KION GROUP AG

Q3 2023 Update Call

Conference Call Transcript

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Christian Harm (CFO)

Rob Smith

Thank you, Sandra. Good afternoon, ladies and gentlemen, and welcome to our third quarter update call.

For today's call, please use the presentation on our IR Website.

I plan to start you with a quick summary on our third quarter. I'll talk about our leadership succession and the Executive Board and the announcement on that this morning, and then give you a brief update on some exciting progress on our ESG journey.

Then Christian's going to take you through the detailed Q3 financials and outlook. And I'll finish up by sharing our key takeaways, and we'll move right into the questions and answers.

So let's go to page 3, please, and we'll start with our key financial figures for the third quarter, which a lot of which you saw in our preannouncement on October 13th, as we raised our guidance.

Q3 was another strong quarter for the KION Group, particularly in our ITS segment.

Material availability has improved considerably compared to last year. And that's not just because supply chains are normalizing, but it's also a direct result of the measures that we've taken to improve our operational agility, giving us flexibility to react to fluctuations in the availability of materials, switching to different product lines, and making use of every available production slot.

In addition, measures to improve our commercial agility, including our multiple list price increases in 2022, are also bearing fruit, especially in our ITS segment.

Our Supply Chain Solutions segment came in, in line with our expectations for a stronger second half versus the first half of this year.

Overall, group revenue of €2.7 billion improved slightly year-on-year, and group adjusted EBIT at €224 million euros showed the fourth consecutive quarterly improvement and led to a group adjusted EBIT margin of 8.2%.

Free cash flow was again clearly positive at €101 million and allowed us to further reduce our net financial debt by €34 million in the third quarter.

Group order intake at €2.6 billion was up 4% year-on-year, thanks to the solid order intake at Supply Chain Solutions. Sequentially, order intake was down by 8% due to the usual seasonality at Industrial Trucks & Services.

And based on the very good performance of our ITS segment during the first 9 months of 2023, we raised our full-year outlook for ITS again. The outlook for Supply Chain Solutions was revised downward slightly due to the fact that Supply Chain Solutions saw a high share of larger and longer-lasting projects in the order intake this year, which will only turn into revenue over time.

Overall, this resulted in another increase in the full-year 2023 outlook for the overall KION Group in adjusted EBIT, in free cash flow, and in ROCE.

Please move now to slide 4. I'm excited to share with you our Executive Board leadership successions that will come into effect on the 1st of January on next year.

Our Supervisory Board has appointed Michael Larsson as Executive Board member responsible for Supply Chain Solutions, succeeding Hasan Dandashly, who will retire from the Executive Board at the end of this year. Mike will also assume responsibility for ITS Americas in our Executive Board.

Michael Larsson has served as Executive Vice President of Supply Chain Solutions in the Americas region for the past 3 years. And he brings to the table more than 30 years of experience in technology-driven automation companies, including ABB. His global background, operating on four continents over his career, equips him to drive and grow the business in our diverse markets.

And with his responsibility for Supply Chain Solutions globally and for our ITS in the Americas, Mike will further drive our strong commitment to profitable growth and expand our integrated solutions strategy on lighthouse projects with top customers in the Americas.

My esteemed colleague CP Quek has been appointed Chief Technology Officer of the KION Group by the Supervisory Board and will be succeeding Henry Puhl, who is leaving at the end of the year at his own request to pursue new challenges outside of the KION Group.

CP has been with KION since 2006, and he’s been on our Executive Board since 2013. Prior to joining KION, he worked in global industrial companies, including ABB and General Electric.

CP brings a vast multicultural background and a diverse regional experience, and he's also successfully built strong technology competencies for KION in the dynamic APAC market, actively contributing to the KION global platform and module strategy as well as the mobile automation and software offerings very present in the APAC market.

His agile, team-oriented leadership, his extensive experience in the material handling markets, and strong customer orientation make CP the perfect choice for CTO of the KION Group. And in his new role, he'll expand and accelerate our robust innovation pipeline, particularly in the growth areas of our industry.

CP will continue to be responsible for ITS in the APAC region on our Executive Board and will transfer responsibility for the ITS Americas segment to Mike Larsson.

With these important leadership successions, KION is well-positioned to drive our profitable growth strategy going forward.

