KION GROUP AG

Q1 2023 Update Call

Conference Call Transcript

27.04.2023

15:00 CET

Speakers: Rob Smith (CEO
Marcus Wassenberg (CFO)

Rob Smith

Thank you very much, Francy. Good afternoon, ladies and gentlemen. For today's call, please refer to our Q1 presentation on the KION Group IR Website.

I'm going to start out with a Q1 summary and some operational and sustainability highlights, and then Marcus is going to take you through our Q1 results and our updated guidance for the full year. I'll come back and conclude with some key takeaways, and then we'll be getting into the questions and answers together.

I start with our key financial figures on page 3. Q1 was a strong start in the year for the KION Group. In particular, the development in our Industrial Truck and Service segment was better off than expected, mainly driven by the improving supply chain situation and some pull-forward benefits from operational and commercial agility measures.

This had a positive impact on our major KPIs and was the basis for raising our full year outlook.

Q1 group order intake at € 2.4 billion was down 16% year-on-year and down 4% sequentially.

Our group revenue was €2.8 billion, up 2% year-on-year and down 4% sequentially.

Adjusted EBIT of €156 million was down 8% year-on-year, was up 91% from the fourth quarter last year, and the adjusted EBIT margin in Q1 was 5.6%.

At €105 million, free cash flow was clearly positive. In addition to operating profit, the stable net working capital development from the end of last year was a major contributing factor to that favorable development and allowed us to slightly decrease our net financial debt in the first quarter.

And our earnings per share in the quarter were €0.55.

On page 4, I'll share some Q1 business highlights. Last month, we entered into a strategic partnership with Li-Cycle, an industry leader in the lithium-ion battery resource recovery, and we'll be starting environmentally friendly recycling of lithium-ion batteries in the second half of this year.

With this partnership, we're taking an important step in our sustainability journey in the circular economy, ensuring the recovery of up to 95% of the key materials in lithium-ion batteries that we supply. This makes us a pioneer in the industry and in the field of recovery and recycling of modern lithium-ion batteries in our products.

The second step, an important step in Q1, is the production of our own fuel-cell systems. We're investing €11 million in our Hamburg site to produce 24-volt fuel-cell systems for our warehouse truck equipment.

The advantages over other energy sources from this technology are not only lower emissions but also rapid refueling capabilities on the trucks.

We also use this technology ourselves in Aschaffenburg, where we've installed our own hydrogen production. And we operate a fleet of our own hybrid fuel-cell trucks in our factory there.

And finally, we're progressing well with the launch of our new value platform counterbalance trucks. Following the market introduction last year in APAC, we've now started the global rollout. We'll launch some 30 new product lines or 30 new models of this new value platform, of which more than 25 are for export, making that value platform a true global player.

Let's go to page 5. In addition to announcing our Q1 financials this morning, we also published our 2022 Sustainability Report. We're proud to report that, in 2022, we already achieved our 2027 greenhouse gas emission reduction target of reducing our carbon emissions by 30% compared to the base year of 2017. We also outperformed our annual CO2 emissions reductions targets for Scopes 1, 2, and 3 emissions.

Progress is on track to surpass 90% electrification of our trucks by 2025. Last year, 88% of our industrial trucks sold had electric drives. In the previous two quarters, the share exceeded 90%.

We have a target to certify all our sites to ISO environmental and safety standards by the end of 2024. And in 2022, we made good progress, reaching a certification rate of -- or level of 80%, up from 70% the year before.

We're focused on improving the safety in our work environment and made a 25% reduction in the lost time injury frequency rate versus 2021. And we continued work on our climate strategy last year, establishing strategic targets that are fully aligned with SBTi criteria in advance of making a formal commitment.

And finally, we're pleased to share that our brand STILL received the Platinum sustainability recognition level from Ecovadis.

I'm going to now hand over to Marcus to take you through our financial for the first quarter and our updated guidance. Marcus?

