KION GROUP AG

Q1 2024 Update Call

Conference Call Transcript

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Christian Harm (CFO)

Rob Smith

Thank you, Francy. Good afternoon, ladies and gentlemen. And welcome to our update call on the first quarter for 2024. For this call, please refer to our presentation on the IR Website.

I'm going to start with a summary on our Q1 2024 and give you a business update. And then Christian's going to take you through our detailed Q1 financials, our unchanged 2024 guidance, and then I'll take you through our key takeaways. And then we'll go into questions and answers.

Let's start on page 3. KION had a solid start to the year with revenue at €2.9 billion. Adjusted EBIT at €227 million, and the adjusted EBIT margin at 7.9%, those were both sequential and year-on-year growth gains.

The performance in both segments continued to benefit from our measures to improve operational and commercial agility. Despite various crises around the world, material availability improved in the first quarter compared to the prior-year period. In addition, we diligently monitor and track the situation not only of our suppliers but also their supply chains. And this allows us to initiate mitigation measures as necessary early in the process.

Group order intake at €2.4 billion showed a slow start to the year, as we expected, and remained on healthy levels, supporting our unchanged full-year guidance across all KPIs.

Free cash flow came in at a positive €66 million due to the solid EBIT development and stable net working capital. And earnings per share increased to €0.83, up from €0.55 in the first quarter of last year.

On slide 4, I'll show you some insights into our latest business development and talk about some innovations. As many of you are aware, one of the largest trade fairs for intralogistics solutions space is LogiMAT. And this took place last month in Stuttgart.

There were more than 67,000 visitors, which strongly increased from last year and even surpassed the levels of visitors in prepandemic levels. Especially the number of overseas visitors grew, almost 7x compared to previous shows.

Our KION Group brands showcased comprehensive range of solutions to all of our customers' challenges. Main topics of interest on the stand and on the fair were interest in automated solutions, electrification, safety, and new products.

Our Baoli presented under a slogan of: "We make material handling simple." We showed 3 new trucks, and we focused on profitability and reliability on the Baoli stand.

STILL unveiled its vision for the future of intralogistics with its easy-to-implement iGo easy plug-and-play automation solutions. And another highlight was the unveiling of our in-house produced 24-volt fuel cell systems for our warehouse trucks.

Linde Material Handling demonstrated a wide range of automation solutions, of energy options, and of safety features in both an indoor and outdoor exhibition space.

And under the motto "Solved: Your Ambition. Our Mission," Dematic presented a new bin-to-picker AMR solution with a live demonstration featured in connection with the Linde Material

Handling booth, underlining our integrated solutions offering with fast implementation times on our customer projects.

Another recent innovation milestone was the recent completion of our KAnIS automation solutions project. KAnIS stands for Cooperative Autonomous Intralogistics Systems and is a project between Linde Material Handling done together with the Aschaffenburg University of Applied Sciences, focused on the further development of autonomous counterbalanced trucks, completely driverless in indoor and outdoor applications and addressing the key needs that are top of mind for many logistics managers: maximum safety in their operations, the labor shortages that they and the rest of the world are facing these days, and improving their business competitiveness.

Christian, I'll hand over to you now to take us through the detailed Q1 financials and the 2024 outlook.

Christian Harm

Thank you, Rob. Let's go to slide 6 for the key financials for the ITS segment.

Order intake of 59,000 units was on the prior-year level. Sequentially, there was a decrease, which is not unusual in a quarter following a list price increase. In money terms, the decrease was more pronounced due to a higher share of APAC and warehouse trucks in the new business mix.

Overall, the order book remained at robust levels and supports more than 6 months of new business revenue. Margin resilience of the order book remains solid.

Revenue remained on high levels, driven by the positive geographic and product mix in the quarter as well as higher production levels still benefiting from the 2022 price increases.

The adjusted EBIT slightly exceeded the high level of the prior quarter, reaching a record quarterly level due to the positive mix effects in the new business revenue. In addition to the volume- and price-driven revenue growth, the adjusted EBIT also benefitted from production efficiency gains.

