KION GROUP AG

FY 2023 Update Call

Conference Call Transcript

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Christian Harm (CFO)

Rob Smith

Thank you, Alice. Good afternoon, ladies and gentlemen, and welcome to our fourth quarter and full-year 2023 update call. For today's call, please see our presentation on our IR Website.

I'm going to start with a summary of our full-year 2023 as well as with an update on our ESG journey. And then Christian will take you through our Q4 financials and the outlook for 2024. I'll take you through the key takeaways, and then we'll ask Alice to transition us back into a question-and-answer mode.

Let's start on page 3 together. Fiscal year 2023 was marked by a strong rebound in profitability, driven in particular by our ITS segment.

Material availability improved considerably compared to 2022. And that's not only due to supply chains improving, but it's also a result of the measures we took to improve our operational agility, enabling us to flexibly react to fluctuations in the availability of materials and components by switching to different product lines and enabling us to make use of each planned production slot.

In addition, measures to improve commercial agility, such as our multiple list price increases in 2022, also had a positive impact on the ITS results in 2023.

Suppl Chain Solutions performed in line with our expectations for a stronger second half versus the first half, despite the second half being impacted by a one-off expense to close off a legacy project.

We achieved our guidance on the group level and were successful in improving all major KPIs, in some cases, by a substantial margin.

Order intake remains at high levels in both segments. As anticipated at the beginning of last year, 2023 saw further normalization of our relevant markets for both segments after 2 COVID- and lockdown-driven boom years, which is reflected in the 7% decline in order intake compared to the year 2022 end.

Revenue reached record levels, boosted by improved volumes and pricing in combination with positive effects from our measures to improve operational agility. The adjusted EBIT margin improved by 430 basis points to finish at 6.9% for the year.

Free cash flow swung by more than €1.4 billion to come in at a record high positive €715 million, driven by earnings and net working capital improvements. This allowed us to reduce debt by €460 million compared to the end of 2022.

The positive developments of earnings and free cash flow allows us to propose to the AGM on May 29th of this a year a substantially increased dividend of €0.70 per share. This compares with €0.19 per share last year.

The proposed dividend corresponds to a payout ratio of 30% and is thus well within our 25% to 40% range, and it reflects our continued efforts to support our investment grade ratings.

Let's move to slide 4, and I'll update you on the progress we've made on our ESG roadmap.

In July last year, we firmly committed to the Science Based Targets initiative, or SBTi, thus adopting a framework to align our operations towards the goal of the Paris Agreement on climate change.

Through SBTi, KION established the long-term target of achieving net-zero greenhouse gas emissions by 2050 at the latest as well as setting corresponding interim targets by 2030. We're aiming for a validation of these targets this year.

In 2023, the share of our electrified trucks in order intake reached 91%, thus surpassing our 2027 target of 90%.

And in 2023, we continued to focus on improving the safety in our work environment. We reduced by 10% the lost time injury frequency rate compared to the previous year.

We're pleased to announce that KION was included in the S&P Global Sustainability Yearbook in 2024. This is an important recognition and places KION into the top 15% of our industry.

We're also proud that STILL and Linde Material Handling received the Platinum Sustainability awards from Ecovadis, placing STILL and Linde Material Handling in the top 1% of companies assessed by Ecovadis. And the Dematic Group was awarded the Ecovadis Gold rating, placing Dematic in the top 5% of companies assessed by Ecovadis.

Let's hand over to Christian now, and he'll take you through our Q4 financials and the outlook for 2024. Christian?

Christian Harm

Yes, thank you, Rob. Let’s go to slide 6 for the key financials of the ITS segment. Order intake of 67,000 increased significantly compared to the prior year and the prior quarter level, bringing the full-year 2023 unit order intake to just under 242,000 units, down close to 10% versus the 2022 level and thus fully in line with our expectations as communicated throughout last year.