And now the update on some exciting news on the ESG front on page 5. We're making good progress on this front, and last month, we were upgraded to AAA rating in the important MSCI ESG rating and are now considered among the top 10% of the companies in our industry. It's a significant recognition, and I'm very proud of the work my colleagues have put into this.

At the end of September, KION Group started recycling lithium-ion batteries that have reached the end of their useful life together with our strategic partner Li-Cycle Holding Corporation.

Together with Li-Cycle, we’re now closing the loop and ensuring that nearly all of the valuable materials, including lithium, cobalt, copper, and nickel, are recovered from the lithium-ion batteries in our trucks. These valuable resources can be used for making new batteries in a second or next life.

And our objective is to have a total of up to 5,000 tons of end-of-life battery material professionally and sustainably processed at the Li-Cycle recycling plant in Magdeburg, Germany, by 2030. This tonnage is equivalent to about 15,000 large lithium-ion batteries in forklift trucks.

We firmly believe that lithium-ion is the drive technology of the future. And that’s why it is so important to us to make the technology part of a closed loop, from manufacturing and usage through to resource recovery to reusage.

And finally, the market for second-hand equipment is growing very strongly in the ITS segment. In addition to economic considerations, the aspects of availability and above all sustainability and responsibility for the resources and the reduction of one's own CO2 footprint are very important to KION. The remanufacturing of vehicles and the reuse of components and raw materials is a further important pillar of sustainable and future-proof concepts for KION.

In line with this strategy, our Hamburg-based brand STILL opened its fourth European refurbishment center in Turkey a couple days ago, following sites in Germany, Poland, and Italy. A total of up to 8,000 trucks are refurbished each year and are then returned to the STILL sales and service organization for those trucks’ second and third life in the field.

Now I'll hand over to Christian, who will take you through our financials and our guidance. Christian?

Christian Harm

Yes, thank you, Rob. Let's go to slide 7 for the key financials of the ITS segment. The order intake of around 53,000 units was on the level of the prior year and showed the typical summer months seasonality. The slightly different development in order intake in euro terms mainly resulted from differences in the product and regional mix. Once again, the resilient services business had a stabilizing effect on the order intake in euro terms.

Overall, the order book remains at a robust level and supports almost 9 months of new business revenue despite the high production run rates, particularly in the last 2 quarters. Margin resilience of the order book remains solid.

Revenue remained at high levels, above the €2 billion mark, supported by last year's price increases as well as by the favorable material availability, allowing a high production run rate. With close to 50% of revenue, services also contributed to the strong revenue level.

The adjusted EBIT showed the fourth consecutive quarterly improvement, supported by positive effects from the volume and price-driven revenue growth as well as the production efficiency gains resulting from ongoing measures to increase our operational agility.

The adjusted EBIT margin exceeded 11%, a level last seen in the fourth quarter of 2019.

With that, I continue on page 8, which summarizes the key financials for SCS. Overall, macroeconomic uncertainty as well as higher financing costs continued to impact order intake as decisions to start new projects continue to be postponed, and therefore, you should expect order intake to remain lumpy over the next quarters.

Having said that, order intake in the third quarter remained at the level of the prior quarter, thanks to a very large order from the APAC region. The trend towards larger projects continues, with execution periods of up to 3 years.

The order book continues to provide visibility for the next quarters. Approximately 80% of the order book now has a price adjustment clause included.

Overall, revenue declined compared to the prior-year quarter as the stable services business did not compensate for the 26% decline in the project business. And that was mainly due to the lower orders from pureplay e-commerce customers in prior quarters. Currency developments also had some adverse effects on revenue.

The adjusted EBIT and the adjusted EBIT margin is in line with expectations for a stronger second half of the year compared to the first half of the year.

Now let’s quickly run through the key financials for the group on page 9 then. The order intake reflects the normalization of the demand levels in both segments following the strong performance in prior-year quarters. The order book continues to be at high levels, providing good workload for the next quarters.

Revenue benefited from strong ITS performance and was partially offset by softer SCS revenue. The service business continued to demonstrate resilience in both segments and reached a level of 45%.

KION Group improved the adjusted EBIT and the adjusted EBIT margin for the fourth consecutive quarter.

Page 10 shows the reconciliation from the adjusted EBITDA to group net income. Depreciation and amortization as well as the nonrecurring items and PPA items followed the usual quarterly pattern.

We saw a strong increase in the net financial expenses, just like in the past two quarters, mainly driven by the higher interest rates. As a result, pretax earnings reached €142 million.