Marcus Wassenberg

Thank you, Rob. And good afternoon from my side. Let's now jump to slide 7 and the key financials for the ITS segment. With respect to order intake, well, as you remember, Q4 '22 was rather soft with 41,000 units. Now we saw a rebound in Q1 at nearly 60,000 units.

Quarter-on-quarter, the value increase is lower than the unit increase due to a flattish development in service and a slightly higher share of warehouse equipment.

Year-on-year, the value decline is lower than the unit decline due to the price increases that we conducted in '22 and the continued growth in services in absolute terms.

The order book increased substantially from €3.2 billion to €3.8 billion year-on-year and supports approximately 1 year of new business revenue. The backlog margin is more resilient due to the price increases of '22 and the implemented price adjustment clauses, covering now roughly 75% of the order book.

Revenue at roughly €2 billion is close to the quarterly record level and driven by 24% year-on-year growth in new business revenue.

Both revenue and the adjusted EBIT of €177 million benefited from the improving supply chain situation and pull-forward effects from operational and commercial agility measures, i.e., we broadened our supplier base, reduced our critical suppliers to ensure better material and component availability, pulled forward higher-priced trucks that were initially scheduled for later this year, and saw a backlog repricing effect amounting to €25 million which we expected in the course of the first half year but is already effective in Q1.

For modeling purposes, we suggest you exclude that backlog repricing effect and adjust the underlying EBIT margin to 7.7% in Q1.

Let’s turn to page 8, which summarizes the key financials for SCS. In SCS, we see a lower order intake, substantially impacted by continued order postponements and slower decision making due to the macroeconomic uncertainty and higher interest rates. And that goes across pretty much all verticals.

The share of pureplay ecommerce increased again to 29% but remains on low absolute levels equaling €65 million in order intake. Order book amounting to €3 billion continues to provide visibility for the next quarters.

Revenue declined year-on-year by minus 23% and quarter-on-quarter by minus 6% due to lower order intakes of pureplay ecommerce players in past quarters.

Anyways, the strong growth in service business, plus 20% year-on-year, could not compensate for the decline in project business representing minus 35% year-on-year.

The adjusted EBIT of €7 million continues to be impacted by the execution of lower-margin legacy projects.

Page 9 summarizes the key financials for the group. Order intake of €2.4 billion reflects the sequential rebound of demand in ITS and the already described continued postponements on new order decisions in SCS.

The order book of €6.2 billion continues to be at high levels, providing good workload for the next quarters.

Revenue at €2.8 billion benefited from strong ITS performance and growing service business in both segments, with a share of 44%.

Adjusted EBIT and adjusted EBIT margin improved due to the very good performance of ITS and continue to be impacted by lower-margin legacy projects in SCS.

Page 10 shows the reconciliation from adjusted EBITDA to group net income. Reported EBIT of €129 million in Q1 increased 10% year-on-year but nearly doubled quarter-on-quarter.

With an increase of net financial expenses, €36 million, year-on-year, the increase is €33 million and quarter-on-quarter, which is basically €18 million, due to higher interest rates and the decreased fair value of derivates.

Pretax earnings of €94 million decreased by 19% year-on-year but doubled quarter-on-quarter.

Minus taxes amounting to €20 million, this results in a net income to shareholders of €72 million, which equals an EPS of €0.55 in the quarter.

Let's move to the free cash flow statement on page 11. Free cash flow reached €105 million driven by the reported EBIT and an almost flattish net working capital as the buildup of only € 11 million. A positive cash flow of €105 million compared to the minus €434 million year-on-year represents a positive swing of €539 million and allows us to slightly reduce our net financial debt.

As stated before, reducing net working capital and hence net financial debt is a key focus area of '23.

On page 12, you see that our net financial debt decreased by €57 million during Q1 to less than €1.7 billion, resulting in slightly improved leverage of 1.3 times.

