipeline or our project pipeline is very robust, and it's better than it was end of last year. It's stronger than it was this time last year as well. We can't rule out that, with the current uncertainties, some customers may be making some delays, but we don't see that particularly at this point in time right now.

Let me finish. Let me just take that a little bit further. Let's understand those fundamentals together. Interest rates are rising. Some customers may calculate a couple of times on, when do they want to initiate a project? On the other hand, wage rates are rising, too, and it's very difficult to get labor in the first place these days for customers all over the world. And the labor they're getting they're having a hard time retaining and is more expensive.

So, the real strong drivers for automation are very much intact, and we expect that -- and the pipeline, as I described, is a good robust pipeline.

Sven Weier

Thank you for that, Rob. And if I may follow up on the -- because you were mentioning those one-time items in SCS, on the other hand, I guess you also still have a lot of -- call it one-time headwinds, right, in terms of extra costs and so forth. So, it was not like you sold a property or something and you generated a one-time profit. It's other issues.

I just wonder on the dynamics of these items. Is it fair to say that the cost headwinds should be starting to lessen then in the coming 6 to 12 months and that there's less need maybe for one-time positive items then?

Rob Smith

Sure, Sven. Let's talk about the one-time positive items in the first place. There were several. There was an FX impact there. There was some variable bonus reductions. You see the profitability and the results this year below last year's levels. So on the profitability side, there's some reversals of some incentive payments as well as some customer payments in the third -- in the second quarter that wouldn't repeat in the third and were therefore a one-off but operationally associated.

Those were some one-offs. What I would tell you is, in our ITS business and in our SCS business, we did not have contractual price escalation measures in place. And so, as we put those in place on a going-forward basis, they will over time be making an improvement in the margins on both trucks and also on projects. And it'll be a part of the contract from the very beginning as opposed to needing one-time negotiations or change-order negotiations in projects.

The same kind of situation applies when the material costs are going up and there are interruptions in the supply chain, the kind of costs that you incur having a project team onsite or in a factory ready for a production plan and the material doesn't show up. There's some inefficiencies involved in that.

And as the supply chain over time gets better, I expect those inefficiencies to reduce. And as the contractual escalation

clauses take impact over time, I expect that to be some benefit, too.

Sven Weier

Can I just follow up on the pricing you mentioned on the truck side? Because you said you raised prices one more time now in July. Why was that necessary? Because when we look at the steel prices, right, which I think is the majority really of your input costs, they have been coming quite down since the peak in April. So, does it mean the high single-digit increase we had at the beginning of April was still not enough, despite the escalation on the raw material prices then?

Rob Smith

Well, Sven, you need to take a look at a whole bunch of indexes, and steel is just one of them. One you might also want to consider is the Producer Price Index that Eurostat runs on the 27 countries. You see that that's gone -- that continued to go up during the period of time.

Our team is getting very good at measuring and adjusting or measuring the costs on a very frequent basis and making decisions on, do we need to make a price increase or not?

The material visibility on how things are going to develop is still quite uncertain, too. I would say that, yes, steel's gone down a bit since the spike right after the war started in March -- obviously the end of February, but in March, the steel price was spiked. It's come down a bit. Is it going to stay down? It's not yet clear. And that's just one of our material costs. Energy has gone up very significantly. So has logistics. And the interruptions are causing some issues, too.

So, we will continue to measure, and we will continue to adjust pricing as appropriate. We've done it three times this year, beginning of the first quarter, beginning of the second quarter, beginning of the third quarter, single -- mid-single digits, high single digits, and mid-single digits again, and we'll continue to adjust as appropriate going forward.

Sven Weier — It seems, so far, the pricing elasticity of your clients was very low, right? They kept on ordering, despite all the price hikes. Is that still the case?

Rob Smith — Well, Sven, our products and solutions make a fundamental contribution to our customers' ability to compete successfully and are right in the middle of the heart of their operations. And on the truck side, the acquisition cost of a new truck is only 13% of the overall total cost of ownership. And it's a B2B environment. Our customers and business partners need that capability from KION, and they appreciate very much the products and services and solutions they're getting from us.