There may have been some tailwind in the fourth quarter from a small single-digit price increase announced early December 2023 and effective from the 1st of January this year.

The year-over-year increase in order intake in units was more pronounced than in money terms due to the new equipment growth outpacing the growth in services.

Overall, the order book remains at robust levels and supports more than half a year of new business revenue despite high production run rates, particularly in the last 3 quarters. Margin resilience of the order book remains solid.

Revenue reached a record quarterly level supported by last year’s price increases as well as favorable material availability, allowing a high run rate in production and thus in shipments.

The adjusted EBIT remained on the high level of the prior quarter and nearly doubled compared to the prior-year quarter supported by positive effects from the volume- and price-driven revenue growth as well as production efficiency gains resulting from ongoing measures to increase our operational agility.

The adjusted EBIT margin remained above 10% but was slightly lower than in Q3 due to a higher share of new equipment in the revenue.

I continue on page 7, which summarizes the key financials for SCS. Overall, macroeconomic uncertainty as well as higher financing costs continued to have an impact on order intake as decisions to start new projects continue to be postponed. We will therefore still expect order intake to remain lumpy over the next quarters.

Order intake in the fourth quarter was driven by pureplay ecommerce and on a solid level despite the absence of single large orders like in the past 2 quarters.

There was one high double-digit million-euro project cancelation. Adjusting for that, the order intake would have been on the same level as in the prior quarters.

Cancelations are very rare in this business, and if they occur, they result from extraordinary situations. In this case, our customer was acquired, and the new owner decided to put all capital expenditure projects on hold.

The order book continues to provide visibility for the next quarters. Approximately 90% of the order book now has price adjustment clauses, which provides protection from unexpected hyperinflation going forward.

Overall, revenue increased sequentially but was still below the prior-year level, as the single-digit increase in the service business did not compensate for the decline in the project business.

Lower orders from pureplay ecommerce customers in past quarters and adverse currency effects also had a negative impact on revenue in the quarter.

The adjusted EBIT and the adjusted EBIT margin is in line with our expectation for a stronger second half compared to the first half of the year and included a mid to high single-digit million-euro one-time expense to complete a legacy project.

Speaking of legacy projects, we made significant progress in working through these in 2023.

Before we move on, I'd like to give you a heads up on an immaterial presentation change that will impact SCS order intake and order book going forward.

Starting 2024, we are aligning the treatment of order intake in the customer services business of SCS to the methodology applied in ITS. There will be no restatement of past years, but we have included in the appendix of this presentation a table showing the effect this change would have had if already applied in 2022 and 2023.

Let's quickly run through the key financials for the group on page 8. The increase in order intake was driven by the seasonal recovery seen in ITS in the fourth quarter. The order book reflects the progress in lead time reduction in ITS and continues to provide good workload for the next quarters.

Revenue in the fourth quarter exceeded €3 billion, driven by a very strong ITS new business performance and the resilient service business in both segments and thus compensating for softer business solutions revenue at SCS.

KION Group improved the adjusted EBIT and the adjusted EBIT margin strongly in the year-over-year comparison while being down slightly sequentially.

Page 9 now shows the reconciliation from the adjusted EBITDA to group net income. Depreciation and amortization as well as PPA items followed the usual quarterly pattern.

Non-recurring items increased strongly in the quarter and included approximately €25 million of expenses related to measures to streamline our cost base at SCS.

We saw a strong increase in net financial expenses, mainly driven by higher interest rates, higher net interest expenses for the leasing and short-term rental business, as well as a negative impact from the fair value of interest derivatives. As a result, pretax earnings reached €101 million.

Tax expenses were positively impacted by the revaluation of deferred tax assets. This brought the full-year tax rate back within our guided range after a temporary increase in the second and in the third quarter.

Net income of €83 million led to earnings per share of €0.63 in the quarter.