The tax rate remained at the high level that we have seen in quarter 2 and is impacted by temporary effects.

Net income of €82 million led to earnings per share of €0.61 in the quarter.

In the appendix of this presentation, we have provided an update on our housekeeping items.

Let’s now move to the free cash flow on page 11. Free cash flow in the quarter again reached a triple-digit million-euro level. At €101 million, free cash flow showed a swing of €481 million compared to last year. The substantially improved operating profit was the major contributing factor for this development.

Net working capital buildup in the quarter resulted from higher inventories relating to work in progress and lower trade payables. A favorable development in the contract assets and liabilities limited the increase in the net working capital.

Page 12 then shows the development of the net financial debt and our leverage ratios. Some of the positive free cash flow in quarter 3 was used to reduce the net financial debt by €34 million compared to end of quarter 2.

As flagged in our last call, leverage ratios improved significantly compared to the last quarters, driven by the last 12 months EBITDA calculation which no longer includes the very weak third quarter 2022 EBITDA.

As a result, the leverage ratio on industrial net operating debt was reduced from 2.2 times at the end of June to 1.7 times. And the leverage ratio on industrial net debt improved even more from 2.7 times at the end of June to 2.1 times.

Our focus remains to improve leverage metrics further, to defend our two investment-grade ratings, as we believe they are supportive to our business model.

With that, I move on to slide 14, which lays out the updated guidance for 2023, as published already on October 13. We now expect KION Group revenue to reach at least €11.2 billion, with the adjusted EBIT reaching at least €780 million, resulting in a ROCE of at least 7%. Free cash flow should reach at least €660 million.

Again, the raised group guidance for adjusted EBIT was driven by our ITS segment, while the SCS guidance was reduced to reflect the high share of large and longer-lasting projects in this year’s order intake, as Rob already mentioned at the beginning of this presentation.

With that, I would like to hand back to Rob for our key takeaways.

Rob Smith

Thank you, Christian. The takeaways are on slide 15, please. As Christian outlined, we’ve raised our full-year 2023 guidance for adjusted EBIT, ROCE, and free cash flow for the third time this year, driven by the strong performance of our ITS segment.

With our Executive Board leadership successions that will become effective from the 1st of January next year, we are well-positioned to drive our profitable growth strategy going forward.

We’ve been able to improve the profitability for the fourth consecutive quarter in both of our operating segments and for the KION Group overall.

Our diligent implementation and execution of the measures to improve operational and commercial agility drove ITS’s return to double-digit adjusted EBIT margins in the quarter.

In Supply Chain Solutions, the measures to improve agility, resilience, and profitability are well under way, and I’m confident they will show effect and support our adjusted EBIT margin ambitions of more than 10%, as laid out in our KION 2027 strategy over our strategic planning period.

We continue to focus on our strategic roadmap, with particular attention on sustainability, and we're very pleased that it's being recognized by important ESG rating agencies such as MSCI.

This concludes our presentation. Thank you for your interest, and let's now move to the questions and answers, Sandra.

Operator

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

Sven Weier

Yes, good afternoon, and thanks for taking my questions. The first one is on the truck order intake. In the third quarter, you mentioned there was also impact of seasonality, negative impact seasonality. My question is more, usually, in Q4, you have positive seasonality. And in the old days, typically, the order intake was about €200 million, €300 million higher. I was just wondering if you could confirm that what you've seen in October underlines this positive seasonality that you usually have. Thank you.

Rob Smith

Hey, Sven, good to hear from you, appreciate the question. The development in the ITS market this year has been in line with what we shared as our expectations that it'd be down high single digits over the course of this year. And we shared and it is our experience that KION is performing more or less in line with the market this year.

There are some indications of some slowing in the market for both ITS market and the SCS market for some time, but it's too early to make any real projections on that, and our teams are certainly working hard on the order intake in both segments.