Sven Weier — Okay. Understood. Thank you, Rob. I go back in line.

Rob Smith — Okay. Talk soon.

Sebastian Growe — Hi, Rob. Hi, everybody. Thanks for taking my questions. Hope you can hear me well. It is both on Supply Chain Solutions. The first one would be around the pipeline and the overall vertical mix. So you pointed to strong demand from general merchandise, food and beverage, and apparel. This has marginalized the overall contribution from e-commerce to only about 20%.

So if you look at the pipeline, what's the split between e-commerce compared to your other verticals? So I guess what I would like to better understand is, to what extent can the strength outside e-commerce bridge the temporary weakness in this very e-commerce vertical? And ultimately then, when can SCS be expected to return to growth, if we can start there?

Rob Smith

Sure. Let's talk about that mix. And you have seen, and you see it in our charts that e-commerce had a significantly larger role, over 50% in the top line a year ago, and it is down to the 20% or so at this point in time.

I think that the adjustment -- first of all, e-commerce boomed very significantly during the COVID early couple years, and the capacity there is an adjustment over time, but the full expectation of those customers as well as ourselves and market analysts is that e-commerce -- that pure-play e-commerce vertical continues to grow after a bit of a readjustment right now.

What I'd also point out to you, Sebastian, is e-commerce, yes, there's a pure-play vertical, but e-commerce has a very important part of just about every other industrial vertical out there right now as well. You saw it in food and beverage. You saw it in general merchandise. You saw it in apparel.

We expect that the underlying drivers of needing to be very fast to market, being able to turn orders very quickly, not getting labor, labor they are getting is more expensive really continues to drive automation across all those verticals. And we see the adjustment or the rebalancing, if you will, in e-commerce is a temporary piece, temporary phenomenon, and we expect it to get back on a growth path in the quarters or the couple years to come.

Sebastian Growe: If I may follow up on this one, could you also comment on any meaningful margin or working capital, say, free-cash-flow-related differences in the e-commerce vertical compared to the other verticals that you're penetrating? That would be great.

Rob Smith: No. No, I wouldn't. Containers don't care. When they don't show up, they don't show up for an apparel installation, or they don't show up for a general merchandise installation, or they don't show up for an e-commerce installation. So, I wouldn't look at it from that perspective, no.

Meaning, what am I getting at? The whole point is it's the achievement of different installation milestones that triggers the payments. It triggers the asset-liability mix. And over time, when material is delayed and milestones move backwards, that has the effect on the net working capital, but it's independent of vertical, Sebastian.

Sebastian Growe: Okay. That makes sense. And if I may quickly ask around the one-time effects once more at SCS, so can you share the exact magnitude of those very one-time effects? And what I really would like to understand better is what the underlying margin was in the quarter. So, I assume it would be only about 5%, which is really pretty low. And to put that differently, how do you view the trajectory from here, i.e., are the disruptions on the supply chain easing already? Is net pricing expected to get better and better? And until when are you eventually seeing still some low margin contracts, yes, impacting the business negatively? So that would be helpful. Thank you.

Rob Smith

Let's pick off some of that at a time. The statement we're ready to make is that the one-time effects that supported the second quarter is low to mid-double digits in terms of impact in the second quarter. One-timers, I talked about that. That's FX. That was some variable remuneration that got dialed back based on the performance so far this year, and customer payments.

Sebastian Growe

And in terms of really those aspects that are kind of lingering around for longer, so the production inefficiencies and then also the net impact from pricing, you mentioned obviously that order backlog quality has improved quite a bit, but I also do understand that there's still some obviously lower margin contracts sitting in the backlog that still need to be executed. So, can you put a rough timeline around until when sort of this is changing to the better?

Rob Smith

So let's talk about, over a period of time, things do cut in, Sebastian. And if your starting point is not having escalation clauses for either the new truck sales nor the project sales and you now go put escalation clauses in place on a contractual basis for those projects and for those machines, that will over time have an effect.