RCF-relevant leverage on industrial net debt, excluding pension liabilities, stabilized for the second quarter in a row and continued to stand at 2.3 times at the end of the quarter. There is still plenty of headroom under the covenant, which as you know, currently is not tested, as we have two investment grade ratings.

I'm very pleased that S&P confirmed our investment grade rating just this Tuesday. Our focus is now on improving metrics further to defend this rating.

Including pension liabilities, the leverage on industrial net debt remained unchanged at 2.8 times at the end of the quarter.

Let us now move to our updated outlook for '23. Slide 14 lays out our updated guidance for 2023. As outlined in our communication to the capital markets last week, the first quarter developed better than expected in ITS. Due to this higher starting point, we increased our full-year guidance for ITS and also for KION Group, while the guidance for SCS remains unchanged. For the full year, we guide group revenues of at least €11.2 billion based on ITS revenues of at least €8 billion.

The group adjusted EBIT at least €615 million, up by €65 million euros, driven by ITS, where we increased our guidance to €665 million, up again €65 million compared to the old guidance.

We started out the year thinking that ITS would have a weaker H1 and a stronger H2, but Q1 already saw some benefits of improving supply chains and pull-forward effects from our operational and commercial agility measures. This is why we now assume H1 is more balanced with H2 at ITS.

At SCS, we expect a stronger H2 than compared to H1, as the execution of lower-margin so-called legacy projects weighs on our margin primarily in H1 '23.

The improved EBIT expectation leads to a one-to-one increase in free cash flow guidance to at least €565 million, up €65 million, and the full-year ROCE to 5.5%.

And now I'm handing it back to Rob for our key takeaways.

Rob Smith

I'll summarize my key takeaways on slide 15. KION Group had a strong start to the year in our Industrial Trucks and Services segment, which benefited from improving supply chains and pull-forward effects from the operational and commercial agility measures we have underway.

The better-than-expected Q1 in ITS allowed us to increase our full-year outlook. And our measures to increase agility, resilience, and profitability are starting to show effect and put us on track to achieve long-term profitable growth.

This concludes our presentation. It's time to get into the Q&A. Francy, please open the line.

Operator	Ladies and gentlemen, at this time, we will begin the question-and-answer session.
Sven Weier	Yes, good afternoon. It's Sven. Thanks for taking my questions. The first one is on SCS, please. Your comments didn't necessarily sound like the soft orders were due to lumpiness or that some bigger orders might have slipped into the second quarter. So I was just wondering if you could give us some more detail around the pipeline and what you probably see for the next quarters. Is this kind of a new run rate, or is there still an element of lumpiness here that we should keep in mind for Q1? Thank you.
Rob Smith	Hey, Sven. It's Rob, and good to hear you on the call today. Sven, we don't guide on order intake, but I would comment that the €497 million that we got in the first quarter, it is lumpy, and we're -- our pipeline is a good solid pipeline. We think people are taking a longer time, customers in all verticals and in all regions in this macroeconomic environment are taking a longer time to make their decisions, especially on very large projects. And the projects we've described in previous quarters are getting larger in the industry.

So yes, there is lumpiness and in this environment, and indeed, that's what we're seeing.

Sven Weier

Thank you, Rob. And if I may just follow up on what you just said, to what extent is it also that you guys are also taking longer to sign a contract? How important is that for the timing?

Rob Smith

Okay. Well, there's probably some element to that, too. As we talked about last year, in the process of commercial and operational agility, we made sure we put in appropriate clauses in our contracts that work in volatile environments -- and I think that everybody's working through those, and that's part of the overall situation, too. I think the macroeconomic environment and the lumpiness go hand in hand. And clearly, everybody reviews commercial contracts very carefully on €100 million, €200 million, €300 million projects.

Sven Weier

Second question was on ITS, if I may. Of course, a nice sequential up increase in the unit order intake. And I was just wondering if you could share some more details what's been driving that. Was Q4 just a bit of an understated number? And maybe to what degree did you already benefit from a comeback of the Chinese market in this? Thank you.