Sven Weier	Okay. So does that mean you wouldn't commit to that typical seasonality at this time, at this stage at least?
Rob Smith	As a matter of fact, it's not that we're changing our commitments. Our expectation is that the market does finish down the way we described and us to finish in line with the market. Third quarter is a bit slower than the summertime, and fourth quarter is usually a stronger quarter. So we anticipate perhaps that could be the seasonality as we've experienced in previous times could be the seasonality this year. But with a couple weeks of October behind us, it's still too early to call the ball for the full fourth quarter.
Sven Weier	Yes, thank you for that. And the second question is just, in the last quarter, you've basically said on the truck side that you didn't see any reason why the Q3 margin would be lower than Q2, and indeed, it wasn't. I just wonder, when we look at the different moving parts with the higher revenue in Q4, with the full pricing effect only in Q4, and of course, on the other hand, a bit higher cost on the inflation payments, was just wondering if you were willing to repeat that statement maybe also for Q4 that the Q4 margins would be lower than Q3.
Christian Harm	Sven, you described the development in the last quarter very well now in terms of the contributing factors. I think we have seen a good implementation of the list price increases from last year in our revenue also already in the third quarter, as we have progressed in our order book and worked that down, given the material availability that we have. And just maybe one reminder, Q4 typically also has a bit of lower workdays, right? I think that's also a piece that one needs to put

into consideration when we look at the performance that we had so far in the year and the expectation that we have.

And never forget, -- that's the constant reminder throughout the year -- we are providing a minimum guidance, right? So, we are there at the low end of our expectations, and that's the nature of the minimum guidance that we provide.

Sven Weier — Okay. Fair enough. Thank you, both.

George Featherstone — Hi, everyone. Good afternoon. Thanks for taking the questions. First one would just be on the working capital development. Take it that your free cash flow this year has all been sort of driven by improvement in the profitability of the business, but you've yet to see any real reduction in that working capital. Can you just give us a feel for when you expect certainly inventory levels to start to normalize back to the levels you saw pre-2022?

Christian Harm — So indeed, we are seeing a very good development of the free cash flow across the 3 quarters so far throughout the year, and evidently, that's driven by the earnings that we are having. With the good production flow and the increase of the production volume that we had, right, we still carry an inventory level in the net working capital that is actually beyond historical levels.

We have also a substantial part of the net working capital still in the finished goods and also in the receivables, which comes together with the good revenue development that we have. Following our payment terms this will translate then also in the reduction in the net working capital as we go. And that will carry also into 2024 then.

George Featherstone

Okay. Thank you. And then just on the SCS demand picture, I see from your slides, you're talking about e-commerce still remains pretty slow from a share of order intake. It was in the single digits. But could you just talk about where else the orders are coming from, what kind of segments you're seeing good activity levels in, and then if you could, possibly give us an idea as to the size of that one large order that you talked about in Asia?

Rob Smith

Sure, George. Good question as well. So, the large order that we're talking about was around €300 million. It was in the grocery vertical, which is I think an exciting development because it's demonstrating that, although the e-commerce is still taking a breather, we're converting very good projects and very good orders in other segments. Other segments include general merchandise, food and beverage, the grocery segment itself, the apparel segment as well. So, we've got an offering and solutions for each of those different verticals. And those are coming along well.

In terms of the overall market, however, as orders are becoming larger and larger, and as there's still quite a bit of uncertainty, actually even increasing uncertainty geopolitically and macroeconomically, and with the high interest rates, customers are still slow on starting new projects.

We've got a great pipeline. We've got good visibility to the projects in the pipeline. We work those for a year, year and a half, 2 years, 2.5 in advance of getting the customer to the starting point. And so we've got good visibility to those. They're not going away, but they're delaying the starting points. And so that's going to make the overall order intake continue to be lumpy over time.

I think the fact that they're getting bigger and the fact that some are becoming more complex, the conversion time of the projects is -- probably a trend on that is extending the conversion time of those projects, too, over time.

George Featherstone — Okay. Thank you very much.

Gael de Bray — Thanks very much. I have 2 questions, please. The first one is on the pricing dynamics for ITS. In the past, we've been used to price rises of between 1% and 2% at the beginning of the year. Obviously, that was different these past 2 years. But I wonder if the dynamics could be back to what we've been used to in the past for 2024. Are you actually considering new price rises to offset the wage inflation next year? So that's question number 1.

Question number 2 is on the financial expenses and the big increase we've seen throughout the year. How much of that increase is sort of a one off maybe due to derivatives? And specifically, what's been the increase associated to the rental business? Thanks very much.

Rob Smith — Hey, Gael, let me pick up the first one, and Christian will handle the second one for you. I think it's important -- and I'm glad you asked the question because there is no reversion to old times. Old times were consistent with stable markets and low inflation and low volatility in the overall landscape in which we're operating.