Clearly, with the order backlogs -- and you can do the calculations yourself -- as we go through the order backlog, fewer and fewer of the mix will have not the escalation clauses in place, and more and more will over a period of time. Each project is calculated on a standalone basis, and so that's where I'd be happy to talk to at this point in time.

I guess the other element I would, though, we talk about repricing the -- having respectful negotiations and discussions with all the different truck customers that were placing orders prior to April

this year on our ITS EMEA business. We're also having those kinds of discussions with our SCS customers and working to reprice on material things that were just out of -- people did not have those expectations.

If you've had many, many years of low, maybe 1%, 2% inflation over time and, all of a sudden, things move as very quickly as they are right now, we're having conversations with our SCS customers about change orders on existing projects, and those negotiations are happening right now, too.

Sebastian Growe — All right. I'll go back in line. Thank you.

Rob Smith — Okay. Good to talk to you, Sebastian.

Akash Gupta — Yes, hi. Good afternoon, Rob, and thanks for your time. My question is on IT&S and specifically on operating leverage. I think you previously said that you had to slow down production because of the missing components. So maybe if you can talk about, how do we -- where do we stand on these supply chain issues and component availability? And how do you see operating leverage keeping everything as equal to progress in third quarter versus what we have seen in second quarter? That is the first question.

Rob Smith — I think the leverage is probably on a reasonably consistent basis. There -- the interruptions that we've got in the supply chain are very unpredictable, Akash. So we've got some interruptions. We've got increased material costs and energy costs and logistics costs. And it takes about 3 to 5 months for the different material costs to flow through our P&L.

So, what we're working on very hard on doing is building up the amount of machines that we're able to produce this year. What we did in the second quarter was reduce the throughput in the factory and therefore got a good balance of material in and machines out.

And as we said, we were able to dramatically reduce the amount of unfinished machines that went into inventory in the second quarter. That was a very good step. And when we talk this time next quarter, what I hope to be able to talk about is we've been able to reduce the amount of work in process trucks, improving our net working capital, improving our cash flow.

There are quite a few inefficiencies in the factories based on interruptions at this point in time still. And by the way, if you're still working to retrofit some 12,000 trucks, that brings a certain amount of inefficiency in the factory as well. As we get that built down, productivity and efficiencies will increase, and you will see that in the periods to come.

Akash Gupta — And then maybe any comment that you would like to make on the gas situation in Germany. You have a big manufacturing footprint in IT&S there, including two big units for foundries. So how do you see the current situation, and how soon can you move from, let's say, alternative fuels away from gas?

Rob Smith — Sure. I think that's a very valid question, especially in the environment that we're in right now and potentially a very looming gas situation here, Akash. We've done our homework, and we saw this coming. And we've done a very good assessment in our own operations. We use gas for heating in some of our

operations. And we use gas for the drying process in our painting operations.

We've been able to adjust. We've found alternatives and put some plans in place and some capex in place to enable us to do all the heating needs without the gas and use the gas only for the drying process.

As a matter of fact, we can deal with a very substantial reduction in gas levels. So, we're looking at a 50% to 60% reduction. We can still keep our operations going.

That's unique to us, however. We're in contact with our suppliers, working with them through their scenario planning and their adjustments. But to be very straightforward, it's very difficult to predict how a gas crisis, a gas shortage, a significant reduction of gas will affect the entire supply chain.

And just like COVID led to supply chain interruptions, our expectation is that, across the entire supply chain, a gas shortage would have an impact on the supply chain disruptions. And we'll work our way through that one step at a time. As I say, we've done our homework. We can deal with a reduction. We're working with our suppliers, making sure that they can be robust, and we'll see how we go.

Akash Gupta

Thank you. And my final one is on Supply Chain Solutions cost base. I think, in the last few weeks, we have seen a number of companies in e-commerce space have come out with headcount reduction plans. Maybe if you can comment on, how do you see the cost base in SCS and whether there is a need for you to adjust cost base in the second half of the year.