Let’s now continue with the free cash flow statement on page 10. Free cash flow in the quarter reached €386 million and thus exceeded the level of the first 9 months of 2023. It’s quite typical at KION that the fourth quarter is the strongest free cash flow quarter in any given year.

The improvement was driven by better earnings as well as the release in net working capital. This was driven by lower inventories in both work in progress as well as finished goods and lower trade receivables. An unfavorable development in contract assets and liability partly offset this positive development.

Included in our fourth quarter free cash flow number is an additional funding of €50 million into our company pension scheme.

Page 11 shows the development of net financial debt and our leverage ratios. Most of the positive free cash flow in the fourth quarter was used to reduce the net financial debt by €325 million compared to the end of the third quarter.

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 weak third and fourth quarter 2022 EBITDA numbers.

As a result, the leverage ratio on industrial net operating debt was reduced from 1.7x at the end of September 2023 to 1.5x. The leverage ratio on industrial net debt improved from 2.1x at the end of the third quarter 2023 to 1.9x.

Compared to the year-end 2022, the improvement is even more pronounced, as the leverage ratio on industrial net operating debt was reduced from 2.3x to 1.5x and the leverage ratio on industrial net debt improved from 2.8x to 1.9x.

On the 5th of February 2024, Standard & Poor's affirmed their investment grade rating for KION with negative outlook. We remain committed to improve leverage metrics further to defend our 2 investment grade ratings, as we believe they are supportive to our business model.

Page 13 now lays out our guidance for 2024. You will find a summary of our key assumptions for the guidance in the appendix.

After 2 years of normalization following boom years during the pandemic, we expect the market for industrial trucks to show slight growth driven by EMEA and APAC, while Americas is expected to decline further.

Based on our order book at the end of 2023 and our industrial truck market expectations for 2024, we believe a low to mid-single-digit increase in revenue is achievable for ITS. Adjusted EBIT margins are expected to sustainably remain above the 10% mark.

For SCS, we expect the market to return to slight revenue growth, driven by the advancing trend in automation, lower capital costs in the course of the year, and continued demand for mobile automation solutions.

We don’t expect revenue in SCS to benefit from this already in 2024, as there was a lower share of fast-turning projects in the order intake in 2023.

Despite the anticipated lower revenue, we expect an improvement in adjusted EBIT due to a lower number of legacy projects in execution as well as some benefits from measures to adjust our cost base.

In terms of phasing, SCS revenue should be more or less equally distributed among the 4 quarters. With regards to adjusted EBIT at SCS, we expect a stronger second half compared to the first half of the year, as we anticipate the first half of the year to be more impacted by the execution of legacy projects than the second half of 2024.

In addition, the measures we are implementing to adjust our cost base will increasingly contribute to the bottom line from the later part of the year onwards.

At KION Group level, we expect a stable to low single-digit growth in revenue and a stable to nearly 19% growth in adjusted EBIT. While group revenue should show a rather equal distribution across the 4 quarters, group adjusted EBIT should be slightly stronger in the second half than in the first half, which should be reflected in the Q1 results.

Free cash flow between €550 million and €670 million is expected to be below the excellent prior-year level mainly due to time lag in tax payments for the fiscal year 2023 and higher tax prepayments for the fiscal year 2024.

And lastly, ROCE is expected between 7.4% and 8.8%. As always, you will find a slide on the housekeeping items in the appendix of this presentation.

And with that, I hand back to Rob for our key takeaways.

Rob Smith

Thank you, Christian. Let's turn to page 14 for our key takeaways of the presentation. As Christian outlined, 2023 was a good year for KION and particularly for our ITS segment. KION more than doubled the adjusted EBIT and margin in 2023 with outstanding free cash flows.

Our outlook for 2024 is supported by our expectation that both the industrial truck and warehouse automation markets will show slight growth following a year of normalization in 2023.

And we therefore have strong momentum going into 2024, targeting further margin improvements, with H2 being expected to be stronger than H1 2024 in our Supply Chain Solution segment.