The adjusted EBIT margin exceeded 11% in the quarter. Current order intake patterns may lead to a less favorable mix later on in the year.

I continue on page 7, which summarizes the key financials for SCS. Overall, order intake continues to remain lumpy and impacted by customers' hesitancy to sign new contracts due to macro uncertainty and postponed expectations on interest rate cuts.

We once again felt the impact of this in the first quarter with the planned signing of several orders totaling around €100 million being postponed.

At 38%, the share of pureplay e-commerce corresponded to the level seen in the full-year 2023.

As flagged in our Q4 2023 Update Call, the order book as of January 1st, 2024, was adjusted by €317 million due to a change in the presentation of the Customer Services business that we have aligned to the methodology applied in ITS.

In addition, the order book as of March 31st, 2024, was impacted by two cancellations totaling €92 million.

Now cancellations remain a rare part of our business. If we look at the orders booked and cancelled in 2022 and 2023, for example, we remain well below a 1% cancellation rate. These cancellations do not indicate any trend in losing customers or market share, and in fact, our relationship remains strong with customers that cancelled, with negotiations for new orders underway.

We expect that project cancellations will continue to be an uncommon occurrence in our business, but they will continue to happen from time to time.

As a reminder, we have again included the slide in the appendix explaining and quantifying the change in the presentation of the customer service business in SCS.

Overall, revenue continued to decrease sequentially and year over year, still reflecting the lower order intake and the high share of orders with long lead times throughout the last year. The service business continued to grow at 13% year over year, while the new project business declined by 18%.

We continued to make further progress in working through the legacy projects in the first quarter 2024. The adjusted EBIT at €18 million and the adjusted EBIT margin at 2.6% reflects the higher share of service business in the revenue and the continued sequential improvement in profitability.

Now let's quickly run through the key financials for the Group on page 8. As expected, the order intake showed a slow start in the year in both segments but remains on healthy levels and supports our full-year guidance across all KPIs.

The order book reflects the progress in lead time reduction in ITS and the change in the presentation of the service business in SCS. It continues to provide good workload for the next quarters.

Revenue benefited from a very strong product and geography mix in ITS new business and the growing service business in both segments, more than compensating for softer SCS new project revenue.

KION Group improved the adjusted EBIT and the adjusted EBIT margin, reaching the second best-ever quarterly adjusted EBIT.

Page 9 shows the reconciliation from the adjusted EBITDA to Group net income.

Depreciation and amortization as well as the PPA items followed the usual quarterly pattern.

Nonrecurring items of positive €6 million relate to the measures to streamline the SCS costs base. A small part of the provisions built in 2023 was reversed. Our full-year expectation for NRI remains unchanged at minus €10 million to €20 million.

The year-on-year increase in net financial expenses was mainly driven by higher net interest expenses from the leasing and short-term rental business, which resulted from higher interest rates and the growth in the business.

The strong sequential improvement in net financial expenses is due to a positive impact from the fair value of interest derivatives and could reverse again in the course of the year.

Pretax earnings increased substantially, both sequentially and year-over-year, and reached €170 million.

Tax expenses were negatively impacted by nontax-deductible expenses and taxes related to prior years. This should be a temporary effect, and the full-year tax rate is expected to return to our guided range.

Net income attributable to shareholders showed a strong increase both in the quarterly as well as in the yearly comparison and reached €109 million. This led to earnings per share of €0.83 in the quarter.

Now let’s continue with the free cash flow statement on page 10. Free cash flow in the quarter reached positive €66 million due to the strong EBIT and stable net working capital. The decline compared to the prior-year period has to be seen primarily in the context of lower incentive payments in the first quarter 2023 following a weak financial year 2022. Net working capital remained relatively stable at the end of the first quarter.

The net change from the leasing and short-term rental business was mainly impacted by the growth in the short- and long-term rental business.