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Rob Smith — Well, we are working all the time to make sure we have a very appropriate cost base and ability to execute in all of our businesses, ITS and SCS as well. As you saw, we've got very significant top-line demand. We've got a very significant order book, €8 billion of order book. You saw the order book between ITS and SCS.

And so what we're working to do is work through that order book, deliver our projects to our customers' satisfaction, and get the very best profitability that we can. And we've got a lot of hurdles that we're working to overcome in the process of doing that.

Our companies, our businesses adjust our cost base and adjust the organization and the costs on an ongoing basis and do so appropriately.

Akash Gupta — Thank you.

Rob Smith — Sure. Thank you, Akash. Who is next, please?

George Featherstone — Hi, Rob. Thanks for taking the questions. I'll go one at a time. I just wondered, on your repricing of your backlog comment, whether you could give us a sense of the proportion of your backlog where you've been successful in doing repricing so far.

Rob Smith — No, I can't, George. First of all, good question. What I can tell you is that we're focusing on the orders prior to April of this year, the ones that came in, in 2021 and the first quarter of this year. As I talked about, we made new truck price adjustments at the beginning of Q1 and then after the beginning -- just at the beginning of April. And so the ones before April are the ones that

are in scope for those conversations. Those are thousands of conversations and discussions, and you can imagine it's a series of discussions with the customer in a respectful, trustful, long-term-oriented fashion as those are progressing.

So it's too early to give you any kind of completion rates. That's part of the visibility we're working to achieve prior to coming back with guidance. It's an important element of it. What's very important is that we do this very respectfully and appropriately with individual conversations with individual customers. And so it takes a period of time, and there's a lot of respect and trust involved in the entire discussion.

George Featherstone — Okay. Thank you. Maybe just a couple of follow ups on some of the questions that have gone already.

Rob Smith — Please.

George Featherstone — From what you can see on your backlog today and in the round with everything that you've done so far on price increases and proactive actions, etc., do you feel like you've now reached a trough in profitability levels for the group?

Rob Smith — Also too early to tell, George. We referenced an unprecedented amount of uncertainty out in the markets. And with COVID still going on, with the war still going on, with maybe new COVID shutdowns coming, with the potential gas crisis on the horizon, it is too hard to -- too hard -- it's not possible to truly project where we're going to finish at the rest of this year. So, it's too early to make that assessment. You can imagine we're working hard to do our very best. And we'll continue to come back and report to you how it's going.

KION GROUP

George Featherstone — Okay. Thank you. And then the last one from me would be around labor inflation kind of going into the end of the year. A certain German union is looking at 7% to 8% wage increases starting in October. Is that a good proxy for where you expect your wage increases to end up across the group towards the end of the year?

Rob Smith — We don't comment on the ongoing negotiations underway. We're very aware of them. Those are part of our costing and planning activities in our financial planning & analysis and in our businesses. So, we're aware of those. We're checking those. Those are one element of the many inflationary levers that are out in the environment right now.

And when those run until -- the current contract runs until the end of September anyway. So, if there is going to be impact this year, it'd be limited this year. But it'd have more impact next year. We're watching those very carefully, and they're part of our planning process. You can also imagine we work on cost productivity all across different -- on all the elements of our business. So that's part of our planning, and that's part of our actions here.

George Featherstone — Okay. Thank you very much.

Rob Smith — Sure. Good to speak with you, George.

Will Turner — Hi there. Thanks, Rob, for the presentation so far and answering our questions. I think the other analysts on the call at least touched on many of the questions that I had. One of them is,

though, there's some initiative to reprice the backlog. Is this something that your competitors are also doing?

And then also, when you look at your price increases that you've done year-to-date, are they more aggressive than what your competitors are? I know you operate more on the premium segment relative to some of them. So, is this similar in kind of size of competitors also?

Rob Smith

Will, I'd refer you to a very appropriate article that was in Handelsblatt day before yesterday that talked about repricing measures in this unprecedented environment. Lots of companies are doing that across lots of -- in different industries.