Rob Smith

Sven, I think it's important to look at the whole year when we look at last year, a real strong first half, and market normalized more and more over the course of the second half of last year. We're pleased with the start in this year. The market development this year is in line with our expectations. We have shared that we see the ITS market down probably high single digits on a worldwide basis this year. And as I say, the first quarter developed in line with our expectations.

Sven Weier — So Q4 was the outlier, not Q1, in this regard.

Rob Smith — As I say, Q4 is one quarter off of a full year last year, started with a real strong start and normalized towards the back end of the year in the second half, and we're pleased with the start this year, and we'll be commenting order intake when we get to Q2.

Sven Weier — Okay. Thank you, Rob. That's it from my side.

Sebastian Growe — Yes, good afternoon, everybody. Thanks for taking my questions. The first one would be around China and the ITS segment. It appears that the market was very strongly up quarter-on-quarter and rather, I think, at the last quarter 1 level, so 300,000 units or so. And the same goes for your volumes, which apparently are also moving into the right direction again.

At the same time, however, you obviously implemented that value segment strategy in China. So I would've expected that you are taking eventually some incremental share in that market. So along those lines, I would be interested if you could remind us of what you see in terms of the incremental volumes over the next years or, say, by 2025 what the sort of target is in volume terms, especially in China. And maybe we start there, and then I have one on SCS.

Rob Smith — Well, let's talk about it in general terms, Sebastian. Good to hear you on the call. China's a very, very important market in our industry and a very important market in our business. And we're real pleased with the success of the introduction of our new value segment counterbalance truck in China.

Last year, you'll recall we built the factory in record time in the middle of COVID, turned it on, and were in operation inside of 15 months, had a good production last year, primarily for the China and APAC market. So I say China's 34% of the global market in 2022, so a very important market in our industry.

And the value segment truck gained market share in China last year. And as I talked earlier in the call, we're now rolling out around 30 new models this year, 25 of which will be for export. And we expect that will be incremental good market share and good business for our company on a global basis.

Sebastian Growe: And in terms of the units, I do recall that you, I think -- well, that was before your time, but nonetheless, there were numbers of incremental revenues of about €300 million in China. Can you just remind us of where you stand there in terms if that's still achievable because the market has changed to a certain extent? Your thoughts would be much appreciated.

Rob Smith: Sebastian, I'd be more than happy to have our IR team get back to you to connect some dots between the previous statements and this one. As I say, we've turned that factory on last year. It beat its production targets last year. We expect to ramp them up very strong this year. We put in the capacity. The factory will have a capacity of about 40,000 units for the market in China as well as APAC and for export on a global basis. And we see all that as incremental business for KION. And we're real pleased with -- especially with the introduction in this new platform. It's been very well received in the market, very well last year.

And you know that, right now, this week, we've got the LogiMAT show in Stuttgart. And the truck is on display on our stand there and seems to be getting -- seems to be well appreciated by customers and people at the show.

Sebastian Growe

Okay. That's helpful. And if I just may pick your brain on the market and maybe following on to what Sven asked before, so it looks to me as if the start to the year was much better than everybody would have expected, at least on our end. So it seems that the global market was probably at about 550,000 units or so. So if I was to annualize that, that would suggest that the market is eventually rather flat and not down high single digits.

So but I know, to look at other prints in the industrial space, it all looks like orders are just better than everybody would've expected a couple of weeks ago. So what do you make out of this? And we see your guidance is still implying then also not that much of an impetus over the first quarter. So yes, any thoughts would be much appreciated around these points I made.

Rob Smith

What I'd tell you, Sebastian, I think a good way to look at that is, as we all recall, '21 was an all-time high. '22 was down a bit. And our expectation for the global market this year is down from there probably high single digits.

As I said, the first quarter was in line with our expectations. However, you'll remember that the WITS data is coming out on a 3-month time delay. And so overall official statistics for the market for the first quarter are still forthcoming. And we'll obviously comment those when we will comment first quarter actual market data as we bring out our second quarter actual results.