The positive free cash flow did not lead to a decrease in net debt mainly due to the reduction of on-balance-sheet factoring.

Please note in your modeling of the second quarter 2024 free cash flow that we have proposed a dividend of €0.70 per share to the AGM on the 29th of May 2024 for the fiscal year 2023.

When approved, this will lead to a dividend payment of €92 million on June the 3rd, 2024, and this is compared to €25 million euro paid out in the second quarter of 2023.

Page 11 shows the development of net financial debt and our leverage ratios.

As mentioned on the previous slide, the positive free cash flow did not lead to a decrease in the net debt mainly due to the reduction of on-balance-sheet factoring. In fact, net debt at the end of March 2024 increased marginally by €17 million compared to the yearend 2023.

Due to the improved EBITDA in the first quarter 2024 compared to the prior-year quarter, the last 12 months EBITDA increased and led to a sequential improvement of 0.1x in the leverage ratios on industrial net operating debt and industrial net debt, which stood at 1.4x and 1.8x, respectively.

We remain committed to improving leverage metrics further, to defend our 2 investment grade ratings, as we believe they are supportive to our business model.

Slide 13 lays out our unchanged guidance. The solid first quarter allows us to fully confirm our guidance for 2024.

I'd like to preempt a few questions.

We have kept our full-year guidance for ITS unchanged, despite a very strong first quarter. As we have explained earlier, quarter 1 revenue and adjusted EBIT benefited from a very good mix, with a relatively high share of counterbalance trucks as well as high contribution from Germany, which drove margins beyond 11%.

Given our recent order intake pattern, it would not be advisable to extrapolate that favorable mix for the remainder of the year. In addition, certain cost increases, especially with regards to labor, will start being effective only in the course of the year.

This is why we believe our ITS guidance for the full-year 2024 continues to be valid, and we continue to expect an adjusted EBIT margin of more than 10%.

The strong first quarter ‘24 in ITS also means that our expectation for the phasing has changed slightly. We now expect the first half to be slightly stronger than the second half.

You may also wonder why we kept the bottom end of the adjusted EBIT guidance range for SCS unchanged after already achieving €18 million in the first quarter. While we continue to expect sequential improvements, the timing of completing certain legacy projects could have an impact on individual quarters.

As always, you will find the slide on the housekeeping items in the appendix of this presentation. These are all unchanged.

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

Rob Smith

Thank you, Christian. On page 14, you'll see our key takeaways.

KION delivered a solid first quarter in 2024, with continued improvements in adjusted EBIT and adjusted EBIT margins. And the slow start in order intake in both segments was in line with our expectations for the quarter.

Strength in automation, mobile automation plays an important role in intralogistics solutions today. And with our multibrand presence at LogiMAT as well as the most recent milestone or innovation implementation with our KAnIS project, KION is demonstrating strong competencies in mobile automation.

And the solid start to the year, with our second best quarterly adjusted EBIT on the KION Group level, this lays a solid foundation to deliver our full-year guidance across all the KPIs.

This concludes our presentation. Thank you for your interest so far. Francy, let's turn over to questions and answers now, please.

Operator

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

Sven Weier

Good afternoon, and thanks for taking my 2 questions. The first one is on the order pipeline in warehouse automation. And I know that the pipeline is generally good. Everybody's talking about good pipeline, but conversion still seems to be slow. And I know, Rob, you said in the past, we think, in the second half, as rates go down, conversion could accelerate.

I just wonder what the recent change in the interest rate outlook of maybe not so many cuts in the Fed expectations, what that means, anything to your conversion assumptions, or you still see a stronger conversion in the latter part of the year? That's the first one.

Rob Smith

Hi, Sven, appreciate your questions, and good to hear from you. The pipeline, as you correctly described, the pipeline in our Supply Chain Solutions business does remain robust, does remain strong. We've got quite a few good conversations going with the customers on these projects. It remains lumpy, however.