We don't comment on our competition. We take the appropriate pricing actions as we see right for our business and right for our customers and right for the long-term health of both of us. And as I said, the amount of -- the proportion of total cost of ownership of one of our machines is about 13% on the acquisition price of the truck. And so, it's an element of the overall total cost of ownership consideration that our customers make. And we're all making decisions that we think is in the best interest of our companies and in the best interest of our long-term relationships. And as I think that you can see across multiple industries and industrials, pricing and commercial repricing actions underway.

Will Turner

Okay. Great. And could you just give us an update on where you are in your search for a CFO? I know you've obviously -- you're obviously holding both roles as the CFO and the CEO. Has there been any progress there?

Rob Smith | We are conducting a search, Will. And as we have news to share, we'll share that, due time and due process. A search is underway. Got a great finance team here. We're working hard together, and it's going well. And we'll progress our search. You know there's a commitment on our side to diversity in our Executive Board. We will -- we maintain that commitment. We expect to have diversity in our Executive Board post conclusion of the search as well.

Will Turner | Okay. Great. Thanks.

Rob Smith | Sure.

Gael de Bray | Thanks very much. Hi, Rob. Good afternoon, everyone. Two questions on IT&S. So maybe I'll take them one at a time. So firstly, within the 6% organic revenue growth that was posted in Q2, how much of that 6% was volume, and how much was pricing? And what is now the order of magnitude of the difference between the price rises in your orders this quarter and the pricing in your revenue? So that's question number one.

Rob Smith | Well, that's a lot of mental math you want me to do right now on the hoof, Gael. But what would I tell you? I'd tell you, yes, there's pricing, and yes, there's inflation involved. There's volume involved. What I'd tell you, I'd go back and look if you would for a moment at the difference in orders on the previous page and then the difference in euros on the next page. It's probably about half and half volume and pricing, I think, is a good start. If you'd like to follow up with our IR team, we can probably answer that to you in even further detail.

IR Team answer

The organic growth we have seen during Q2 was broadly equally split between services and new equipment. On the new equipment side, the main driver was volume, given last year's price increases were still limited compared to the ones this year.

What I'd point out right now is about half new trucks and about half service, and the commercial agility and the pricing agility we put in place on both of those elements, new trucks also as well as our service business. So, I think there's a positive shift in mix within the trucks themselves as well. You know that warehouse trucks individually are smaller machines in many cases, and certainly, the counterbalance trucks in that mix are more expensive machines. And then there's also a mix between the internal combustion, and you saw the larger take on the electric machines.

And so, a positive mix is also in the revenue uplift. You put all those together, and you get to the 32% uplift that we talked about.

Gael de Bray

Okay. Okay. Thanks. Thanks very much. The second question is more on the volume side of the equation for IT&S. You flagged earlier that IT&S demand has been exceptionally high in recent quarters and will likely normalize going forward. Now if I look at last year's performance, your new business order intake units grew by more than 50%, right? So, I guess my question is, what's your view on what should be a normalized level? Would you expect market demand to fall by 20%, 30%, or 50% before it normalizes again?

Rob Smith

Let's go back to the starting point was last year. We're comparing the last year, and last year was an all-time market high worldwide, very, very significant market last year. Our expectations since the

beginning of this year have been that, overall, the market -- in units - would be below last year's levels. And after a strong first half, when we talk about a normalization, we expect that -- our expectation of having a market this year still below last year's levels remain our expectations.

So, we expect there will be some slowing in the second half. When I talk about a normalization, I'm talking, very clearly, we still expect about 4% compound annual growth rate per annum in the medium and long term on this industry. And we expect it to outperform the global GDP growth rates. So that's what I would talk about, about a normalization, and second half being softer than the first half because the first half continued good and strong. And if we're going to be below next year's levels or last year's levels, second half mathematically as well as what we expect to see will be a bit softer going forward.

Gael de Bray

The focus on the annual growth rate would still apply for the years to come and would not necessarily come down or be negative for a certain period of time to offset the mega growth you had in 2021.