And we have committed ourselves to operating in a very agile fashion, both operationally and commercially, which means that our teams are scrutinizing costings every single month a couple of times and, on a monthly basis, are comparing costings and pricing and market dynamics and making an explicit choice whether to adjust pricing or not.

And so the fact is we did make those choices last year 12 times and pragmatically moved the increased pricing 4 times. We thought that got to an appropriate level, and we've continued to make that decision every month going forward. And that's how we'll operate the company.

So on that agile basis, we're able to check our costs. We're able to check the market. And we're able to make pricing adjustment decisions on a very agile fashion. And that's important to our overall profitable growth strategy and the execution of that in a successful fashion.

Christian Harm

And then Gael, I take the second one on the financial expenses. So, if you look at the quarter 3 number and compare that to the prior-year quarter, the year-on-year comparison, about €20 million of that is from the fair value development of the derivatives, and about €10 million of that is due to the leasing and the short-term rental interest business that we had in that quarter compared to prior-year quarter.

What you also should bear in mind, though, is it's not just interest rate. Also, the volume was increased as well on the rental side, which you then see reflected in the revenue. So, there is also the volume piece to that expense.

Gael de Bray

Thanks very much for this. Just following up on the pricing question, I think you said, for SCS, you now have 80% of the backlog covered by escalation clauses. How much is that for ITS?

Christian Harm	ITS is basically covered. So that's 100%.
Gael de Bray	Okay. Thanks very much.
Lucas Ferhani	Thank you. The first one was just on the lead times. Obviously, you have better supply chains. You still have quite an elevated backlog. How much visibility do you have, just given you're saying demand is slowing, in terms of the coming quarters? Until when kind of can you have the support from the backlog? That's the first one in ITS. And the second one is on the service business in both segments. Can you explain a little bit kind of the slowdown you've seen in Q3? Is it related to kind of equipment, and so service demand is related to the equipment side? And how should we think a little bit about kind of service growth over the coming years if equipment is coming down, for example, next year? Should that kind of follow, or should you still see growth, even if you have kind of a decline in the equipment side on revenues? Thank you.
Rob Smith	Let me work on helping you with those thoughts here, Lucas. Thanks for the question. In terms of lead times, yes, we've been able to reduce our lead times, and that's important to us, and we'll continue to focus on that to get them back to a certain normality. Right now, the order book in our ITS business gives us about 9 months, about 3 quarters of visibility. Moving to the idea of the service revenues, service is a very important part of our overall business model. And that's what I think is a very exciting capability element of KION's overall business model of being an original equipment supplier, a full

solution supplier of original equipment and services associated with that.

And what I would encourage you to consider is, in any one given year, maybe original equipment is higher or lower, but we are servicing the cumulative field that we've -- the cumulative park that's out in the field of large-scale automation solutions in the SCS segment and the overall vehicle park in the ITS segment. Both of those, as you're adding each year, are growing.

So, the trucks are staying about 10 years in the installed base, and over 10 years, some years on the original equipment side is a little higher and some years a little lower, but the cumulative is growing. And actually, in our reports, we talk about the vehicle park out in the field that we're servicing.

Also, the the good growth on the ITS service base, also good growth on the SCS service installed base that's available for our services business, the very, very significant years of new equipment installation in 2020, '21, '22 is giving a good base and a growing base, and you see that our service business is increasing, and we've been increasing the strengths and sizes of our services team to capture these growing opportunities.

Martin Wilkie

Yes, thank you. Good afternoon. It's Martin from Citi. The first question was just around the e-commerce end market. You mentioned that there's been a pause in that market. Obviously, we've seen that in your order intake and elsewhere. Is there a sense -- and you mentioned you sometimes get almost 2 years of advanced notice in terms of thinking about these contracts. Is there a sense that that pause is coming to an end or any sort of green shoots?

We are hearing that some larger customers are now thinking about spending again, but it's very difficult to see when it happens because of interest rates, as you say, but just to understand whether that e-commerce pause has any signs of thawing out. Thanks.

Rob Smith

Yes, Martin. I liken the e-commerce pause to parents that are buying winter coats for young children. And oftentimes, you invest in one that gives you a couple seasons of growth before you reinvest in a new winter coat for a young child.

We built that capacity and that capability and really drove the availability of materials through e-commerce tremendously through the COVID period. And that was a very significant growth in the installed base, into which e-commerce customers are continuing to grow into.