So our expectation remains in place. After 2 years of coming back down from very, very strong growth in the COVID times, our expectation is that the Supply Chain Solutions market is picking up during the course of this year, but it was a slow start or a soft start in Q1. And our expectation is that we're picking up the order entry over the course of this year as the market's picking up over the course of this year.

I think the sentiment is a moving sentiment, Sven. And as that sentiment continues to move and evolve, it still is underpinning our expectations for, as we were describing, the market for the year and our performance in the year.

Sven Weier

Do you really sense in the conversations, especially with your US clients, that the decisions are really so rate sensitive? Because I'd imagine, if rates don't come down as much in the US, there's a reason for that, and one of them is a very resilient economic activity, which I guess must be good for your clients.

So I really was wondering how important rates are in general for those decisions. Is it really so important?

Rob Smith	Sure, Sven. That's what I'm talking about, about expectations kind of continuing to morph over time. The interest rate is clearly an important element for the customers' decisions. I wouldn't tell you it's the most important element. I think that the resilience in the economy being demonstrated there is a good counterweight to the interest rates being higher for the moment or maybe for several moments longer. So it is one element, but it's not the most decisive. And as the confidence continues to grow in America, we expect that the order entry will be growing there too.
Sven Weier	Maybe one question then -- the second question is on the cancelation bit and maybe for Christian because we had this cancelation now in Q1. I think we had a few in the last 2 years. I was just curious about your comment, Christian, that they remain below 1%. I was just wondering what you're referring this 1% to because, if I measure the almost 100 against the order intake, it's a bigger figure. So what should we compare it against?
Christian Harm	So hi, Sven. Thanks for following up on this one. The reference I made to is actually on the number of projects. And they are a rare event. So on occasions, you had -- you're talking about a cancelation, I think, third quarter 2022 ? We had -- we talked about one last quarterly call? And now we have discussed it because it's a pretty rare event, and we are confident that it remains a rare event, but we are in the project business, and I think, in the project business, it happens from time to time that projects also get canceled.
Sven Weier	Understood. Thanks for the clarification. Thank you, both.

Gael de Bray

Well, thanks very much. Good afternoon, everybody. I'm actually trying to understand the various mix effects for ITS that you expect later in the year. You said that the recent order pattern, likely I guess related to the fact that you have now more warehouse trucks versus counterbalance trucks and more trucks coming from China versus Europe, so you said it can create negative mix effects perhaps from Q4 onward. But at the same time, I would also expect a gradual return to a better mix in terms of service versus new equipment.

So I guess my question is, what's the most important mix driver for margins? Basically, where's the greatest margin differential? Is it service versus new build, or is it warehouse versus counterbalance trucks, or is it China versus Europe?

Christian Harm

So hi, Gael. So as you're laying out the different levers for the mix differentiation, service and then the service share as such, is the biggest lever, but the product mix is the second one, I would say, in this. If I would do a ranking, like you are suggesting in terms of ranking the levers, the product mix is the second lever there, as obviously, the more complex project, the counterbalance trucks typically more complex than warehouse trucks, they actually come with a higher absolute margin. And that's the other driver.

The third one then is basically the geographical mix. And I think that's the difference in the development that we have seen or that we are seeing, the development of the market, where -- and we have said also for the full year that we expect actually the development in the orders and the orders to come in APAC to be better and higher than for Europe. For both of them, we expect a positive development, but we have seen this difference in dynamics already in the first quarter, and we expect that dynamic to actually be there for the rest of the year.

Gael de Bray

So if the share of service is the biggest lever, isn't it the case that the share of service should actually get a bit better going into the second half of the year? In Q1, the new business revenues grew almost 13%. The service business grew only 2%. And the share of service was down to 47%, which is I think one of the lowest share we've had in many, many years.

Sorry, I guess my question is, obviously, don't you expect this potential improvement in the share of service to fully counterbalance the negative mix effect that would come from what you saw in the order pattern in Q1?