This does conclude the presentation. Thank you for your interest. We're looking forward to taking your questions. Let's ask Alice to shift us into question-and-answer mode.

Operator

We will now begin the question-and-answer session.

Sven Weier

Yes, good afternoon. Thanks for taking my questions. The first one is really on the SCS margin outlook. And I was just wondering, given that you have the 10% target by 2027 for the group and for the divisions, I was just wondering if you feel happy with the setup that you have currently. You've done some restructuring measures in Q4. You have the phasing out of the legacy orders this year. Do you think it's going to be a steady improvement towards the 10%, or is it going to be backend loaded? How do you feel about visibility for getting back to 10%? That's the first one.

Rob Smith

Sure, Sven. Good to hear from you, and it's a good question. Let's recognize that the legacy projects that we're still working through do have a drag on margins from the perspective also that the low- or zero-margin legacy projects is a gross profit level, and so they're negative EBIT.

New projects we've taken onboard support our greater-than-10% adjusted EBIT margins expectations by the end of 2027.

Now turning to those legacy projects, we made good progress on completing those during the course of last year. The few remaining projects this year will continue to impact our results, but we expect -- we closed a meaningful amount last year and expect to close most of the rest of them this year.

In addition, the price adjustment clauses that were not in our contracts prior to COVID we have been able to build into now about 90% of our order backlog in SCS, which should protect us against unexpected hyperinflation in the future.

We expect to close most of the remaining legacy projects in 2024 with only a few remaining for 2025. However, it does include one large project. The internal process improvements we've made for supply chain management processes are also showing effect. We expect they'll take more time to show full effect, given the long-term nature of the business.

That's going to give us an ability -- we talked about this year. We expect, as was the case last year, the second half to be higher profitability than the first half, as we close further legacy projects in the first half and as the measures we took to streamline our cost base will have increasing effect from the second half of this year.

So we expect margins to improve meaningfully this year. We expect them to improve meaningfully next year. And as we get higher revenues next year and the year beyond, we're certainly on track to bring exactly what we said, which is returning our profitability in Supply Chain Solutions over 10% in the strategic planning period by the end of 2027.

Sven Weier

Thank you, Rob, for the color. Sounds a pretty steady development then and not like a very backend loaded one.

The second one was just on the market outlook. I was just wondering if you could give us a bit more color on how you see the pipeline because you're talking about slight growth on the trucks side and on the SCS side in the orders.

And if I remember correctly, when I listened to the feedback from the January conferences that you attended, I thought that sounded a bit more positive, to be honest, because I thought you said you also think you can gain share on the trucks side with especially the midmarket products that you have now and gained back share maybe that you lost during the pandemic.

And also, on the SCS side, I'm mindful of the fact that last year Q1 was extremely low in terms of the order intake. So by having a normal Q1 alone, that would already probably give you better full-year orders.

And I guess the question is really how you look at the conversion of the pipeline that you have. Is it -- do you think it's too dependent on lower rates, or what do you think the clients are waiting for? Thank you.

Rob Smith

Sure, Sven. Another good question. Let's go back a couple years to the boom years in -- during COVID, where the SCS market went up very, very significantly. It's come down since then. And we actually see this year as a year where we think there'll be some slight revenue growth in the Supply Chain Solutions market in 2024.

As you see in our guidance, we're calling out that this improvement will start to affect our revenue line in 2025. As we finished last year, there was a significant amount of longer-term projects in the order book, which is why we're calling the revenue levels in 2024 the way we see them.

I think the market outlook that you're describing, it's nice to be talking during a time when people are expecting over time interest rates to come down. We have been very clear, starting back in 2022 second half, people very much slowed down their order intake based on economic uncertainty and increasing interest rates. And that built the order book that we had at the end of last year and therefore our expectations for '24 and beyond.