Rob Smith

What I'd tell you, Gael, look at it this way. Even if it is a slowdown or a softening for a period of time, we've got a €4.2 billion backlog in our IT&S business, and that's over a year's revenue. And so, if there's going to be a dip for a period of time, we can clearly withstand that and have an expectation that the 4% per annum is a carryon and an expectation of how the market develops over time.

The other point you have to look at is the kind of mix within the market. There's a very significant amount of individual hand pallet

trucks that used to not be in the statistics that are in the statistics now. It's maybe a little less than the 20% of the overall is the -- what we call the 3.1 trucks that are -- used to be mechanical hand pallets. Now they're electrified with batteries. And now they're in the statistics. And an individual one of those might be plus or minus 1,000 bucks. A large counterbalance could be north of 50,000 bucks. And so, each unit isn't the same kind of value when it comes to the overall revenues.

Gael de Bray — Okay. Yes, thanks very much for this.

Rob Smith — Sure, pleasure. Jorge.

Jorge González Sadornil — Hello, Rob. Thank you very much for answering all the questions. And good afternoon, everyone. So, my first question is around the software revenue for the Supply Chain Solutions unit. Could you give us some feedback on how this revenue's evolving as we know that you are investing a lot in new engineers and in this line of service?

And also, related to that, if you can also give us some feedback on how we -- how the service business for Supply Chain Solutions is going to evolve in -- for the rest of the year, if it -- we should expect it at the same levels, the 22% levels or above?

And my last question is regarding ITS. It would be also interesting to know your view on the leasing and rental business for trucks, how that is evolving, and how do you think this business is going to evolve in case we go to a slowdown of the economy? Thank you.

Rob Smith

Natalie, he snuck in three questions, Jorge did. Let's go backwards. Let's start with your last one, Jorge. You talked about long-term rental. I'd put in the picture also leasing. I think that's an important dynamic in the industrial truck space. If anything, the long-term rental has slowed down a bit because of the availability of trucks. We have many trucks that are out on long-term leases. And if there's an interruption in the supply chain and inability to deliver the truck that's going to come just after, when those leases roll over, there's a new truck delivered for a new lease in many cases. And so, if there's a delay on deliveries, we've been extending the leases on some of those trucks to keep our customers with the equipment they need from us.

And having done that, many times, when a truck will come back off a lease, then it goes into the long-term rental fleet. So long-term rental revenues have slowed a bit because of the availability of the machines. But it's a very important part of our business. It's also a very important part of our customers' business.

I think that's the current trend, and the long-term trend of rentals playing an important part in flexibility and peak management by our customers is a continuing trend.

Looking at the leasing business, we've got about half of the new trucks going out are on leasing contracts. And those leasing contracts are also -- when a new truck goes out on a leasing contract, it comes with a service contract. And so that's quite good business for us, and it's very good business for our customers. And it allows our customers to shift capex into opex. So, it's in many cases a win-win for everybody. And so, there's a growing interest and strength in the leasing business coming from good market demand.

You asked about service business and SCS. Historically, 20% to 25% of our revenues in Supply Chain Solutions are service with the very significant installation of new equipment in ’20 and ’21, that mix in revenue went back to about 20%. It’s catching up now because, when the project goes into operation, then there’s ongoing service on those projects. And so, at this point in time, it’s about 22%. And I anticipate it being there or maybe increasing slightly between -- over a period time as things normalize back towards maybe the 25% level.

I wouldn’t expect any massive changes there, though. It’s gone from 20% to 22% and historically between 20% and 25%. So, it might continue to grow in the second half.

Coming to the software story, on the 8,000 or so different installations we’ve got on a worldwide basis, software is an integral part of those projects. In many cases, it’s on an onsite server, and it’s part of the project. I talked earlier about the exciting step we’ve taken with Google Cloud this last quarter. Dematic entered into an exciting partnership with Google Cloud and taking the best of our technologies and the best of the Google Cloud-based AI and machine learning and putting those together.