Sebastian Growe

Okay. Fair enough. And then a very quick one just on SCS. The ecommerce segment is still hovering around a good €100 million,

€140 million, I think, in the first quarter, so still in a way negligible. So what is your assessment how long it might take really until this vertical might come back again? So there's obviously still a lot of oversupply in the system it appears to me at least. So yes, any thoughts around that and then probably making reference to your pipeline, that would be much appreciated.

Rob Smith — Sure, I did refer to the pipeline. It is a very healthy pipeline. And it's taken longer to convert the pipeline, as people are taking longer to make decisions on that.

You rightly point out that the ecommerce we all recall just really went strong during the COVID period, and it's still in its recovery phase right now. So it's going to take a while longer for ecommerce to come back. But as I pointed out before, there's an element of ecommerce in just about every vertical out there. And our long-term expectation is about 9% CAGR for our Supply Chain Solutions segment. And ecommerce will continue to play a very important role in that in the strategic planning period. So it will be coming back. It's not gone. It's just going to be coming back, and it'll take some time to get there.

Sebastian Growe — Okay. Thank you so much.

George Featherstone — Thanks for taking the questions. So first one would just be on the ITS backlog as you see it now. I just wondered if you could tell us how much of it now is for delivery in '24. And given the pull-forward that you had in Q1, is there possibility that we'll see in subsequent quarters ahead that you'll do faster conversion to revenues, or put another way, are you running at a stage where you've got some capacity that is free to actually increase utilization?

Marcus Wassenberg

Hi, George. Good to hear you on the call. It's Marcus. We said basically the ITS backlog represents like €3.7 billion. That equals almost a year of new equipment business, so 11 to 12 months.

Yes, the price quality is a good price quality, given that we have seen several price increases in the course of last year. And now question is, how are we able to convert this into revenues? It's obviously a function of stability in supply chain, and that is what we're working on. So we feel quite confident with that backlog, and it gives us good representation, as I say, for the next 12 months, and this is what we're looking at.

George Featherstone

Okay. Sorry, maybe I didn't phrase the question correctly, but I just wanted to try understand. You clearly overperformed in terms of deliveries in the first quarter, and you're able to pull forward some benefits from trucks you probably thought you can deliver in the second quarter and actually delivered them in the first. So put another way, is there scope for that in subsequent quarters? So that 1 year's worth of forklifts, could they be delivered within this calendar year, or is some of it still definitely for 2024?

Marcus Wassenberg

So don't get confused by the order backlog repricing effect that we saw basically in Q1. We were referring to the €25 million, and that is an effect that we anticipated to happen in H1. So we're not converting faster than anticipated. It's basically price quality that kicked in a bit faster than we anticipated. We saw that effect coming, obviously, but we were able to convert it quicker. So that I think answers your question maybe more precisely.

George Featherstone

Okay. Thank you for that. And then on the working capital side of things, in Q1, you didn't seem to have much of an unwind. So when through this year should we see big reductions in those inventory levels do you think?

Marcus Wassenberg: Again, George, the effect on the free cash flow, that was driven much more by EBIT than by net working capital, as you rightly say. On the other hand, we're reducing net working capital in the course of this year basically quarter-over-quarter. And you will see an improvement. It's a key focus area of mine, obviously, bringing down net working capital, bringing down debt as a consequence. As I said, I'm more than pleased with the S&P rating, but I have to defend this rating, and this means that I'm really heavily working on bringing down net working capital.

Having said that, though, we're still living in volatile times, and we're still trying to sort of -- bringing down the order book quarter by quarter, turning it into revenue, as we just said. And that implies that we have to do a bit of a balancing act, provide enough level of security at the one hand while at the same time driving down net working capital, increasing -- bringing down lead times. That's what we're working on. But now it's very difficult to give you exact and precise number for the quarters to follow. But I promise you that you will see a significant downturn in debt and hence net working capital and an increase of cash flow.