If we look at the ITS market, also after 2 years of normalization, we see some slight growth in the ITS market this year, primarily in Europe and Asia-Pacific. We expect North America still to be down.

What I did call out back end of last year is we're introducing, and we have introduced a new line of trucks introduced in China and then built in China for export as well. And we expect that they've already helped us build market share in China, as we've entered the value segment there with a new product line. And we think it'll help our market share in Europe and the Americas as well.

So I think that's a good outlook for you once again. We see both markets growing slightly this year, and we maintain our expectations for about 4% compound annual growth in the ITS market over the strategic planning period and, over that same period, about 9% compound annual growth in the Supply Chain Solutions market.

Sven Weier — Very good. Thank you, Rob.

Gael de Bray — Yes, good afternoon, everyone. I have 3 questions actually. Can I take them one after the other? The first one is on the inventory and receivable terms that remained pretty high, at least much higher than pre-COVID levels.

And looking at the free cash flow guide, it seems that you do not really assume any working capital release in 2024. So, I guess my question is, why are the inventory terms in particular so high, and why don't you expect any working capital optimization in the course of 2024?

Christian Harm — Hi Gael. That question, sort of to take those 2 elements of your question, right, so on -- so why is it high? So, you've seen actually we had a pretty good development in the net working capital in the course of the fourth quarter, but we did not see the same kind of development in the prior 3 quarters.

Remember we have also been talking throughout the year about sort of a stabilization of the supply chains. That was not the case to the same extent that we have at the backend of the year at the beginning of the year.

And so in the course of how we -- that progressed, that also helped us to get back to inventory levels that we have also seen precrisis levels and over the year. We are not yet quite there where we want to be.

And therefore, to the second part of your question, actually, our guidance for the free cash flow includes a significant improvement of the net working capital position, but it also includes, as I laid out in the explanation of my outlook, a significant impact from the accumulation of the tax payments on 2023 and the increased prepayments in the year of 2024. And that needs to be taken in consideration when comparing the cash flow of 2024 with the prior-year cash flow.

Gael de Bray: Just to perhaps put the things into context, longer term, what sort of working capital optimization would you aim to achieve, either in terms of working capital to sales ratio or in absolute numbers?

Christian Harm: See, the way we look at that is actually in terms of what's the cash conversion cycle. So how fast is actually the net working capital coming back? I think that's the right way of looking at that.

At the end of last year, we have not been at prior level of sort of the pandemic or the COVID times. And this is the level that we are looking for and targeting over the next 3 years to get back to that level consistently.

Gael de Bray

Okay. Over 3 years. Okay. All right. And then the other question I have is on SCS. I think, a quarter ago, you had indicated that the share of the SCS backlog with gross margins lower than normal was about 20%. Perhaps can you provide an update on this? And any indication on how the average gross margin in the backlog compares to 1 year ago would also be pretty useful. Thank you.

Rob Smith

Hey, Gael. It’s Rob. Appreciate your question. Let’s kind of re-zero that conversation. What we’ve been reporting over time -- and now it’s at over 90% -- is the amount of the order backlog that we’ve got that we have now covered or indeed included in those contracts price adjustment clauses should there be hyperinflation. And that’s been an important element of protection against future unexpected hyperinflation developments.

What we’ve also talked about is the rate at which we’ve been working through our legacy projects. And maybe I’d refer you to the answer I gave Sven on the progress we’ve been making on chewing through and finishing off those legacy projects.

There was good progress in the first half of last year, good progress this year. We expect to close out most of the rest of them during the course of this year. There will be a few that carry on into next year. There is one large one there.

And what we shall see as well is the profitability improvements for the second half of this year being supported by the beginning of the streamlining cost savings based on streamlining our cost base during the course of this year, which will have effect in the second half.

And then going into next year, we expect further profitability increases in that business from having made the good progress on the legacy projects, as we've described over the last calls and as we're happy to report again today.