Our long-term objective, where we’re going with our strategy, is to build individual modules of software and put that stack in the Cloud for our customers. And many customers are over time moving from onsite server-based to Cloud-based technology. We’re doing that with Google. We’re doing that with other Cloud providers. And that ability to do so enables us to add functionality to the customers’ automation offering and to monetize that more

over time. So, I would tell you that's the interesting way of looking at the software revenues.

Jorge González Sadornil: Thank you, Rob. And I'm sorry for trying to make three questions. I understood it were two. And maybe a follow up on the leases, reading the press release, I think the way you commented this is it was like you were extending leases to help your clients because of the long lead times. This means you are changing the way you are doing leases. So now instead of renewing their contracts every 4 years, are you just extending them 1 or 2 years, or how it works, or is the same way than before?

Rob Smith: So, Jorge, if someone had a several-year contract and that contract came due in the middle of the second quarter and there was a delay on delivering the new machine for them, we would extend that contract with the customer in many cases for about the amount of time we think and we both think it'll take until the new truck arrives.

So, there's no major fundamental change in how we do leasing. It's been how we can really work with our customers to help them through the same kind of interruptions and supply chain challenges they've got, we've got, we've got together and by doing that linked up as a partnership as opposed to saying, "Hey, the lease is over. Give us the truck back." We don't do that. So, we've been extending to help them have the machine availability they need to keep their operations running.

What I would say is that there is an increasing demand in the market for leasing, and that's very good business for us.

Jorge González Sadornil — Okay. Understood. So, it's related to the lead times and not related to the lower visibility that maybe is making clients to prefer to stand for lower time than the standard 4, 5 years.

Rob Smith — Exactamente, Jorge.

Jorge González Sadornil — Thank you very much. Gracias.

Richard Schramm — Yes, good afternoon. I have a quick one on the IT&S business and these 12,000 semifinished trucks you mentioned end of June. And they say it's stable versus the previous quarter, I assume. Should we take this as a kind of at least stabilization of the supply chain, or has there been other measures behind to keep the numbers stable, and you just were not prepared to inflate your inventory further in this respect? Thanks.

Rob Smith — So the way I would look at that, Richard, is I see it as it's really a very well-done job by our supply chain and operations team. And let's talk about, how do we put -- how did that 12,000 come together? Normally, at the end of the year, on a normal year, you don't have unfinished trucks in work in process. Factories and industries all over the world oftentimes run their lines, run all the machines through the line, and finish the line and clear it before going for the holidays. And so, on a normal basis, you don't have unfinished trucks at the end of the year.

Last year, we finished the year -- because of the supply chain interruptions and the material availability challenges, we finished the year with about 8,000 trucks in work in process waiting -- each one of them on average looking for about 3 or 4 more parts in order to complete the machine and be able to invoice it.

That 8,000 at the end of last year grew to 12,000 at the end of the first quarter as 4,000 incremental work-in-process machines also waiting for 3 or 4 parts entered into the work-in-process inventory. So, the 8,000 and then the 4,000, our supply chain and operations team was able to reduce that to just less than 200 incremental additional units. And I see that as a very good balancing of real-time supply and demand and real-time operations.

Is that a turning point in the entire material availability? Too early to tell. What I can tell you is it's getting more and more difficult over time, and our team is coping with those challenges, and we expect to continue to work very hard and work to cope with the ones that are still forthcoming.

Richard Schramm

Yes, thank you, but it sounds a bit like this would be a kind of involuntary measure, and you would be happy to avoid it, these number of semifinished trucks. But at the end of the day, isn't it your decision to build these trucks? You could also make a kind of interruption year end and say, "We do not pile up further this number and wait until we get the parts to be able to deliver to customers," in fact.

Rob Smith

Richard, look at it this way. There's several different choices to make when you're making the plan. And one of the ones is, do you use the production slot and start a machine? And your expectation is, you would use the production slot to start the machine if you feel like you can finish it in a reasonable period of time and deliver that. And that's based on the EDI transmissions between ourselves and our suppliers. It's a demand-supply balancing. And that's with the visibility that one has into the supply market.