We would expect and do expect overall our market will be growing easy 9% CAGR over our strategic planning period. And the e-commerce customers returning to increasing capacity over time is a part of that overall market growth. We didn't see it this year. It may take some time into next year, but they will be coming back, and they will be continuing to participate in the growth as they grow into that capacity that we helped them install.

Martin Wilkie

That's helpful. And if I could just ask another question, you mentioned there about the 9% growth rate in Supply Chain Solutions, but obviously, you've also got a midterm growth rate target in ITS of around 5%. It is very difficult from the outside to think about 2024 because, obviously, the industry and yourselves have this abnormal sort of backlog and so forth to unwind, and of course, there's many macro headwinds and so forth.

Obviously, you have previously talked about a growth market in trucks for 2024. In terms of, yes, order intake could be slowing because of the backlog unwind, but in terms of the building blocks for next year, is the market progressing as you thought a quarter or so ago, or is 2024 beginning to look a little bit tougher now than perhaps we thought 3 months ago?

Rob Smith

Well, it's an appropriate question, Martin. And the 9% that we're calling out and the 5% for, respectively, SCS and ITS segments is our expectation for those market growths over our strategic planning period.

It's too early to be talking about 2024 fully. We shall do that actually on the 29th of February next year. On Leap Year Day next year, we'll be bringing out our fourth quarter results, and we'll be talking about next year.

What I did say earlier in the call, though, is that there are some signs in the market for some time that the market is slowing in both the ITS and the SCS segments. And as we get through the rest of this fourth quarter and have even better visibility into next year, we'll be talking about what we expect for next year when we come back in February.

But 9% and 5% is over the overall strategic planning period as opposed to tying that to any specific year and certainly not tying it to next year yet. We'll talk about that in February.

Martin Wilkie

Great. Thank you very much.

Jorge González Sadornil: Hello. Thank you for taking my questions. I'm interested to get your thoughts on how this large backlog, this 3 quarters of visibility is in relation to the market share in ITS. And I'm wondering if, for the market that is left at this point, no, for the last part of next year and even '25, if you are still maintaining the same levels or if you are trying to not reduce your prices. It would be interesting to know how you are dealing with the market at this point.

I'm also interested to know how this backlog compares to the current picture if we should take into account -- I don't know -- more share of APAC, and that could imply lower or slightly lower margins. Can you give us a gross picture on how is the profitability for the current backlog of ITS at least?

Rob Smith: Buenos dias, Jorge. You have asked some wide-ranging questions there. Let me see what I can do to help. First of all, we are working to reduce our lead time overall. We want to get it down to plus or minus 6 months or so on the ITS side. We have been successful in bringing it down from over 12 months to now down to 9.

And you're asking, how does that reflect the market? I was describing the market in the last question. What that backlog actually describes was a very significant set of order intake in the first half of last year and then the production volumes and the material availability as we've been able to work that down over time.

So I wouldn't suggest to you that it has a one-to-one reflection on the market. It does give us 9 months of visibility. And from a perspective of going into next year, that's helpful. It's also helpful on the pricing side. We don't have to chase orders because we are not in a situation with a short backlog. With 9 months, we're in a good situation to be making appropriate and deliberate pricing decisions, as I was discussing a couple of questions ago.

Is there a shift between markets? Actually, if you look at the GDP next year, all the GDP is expected to be positive next year, however not as high as this year. If you look in the Americas, it's down. It's also supposed to be positive but quite a bit less than this year. China's down next year from this year. EMEA's going to be up a bit next year.

But you also have to look at where we've been investing. We've been investing in Europe. We've been investing in APAC. We've been investing in the Americas. We've added a value line of products and been launching those. And so is the Asia market bringing more and more into the mix? To an extent, but part of that is us investing in that value segment and the new launches we've been doing there.

So, I'd tell you, in total, I think the bottom line is we've got a 9 month backlog, and we're working on reducing to 6 months plus or minus lead time. Over time, it'll be a function of material availability and any supply chain interruptions that hopefully don't come through. It'll be a function of the production volumes. And it does give us some reasonable visibility as we look into next year. And it gives us some reasonable sovereignty on pricing decisions.