Gael de Bray

Just to be clear, when you say 90% of the backlog now has escalation clauses, does that mean or does that imply that the legacy backlog with low gross margin translating into negative EBIT margin is around 10% or less?

Rob Smith

No, let's split those apart. What we've been describing since the second quarter of 2022, the contracts we've taken since then, we've been very consistent about putting price adjustment clauses to protect the contracts over their lifetime from hyperinflation during the execution phases of those contracts. And as we've built that order book since the middle of '22, that's what we've done.

The legacy projects were projects that were affected in the summer of 2022, reported in the summer of 2022 also, where the cost expected to complete those projects increased significantly and brought those projects to either lower or, in some cases, no gross margins. And those projects in execution during 2022 had actually been projects we'd sold in 2019, 2020, some in 2021. So please understand that differentiation.

Gael de Bray	Okay. I'll get back in line. Thank you.
Akash Gupta	Hi, Rob. Hi, Christian. Thanks for your time. I have 2 as well. The first one is on ITS, and that's regarding the ramp up of China production facility. So maybe if you can tell us about, where do we stand in the ramp up of that factory and how much incremental revenues are you expecting in 2024 versus last year? And is this the maximum you can go, or is there a possibility of further ramp-up growth in '25? So that's the first one to start with.
Rob Smith	So that -- we've been talking about that for a while, Akash. I'm happy you asked. You'll recall we launched that factory. We opened the factory very end of 2021. There was -- we produced in 2022 ahead of our business plan, and we almost tripled the production last year vis-à-vis 2022. And clearly, there's further room in that factory. We built it to support the growing China market. We built it to support our growing market share in the China market. And we also built it, of course, to support the value segment outside of China. Last year, we launched 30 new models from the factory during the course of last year, completely in line with the launch schedule. Quite a few of those were for export. We'll be launching another 8 products coming out of the factory again this year. So clearly, there's room to grow that. And it's been -- it's a tripling in production volume in '23 versus 2022. And we expect to ramp it up even further this year.
Akash Gupta	Thank you. And my follow-up question is on net interest expense guidance of €170 million to €190 million. Christian, can you help

us separating how much of this is coming from the lease interest and how much of this is cash interest related to gross debt? And what is the additional related to pension and other items? Thank you.

Christian Harm — Yes, so you can actually imply that, given our ramp down of our financial debt, there will be a lower impact of the pure financing piece in the guidance included, as well an element of financial expense that's coming from derivatives and the fair value evaluation out of the derivatives.

And there will also continue to be, given the growth that we have in the business, a negative impact that we have from the leasing and short-term rental business. That's as far as I would like to go at this point.

Akash Gupta — Is it possible to split out the last part, the leasing and rental business that -- out of this €170 million, €190 million? Roughly how much is for leasing and short-term rental?

Christian Harm — No, that's not because it's actually also tied up with the derivatives, and as such, actually, it's not a separate position that needs to be looked at as a main separate item. Do not disclose this.

Akash Gupta — Okay. Thank you.

Martin Wilkie — Yes, thank you. Good afternoon. It's Martin from Citi. Just a couple of questions, perhaps related. The first one was on your order commentary for industrial trucks in 2024. You mentioned in the press release you expect slight growth on order numbers.

And I just wanted to clarify if that is units or value terms or perhaps both.

And then linked to that, now that supply chain shortages are easing and lead times are easing, perhaps you could talk a little bit about the pricing and discounting mechanism in the truck business. Are you seeing anything changing there in terms of the pricing environment in trucks? Thank you.

Rob Smith

Hi, Martin. Hey, let's clarify. My comments about the market in ITS was we expect that the market in ITS shall grow during the course in 2024. You'll recall it's come down in the previous 2 years. We expect that to turn back around this year, primarily in Europe and in China. We think the market will decline a bit more in North America during the course of this year.

We stopped guiding on order intake explicitly for our segments last year, and so we're not going to pick that one back up again.