George Featherstone: Okay. Thank you very much, Marcus.

Gael de Bray: Thanks. Thanks. Good afternoon, everyone. Thanks for taking the questions. Rob, can I start with the €11 million CapEx in fuel-cell production? Generally, could you elaborate on the benefits of being integrated with in-house battery and fuel-cell systems production? And how do you assess the risk of eventually remaining subscale in the manufacturing of these same batteries and fuel cells? So I will start with that one.

Rob Smith

Sure, Gael. I think that that's a good opportunity to talk about the beauty of being the OEM and having the system responsibility for the entire machine, including the power train. And it's very important to us to have the spectrum of power train options, the full spectrum of power train options. In addition, if one were going to simply buy out that entire piece of technology, then one would not be in a position to be able to harmonize and optimize the interface between the power train and the overall machine.

So as a result of doing that and having that capability in house, we're able to give an optimal performance and an optimal layout and interaction within the whole machine. That's an important element of being the OEM and important element of being able to do the fuel cell.

We're excited about that. It's going well for us. We operate that -- we're operating that technology in our own fleets, and we've got several customers with larger fleets in operation there. They appreciate that.

The advantage of that, especially for customers working 24/7 on their fleet, is very quickly being able to refuel the truck and have it keep going without a larger or a longer charging cycle. So it's an advantage for us on a system capability basis, and that advantage turns into a performance advantage for our customers.

Gael de Bray

Okay. Okay. Got it. Could you also provide some color on the intra-quarter order data mix for IT&S? Have orders gradually recovered throughout the quarter from the lows in Q4, or was it actually the opposite? I'm interested in the shape of the whole pattern during Q1. And obviously, if you could provide a bit of color on how April has been looking like so far versus Q1, that would be super useful.

Rob Smith

Maybe what I'd do, Gael, to try to help you with that, it seems to me that the bigger effect might be the fact that the customers knew in the fourth quarter of '21 that there was going to be a price increase in '22. And some customers, that leads to a bit of a pull-forward into fourth quarter. Customers knew in the fourth quarter of '22 that we did not envision a first quarter price increase or at least a January price increase in the first quarter -- in the first month or quarter of this year. And so potentially, there was not a pull-forward effect into the fourth quarter last year.

Basically, we've had a good start in the year with the 60,000. It's been in line with our expectations. April continues in line with those expectations. I'll give you the update on OI when we get to the second quarter results, but so far, so good.

Gael de Bray

Okay. Great. Maybe a very small question for Marcus. What was the impact of the change in derivatives on the net financial results in this quarter?

Marcus Wassenberg

Gael, I think we have to take that offline with the IR team. It's a bit calculation -- it's a bit of a more detailed calculation. So we'll get back to you. Okay?

Impact from Derivates and Hedges on Interest Rates amounted to around -3m€ in Q1 2023 which compares to +9m€ in prior year Q1.

Gael de Bray — Okay. Thank you.

Martin Wilkie — Yes, thanks. Good afternoon. It’s Martin from Citi. Just coming back to the demand environment, particularly in North America, there’s huge investments going into certain industries as the US sort of retools as part of the Inflation Reduction Act. And obviously, you’re fairly overweight in North America in Supply Chain Solutions. Obviously, that’s less the case in IT&S.

Your exposure there is very much tilted towards ecommerce, grocery foods, these kind of areas. And much of the investment is happening in perhaps automotive and batteries and semiconductors and these kind of areas.

Given the need to rebuild supply chains in the US, is that something that you can participate? Is your product line up usable and addressable for those markets, or how should we think about the opportunity to KION of what’s happening in North America on supply chain rebuild? Thank you.