Over time, all of those things adjust. What I would say is it made very good sense to make the production starts that we did in the fourth quarter, in the first quarter, and we reduced our production starts in the second quarter to get that overall balance right. And I would expect, as we go through the third and fourth quarters, we're going to continue to work on that balance.

And over time, we surely don't want the machines sitting and waiting for 3 or 4 parts, and as we're able to complete them, reduce the amount of overall machines in work in process, that releases net working capital. That releases cash for us. And that makes -- as I said, when it's -- when the machine is semifinished and then you have to bring it back in the process to put the last 3 or 4 parts on it, that's some inefficiencies due to the retrofit process. And so, when that retrofit process finishes, we get those 12,000 built through, delivered, and invoiced, that'll improve the efficiencies in the factories.

So those are appropriate decisions being made. It was -- they were the right ones in the fourth quarter and in the first and also a good set of decisions in the second quarter.

Richard Schramm: Okay. Thanks a lot.

Nicholas Green: Good afternoon, Rob. Nick Green here from Bernstein. Thank you for taking my question. It's a question about your thoughts on capital allocation policy, please, specifically whether it's appropriate still to pay the dividend.

It's clearly good that you guys are paying a dividend. But against that, you talked about, strategically, it'd be good to have maybe

more investment in software. There could be more M&A needed in the SCS division to help with competitiveness there. Also, R&D is quite low for the group. And of course, M&A is very low.

So maybe just talk through how you weigh up investing more in R&D, investing more in M&A, whilst at the same time, paying the dividend and whether that's something that you've been sort of thinking about in your first 6 months in the company. Thank you.

Rob Smith

Sure, Nicholas. We do easy plus or minus 3% of R&D, and we do that on an increasing revenue base. And we're very confident that we're spending the right R&D money and the right R&D amounts. Over time, we've been making a shift towards SCS. We've been making a shift towards software. There's still quite a bit of appropriate R&D going on in ITS and SCS. I don't see us constrained on our R&D whatsoever. And we're making the right innovation investments here.

In terms of M&A, we clearly keep our eyes on this. It's in an -- it's got to be willing parties, and it's got to be the right fit for us. And so, we keep a good watching eye on that. And as we see opportunities that make good sense for us, we're ready to be pursuing those.

Dividends, you know what? Our dividend, we've been paying dividends for many years, and we don't have a -- I don't see us in a constrained environment. I see us in an environment where we need to manage things carefully, and our dividend policy -- we had a dividend policy of 25% to 40% of net income being paid out at dividends. And we actually increased that policy last year. And so, we continue to plan to do our dividend payments. And I expect that we manage our working capital and our cash and our

capital allocations in the fashion that allows us to do all of those different important elements and running our business successfully.

Nicholas Green — Okay. Thank you. So just to follow up, yes, your leverage isn't too high, depending on which measure it's done on, but obviously, it has been going up in the last year or so with the inventory changes. So, I think what you're saying is you're comfortable that, with the level of leverage that you have, there's still dry powder available for M&A if you wish to do it?

Rob Smith — Yes, totally. Absolutely.

Nicholas Green — Okay. Thank you.

Rob Smith — Okay. I think Natalie's about to tell us that we're out of time, ladies and gentlemen.

Operator — Yes, so this concludes our Q&A session, and I would hand back to Rob Smith for closing remarks.

Rob Smith — Okay, Natalie, thanks very much. Ladies and gentlemen, thank you very much for joining our call today. We're very excited about sharing our second quarter results. We're looking forward to sharing our third quarter results. Please continue to watch with us. We appreciate the good discussions.

I'm looking forward to having good conversations with many of you when we're out and about in investor and analyst meetings in the next couple of weeks and taking these conversations forward in those sessions and look forward to coming back 3 months from now and talking about the third quarter.

So thanks for your time. Thank you for the good questions. We appreciate that, and we'll see you soon. Bye, bye.