If we then, however, address the second half of your question, Martin, give me a quick -- give me another bullet point there so I can help you with the -- so I can be very specific about the second half of your question.

Yes, the pricing. Thank you. You know what? Yes, what we've talked about, and I've been very explicit about, we've put some very appropriate process improvements into our business. We talked about the -- in this case, the commercial agility measures to be able to very consciously be measuring our cost levels in our businesses a couple times a month and making choices each month on making any price adjustments based on knowing the costs very well, understanding the market, understanding the competitive situation there, and making deliberate choices on pricing.

That enabled us to make 4 price increases during the course of 2022. It also enabled us -- we measure every month and make the choice every month. During 2023, we did not make any further price increases.

From the beginning of January this year -- we announced this in the fourth quarter of last year -- we've put another price increase into the ITS market, low single digits. And that's a deliberate set of thinking and choices that we're making based on good understanding of cost base and good understanding of the competitive market. And that's the capabilities we have, and those are the decisions we've been taking.

Christian Harm — And if I may add, Rob, I think what we see is that competition is actually acting very rationally on pricing. So that may help you form an opinion.

Martin Wilkie — Thank you. That's very helpful. Thanks.

Sebastian Growe — Yes, good afternoon, everybody. Thanks for taking my questions. The first one would be around the order backlog in the SCS business and the related visibility for '25.

So, you mentioned several times that there's a lower share of fast-turning projects in the order backlog, and hence, obviously, I think that also explains part of the revenue decline that you guide for '24.

So, and I do appreciate it's an earnings call for '24, but nonetheless, how should we think of the distribution of SCS order backlog for '24 as opposed to '25?

And if I may then also continue on the -- I heard your comments around the order funnel, but obviously, it appears that momentum in the market has been increasing. And do I read your so-far comments correctly as to the sort of €900 million undistorted order intake level per quarter is kind of where you feel comfortable with at this point?

Christian Harm

So maybe, Sebastian, I take the first question that you had on the order backlog. I think, if you look at the backlog at the end of the fourth quarter last year and if you think about our guidance in revenue for this year, I think that gives you a good view in terms of to what extent that actually will drag out also into 2025 when it comes to the backlog.

I think, when it comes to the pipeline and the momentum that you are describing for the pipeline, I think the one thing we need to consider is that, overall, I think the business and the project business will remain lumpy. We will have service business that will continue to grow and continues to grow also throughout 2024 and support in this one.

But we have a strong pipeline at this point because basically all the factors that are underlying our business are still supporting the business. But the economic concerns that are still out there are actually extending the sales cycle. And that's still effect, that it takes more time to actually conclude projects out there.

Rob Smith

Maybe I'd pick up on that, too, Sebastian. And you know what? I think, looking at any one particular quarter and the amount of ecommerce in that quarter is probably not the right answer, but the trend shows that I've been describing that, after really ramping up the capacities for ecommerce during COVID, that there's been a breather while the ecommerce companies kind of grew into that capacity.

And the fact is they're coming back to the table now. And I think that's an important trend -- reversal in the trend -- coming back to the table and starting to order again. And I think that's a good thing for the periods to come.

Sebastian Growe

Yes, thank you, both, for those comments. And then if we think about the mix then going forward and if I might pick you up on the ecommerce comment you made, this is now at around 40% of total order intake in '23. I also noticed that the large projects share stands at firmly above 50% again.

Obviously, there is some fresh memory from the past, where the orders were not necessarily always too attractive from a profitability standpoint, to say the least. So, can you just give us a bit of a sense how we should think about the mix going forward?

Rob Smith

Sure, and let's be very clear. The orders that we've taken onboard support our expectations and our drive to drive our margins in the SCS business back into double digits by the end of 2027. I think that's a very important starting point.