Rob Smith — Martin, what I would tell you is our truck range is very applicable in the North American market, and not only that, but we’re investing significantly to increase our local content and our local production. That was an initiative we started earlier last year that factory -- the capacity is going into the factory. We expect it’ll be building additional trucks next year. And we expect to ride with that market. It’s a very important market for us, and that’s why we’re investing locally to service it with the shorter lead times and indeed, as you point out, trucks that are very relevant and appropriate for the different verticals in the market there.

Martin Wilkie — And you think that benefit would land more in the IT&S division than it would in Supply Chain Solutions.

Rob Smith — No, I wouldn't say that. We -- the American market is a wonderfully strong market for both ITS and SCS. And matter of fact, our global headquarters for SCS is in the North American market and is extremely well represented and the leader in the market there. So I see the investments that people are putting in as a good thing for the entire KION business across both our segments.

Martin Wilkie — Okay. Thank you. That's helpful. And if I can just then throw in one unrelated question just on pricing, obviously, a lot of raw materials are beginning to roll over. Many other costs, labor in particular, clearly aren't. Were any of the price increases that you put through classified as surcharges that might reverse, or was that not the case? They were put in as list price increases and therefore should be relatively sticky. Thanks.

Rob Smith — Martin, the pricing adjustments we made last year were in line with our assessments. That was part of our commercial agility to make sure that we're measuring our costs a couple times a month and being able to make price adjustments appropriately and as we find is the right solution we want to take commercially.

We did make those changes last year. We continue to have that ability to adjust this year on a go-forward basis. So that's an important element and capability of making our company be able to operate well in a volatile environment.

Martin Wilkie — Okay. Thank you very much.

Christoph Dolleschal

Hi, thanks for my questions. So I've got a couple of follow ups, if I may. One is again on volume estimates for ITS. I understand that you think 2023 is down about, say, roughly 10%, which brings us to roundabout 2 million units.

What I would find interesting is whether you see that as the new normal in global orders and so to speak base level of 2 million, i.e., are we going to then again go back to a growth trajectory as of 2024, or is there another down year in 2024, given the fact that, obviously, we had so much higher volumes in '21 and '22? And if you basically do the math, it would still suggest to go back to the 5% CAGR that even '24 would have to come down. Have you got any view on that?

Rob Smith

Good questions, Christoph. Let's go back to 2021 with a 2.2 million market, world record, right? 2021 was 2.1 million. We expect that the market is down, so high single digits this year. Overall, we're expecting about 4% compound annual growth over our strategic planning period.

I think there's a couple elements to consider. One is the increasing participation in the market quantification by the small hand trucks, the electrified ones. We call those Class 3.1 equipment. So it's tough to compare on a 5-year basis. That's been more and more an element of the last several years, if you will.

I think that the better understanding is, with an expectation of growth in the market for 4% on a CAGR basis over the strategic planning period and with the economics next year looking -- if you look at all the different surveys out there, next year's going to be a bit positive and a bit up we would expect from this year. And we'd expect that the market would be generally moving with the GDP.

And so let's see how it's developing, and we'll be talking about that as we get closer to the end of this year and have a real good visibility into it. But over the four -- over the planning period, about 4% per annum is a pretty good expectation and taking into account the comparative delta of now we've got quite a few more 3.1 small electrified hand trucks in the mix. And so don't go back 5, 6, 7, 10 years to find comparative reference points because those didn't show up in the statistics back then.

Christoph Dolleschal: Yes, thanks very much for clarifying that one. Class 3.1 I think is also very, very specific to China. There's a lot of Chinese business in there in 3.1, right?

Rob Smith: Indeed, there are a lot of 3.1 small hand trucks electrified are coming out of the China market, indeed, yes.

Christoph Dolleschal: So another follow up on SCS, obviously, again the pureplay ecommerce question. I would actually phrase it positively, saying pureplay ecommerce is back since there was not much revenue in H2 '22. So would you think this €140 million, €150 million is a good proxy for the rest of the year, so that they're like gradually coming back so that we end up with about, say, €500 million, €600 million, or is this just the beginning, and it's going to accelerate in the rest of the year?