Jorge González Sadornil: Thank you, Rob. So, I understand then that you plan to keep your factories at very high utilization levels in the first part of the year

	or even in the first 9 months to work your backlog and reduce lead times. Is this -- it makes sense, this reasoning?
Rob Smith	Well, our objective is to keep our factories humming all the time, as a matter of fact, Jorge. And is the material availability -- should -- and we hope it certainly does -- remain good, we'll have them humming going into the beginning of next year, and we'll keep going.
Jorge González Sadornil	Thank you very much, Rob. I'll go back to the line.
Markus Schmitt	Yes, thanks for taking the question. I have just a quick one on the recent promissory note issuance. The final amount issued was actually much higher than what was targeted for. Is there any special use for this extra funding, or will it stay simply on the balance sheet for the time being?
Christian Harm	Markus, I take your question. So, we had, like you said, promissory notes of €375 million, with maturities up to 7 years, with the bulk in the 5-year period. We're going to use that to optimize our maturity profile. We have now the ability to do that through that issue, and improve the profile there.
Markus Schmitt	So fully used for refinancing other debts.
Christian Harm	Yes.
Markus Schmitt	Okay. Good. Thank you very much.
Debashis Chand	Hi, thanks for taking my question. I just have one clarification on the ITS order intake. I just want to check if we are still on track for high single-digit decline in unit order intake for the full year. If yes,

then it would imply actually quite a significant pickup in unit orders in Q4, both on a sequential basis and annual basis. So your thoughts there, please. Thank you.

Rob Smith

Sure, Debashis. Let me pick back up on a couple points made earlier. Our observation year-to-date is that the market is performing in line with our expectations of being down high single digits. We expect our performance in the market to be plus or minus in line with that market performance.

I talked about some slowness in both the ITS and SCS overall global markets for some time, but it’s too early to tell going forward. I also mentioned seasonality, and the fourth quarters usually have a pretty good strong run in them. And so with a couple weeks of October in the books but still a good 2 months plus to go, it’s too early to call. But I would expect that -- our expectations of the overall market and our own performance remain in line with the guidance that we’ve been sharing.

Debashis Chand

Thank you.

George Featherstone

Hi, again. Just wanted to clarify this comment you’re making, Rob, on the SCS market because it does seem at odds with what a lot of your peers are saying. So just trying to understand where specifically you’re seeing this slowdown, and does that effectively mean that you’re expecting for next year maybe more of a sideways market as well? Thank you.

Rob Smith

You’re double dipping today, George. So let me work on answering that question with you, too. I think all of us are very attuned to the geopolitical and macroeconomic uncertainties out there. And I think that, over the last couple weeks, those ticked back up a little bit further than what we had seen prior to earlier in October.

So there is some global economic and macroeconomic and geopolitical uncertainty out there, and the interest rates are certainly higher, and people are taking longer time to make decisions and to start new projects going. That's the dynamic that we're seeing for some time in SCS.

What I did describe is because, well, we've got very good offerings for all the industrial verticals out there, we're able to compensate to an extent the breather that the e-commerce market is taking. And over time, we do expect these things all to come back.

However, as things come in and they come in on a lumpy basis and people still take a little longer to make investment decisions or to make starting points, that does have some cumulative knock-on effect. So let's see how it develops, and we'll be giving you some good views on next year on the end of February. I'm just sharing current trading at this point in time.

George Featherstone: Thanks for the additional color. The only reason I sort of wanted to bring it back up is all of kind of what you're saying in terms of the drivers for macro level haven't really changed much throughout the entire year. And you've been talking to hesitance, customers making investment decisions for some time now. So just wanted to make sure this is an incremental weakness you're seeing, rather than just the general trend continuing because, clearly, your orders have improved from the trough that you saw either in the start of this year or going back into last year as well.

Rob Smith	Yes, I did describe a general trend. I also described that as -- the size and the complexity of certain orders, rather than executing over 12, 18 months, they execute over 18, 24, or even 36 months. And so we’ve got a mix of those different kind of orders in our backlog. And I think that’s an element, of course, on how much revenue comes out of that backlog on any given year. And I think that’d be an appropriate element to consider together as well.
George Featherstone	Okay. Thank you.
Operator	We have no further questions. I hand back to Rob Smith for closing remarks. Please go ahead.
Rob Smith	Thank you, Sandra, and thank you, all of you that have participated in our call. We certainly appreciate the good questions, and we certainly appreciate the opportunity for dialog. Christian and our IR team and I, we look forward to catching up with you in the weeks to come, the conferences and roadshows coming up, and we look forward to the 29th of February next year as we come back with our fourth quarter results and our guidance for next year. So thanks very much. Bye, bye.