In addition, our Dematic business works to get a good balance between different project sizes, different technologies, and also get a very good balance with our service business. So, the overall balance is a part of getting the mix right on -- for our Dematic business.

I think that it's also fair to say that the tremendous interruptions that the world experienced during -- coming out of the COVID period happily are behind us. In addition, we've built quite a bit of operational agility to deliver good projects during volatile times.

That was a very strong and is a very strong element of improving the project management processes, the contracting processes, the ordering and material supply processes in our Supply Chain Solutions business. So, I think all those are very -- are key parts of our profitability increase in the periods to come as well as the growing revenue. That will be helping our profitability as well.

We're expecting, and we're delivering the increases that we've said. And we expect to continue to do so.

Sebastian Growe: Thank you very much for the color, Rob. If I may squeeze in one very quick question on IT&S, and that is going to the repositioning of the brands. If you should sketch it on a scale from 1 to 10 -- 10 is good, 1 is a start -- where do you stand in the sense of sort of having this repositioning under good control?

And obviously, the backdrop of the question is how much sort of scale and room to grow in terms of margin leeway would you think is still there in that particular item?

Rob Smith: Sebastian, we've got very strong brands in our company. The ITS segment is where you're asking. The STILL brand and our Linde Material Handling brand and our Baoli brand are all very well-performing brands.

They are well positioned, and of course, we continue to refine those. But I'd say that we're pleased with how the brands are performing. We're pleased with the positioning each is working on. They're taking market share from the competition over time, and that's our -- that's where we're driving this.

I think that the brand capability is an important element of our business model. And we're pleased with the developments the brands are taking.

Sebastian Growe — All right. Thank you so much.

Lucas Ferhani — Thank you. If I may push you again on the Supply Chain Solutions margin, how do you see the development in H1 versus H2 2023? Should you see a bit of increase already, or do you expect it on a similar level sequentially?

Rob Smith — So, Lucas, we were real pleased to deliver what we said we would deliver last year. We called from the beginning of last year that the second half would be stronger than the first half. Our expectations for this year are that the second half this year will also be stronger than the first half this year.

As we described, we'll be working through and closing off further legacy projects in the first half of this year. Second half of this year will also benefit from the kicking in of some of the streamlining measures we've taken to streamline the cost base in SCS. So I expect a stronger second half this year than the first half this year.

Lucas Ferhani — And so any comment on H1 '24 versus H2 '23 on the margin?

Rob Smith

No, Lucas. We did what we said we'd do last year, and we're going to do what we said we'd do again this year. Second half this year will be stronger than the first half this year. And we'll be returning our Supply Chain Solutions step at a time to beyond 10% between now and the end of 2027.

Lucas Ferhani

Perfect. The second one is on the balance sheet. There was a change, obviously, in the outlook from S&P. Can you give us an update here on the covenant that I think was on hold? Is it now back? And also, was the key KPI for leverage that S&P is looking at?

Christian Harm

What S&P actually did when they published on the 1st of February was that they have made up their mind in terms of how they would look at us in the context of their latest captive guideline that they had put out last year.

And so they made up their mind to look at us at the entire business. The main KPIs that they're looking at is actually the leverage around 4 and then in the EBITDA margin. That's the second piece they're looking at or above 16%.

So that's the 2 elements that they're looking at right now after they have made up their mind that they look at us as a total business, and not trying to separate out the leasing business from the rest of the -- that margin, though, is Standard & Poor's specific. It's not exactly the margin that you find in the reports, because Standard & Poor's still does some adjustments on the debt position as well as on the margin.

Lucas Ferhani

Perfect. Thank you.

Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Rob Smith for any closing remarks. Mr. Smith?
Rob Smith	Thank you very much, Alice, and thank each of you for joining our call today and the very good questions. We're looking forward to seeing many of you in person as we're out and about in the next weeks and months. And we'll look forward to catching you up on our first quarter results at the end of April. So until then, thank you, and take good care. Bye, bye.