Marcus Wassenberg: Yes, percentage wise, we have seen that pureplay ecommerce is coming back. It represents like 29% of the order intake, but in absolute numbers, it's not really that much. It's a lumpy business. It's a project business. As you know, I've been in project business before, and you can basically wait like 300 days, and nothing is happening. And then all of a sudden, you get a huge order or maybe even two. So we have to wait and see.

All in all, we're seeing a CAGR of 9% for that business. It's really a really good business, but every vertical right now is lumpy. Ecommerce is lumpy, and we have to wait and see.

Christoph Dolleschal

Okay. Thanks. And then one last question, and then I'll go back into the line, is rather on the supply chain. What I found interesting is just about every company in the industrial space was pretty cautious, say, around mid-March and March. And a month later, everybody has basically been much more positive on the supply chain.

So can you elaborate what happened in the second half of March? Because it seems to me as if the supply chain really is in that period. Also, regarding different -- the supply -- also here that there's different supply chain availability in Europe versus US. So North America versus Europe, can you also elaborate on that?

Rob Smith

Well, I wouldn't speak for other companies, but speaking for ourselves, what I would tell you is that our expectation was there would be a tighter and more difficult material availability in the first part of this year, similar to how it was last year. And it has improved slightly.

It's certainly not obvious if it's going to continue on that route. And that's part of our assessment of the rest of this year is you have to be on a commercial or on an operational agility basis very, very attuned to what the material availability is. And our expectation is that it has a good possibility of remaining volatile through further periods this year.

It did flow better in this quarter than we expected. And potentially, that is what you're hearing from other companies, too. Whether there's a second half of March effect or not, I'd just share that the quarter's not over until the quarter's over. And you need good material flow throughout the entire quarter to get a good one.

So we expect volatility going forward, and we're watching that very carefully. And what I'd also tell you is there was some good self-help work from our supply chain and operations teams. There were some bottlenecks in the first quarter. Happily, the parts that were bottlenecked and making some machines unable to build, we didn't lose production slots because we were able to get some material for other machines that were foreseen in the production plan as later in this year. And we've actually pulled some of those forward into the first quarter so as not to lose the production slots. But that's an insight into how things operated in KION factories, and I think that's the best I can do for you.

Christoph Dolleschal — Thank you very much. Much appreciated. Thank you.

Daniel Gleim — Yes, good afternoon, gentlemen. And thank you very much for taking my questions. I've actually got two of them, both for Marcus. The first one is on ITS. What share of new truck sales did already carry the full cumulative price increases in the first quarter, if you could scale that for us? And tied to that question, by which quarter do you expect the full price increase impact?

Marcus Wassenberg — So I would say, actually, given that we have seen four price increases quarter-by-quarter last year, the effect overall is rather

	limited for this quarter. And obviously, the full effect we will see in quarter 4.
Daniel Gleim	Very clear. The second one is also on ITS. And I'm now thinking about the cost side of the equation. If you think about the implied steel price in the first quarter truck deliveries, how does the steel price compare to the current spot prices? And again, by when do you expect the full normalization of steel prices to be present in the ITS EBIT for that quarter? Thank you.
Marcus Wassenberg	So I'm not really that much of an expert in steel pricing, I have to admit. And we are buying components. So it's not just steel that factored in but also a share of labor and more. So we don't have seen normalization so far. And that would be the best I can do for you at this point in time.
Daniel Gleim	Thank you.
Operator	That was our last question for today, and I hand back to Rob Smith for closing comments.
Rob Smith	Thank you, Francy. And thanks to each of you for participating in our call today. We appreciate your interest. We appreciate your questions. We appreciate the opportunity to discuss our business with you together like this, and we look forward to in-person opportunities in the next weeks and months to come in the roadshows this quarter. We'll be back with our second quarter results after it's over. So we'll look forward to talking to you next couple weeks and months, and we'll be back with the results in Q2 when we've got them.

Thanks a lot. Bye, bye.