Christian Harm

No, I would not expect that the order, the mix in the order intake, that you're referring to would not work against completely the service share increase pickup that we are having. I was talking about a relative ranking of the different levers. But that goes not to the extent that the order intake pattern and the difference in the margins would actually overlay the service element there. Hope that clarifies it a bit.

Gael de Bray

Okay. And maybe a quick one and a final one, what's the amount of factoring left that you have, and why did you take the decision to reduce it in the quarter?

Christian Harm

So actually, we have been using different vehicles and contract structures for factoring in the past. There was a reassessment on some of those contracts in the context of the closing of 2023. So they were -- some were actually deemed on balance. And obviously, we are not continuing to use factoring structures. So they're supposed to be on balance. And therefore, what we see in the first quarter is basically a reduction in this factoring element. And that's shown then under the financing element of our cash flow statement.

Gael de Bray — But is there any more to do?

Christian Harm — No, the point is we are working with our financing partners to actually rework the terms and conditions of the factoring to actually get them into an off-balance structure again and to have then the assessment that you would usually expect from a factoring structure to be off balance.

Gael de Bray — Okay. Okay. Thanks very much.

Akash Gupta — Yes, hi, good afternoon, and thanks for your time. My first one is on ITS unit order growth rates. So for overall first quarter, unit order growth was flat, but I'm wondering if you can talk about the monthly rate. Particularly, what was it in March, so we can see whether the exit rates were better than flat or worse than flat?

And secondly, has there been any change in your expectation for ITS market development, both in terms of units or mix point of view, that we should be aware of?

Rob Smith — Akash, we don't comment month by month by month, but let me give you a bigger-picture view on the ITS market. Remember back -- it was very, very strong and all-time highs in the COVID time. And then after last 2 years of some normalization and coming back towards the long-term average growth rates, our expectation -- over the last 2 years. Our expectation this year is that the ITS market returns into slight growth mode.

The first quarter was a bit soft, but I think that's clearly understandable. We had a very, very strong end of the fourth quarter, and the whole market had a very strong fourth quarter. So having had a real good fourth, you can see people taking a bit of a breather in the first quarter. And our expectation is that the market is showing some slight growth this year, clearly in APAC, also in EMEA. And it's our expectation that the market is not yet growing during the course of this year in North America.

I hope that's helpful. And please understand we just don't do month to month to month.

Akash Gupta — Yes, no, thank you, very helpful. And my follow-up question is on ITS pricing. So you raised prices slightly early in the year. And I'm wondering if you can comment about industry-wide pricing that you are seeing and whether there is a risk that pricing may not become sustainable if there is any change in the demand, particularly in Europe.

Christian Harm — So you're right. At the turn of the year, we had done the first price increase since 5 quarters on the ITS side, a small single-digit price increase that we have put forward, which we also put into the market. We still feel confident that we have the pricing level that actually supports the market and supports our view also for the expectation of the quarters to come and supporting our guidance there.

Rob Smith — Akash, as we've been talking over the quarters, clearly the pricing approach that we're taking is the commercial agility approach we've been discussing.

Our teams are actively very, very conscious of cost levels and market levels and competitive levels in the market, and we take a decision monthly based on all those different pieces of input on making any price adjustments. So that's the approach we take. We've embedded that into our business processes. We're continuing to do so, and we'll adjust as appropriate going forward.

Akash Gupta

But maybe just a clarification on that, so you are still seeing industry being disciplined in pricing, not just you, but also your competitors.

Christian Harm

Akash, you have heard me saying in the past, that our competition is actually acting reasonably on the pricing, and I think we continue to see that in the market.

Akash Gupta

Thank you.

Martin Wilkie

Yes, thank you. Good afternoon. It's Martin from Citi. My question was just coming back to Supply Chain Solutions and the order outlook there. Obviously, in parallel with the cycle you're seeing in order intake, there's also been a change in many ways from customers looking for AI-embedded solutions and more software and more intelligence, these kind of things.

Do you also see that that is changing what customers are looking from KION in terms of the mix of product versus software that you offer? And perhaps you could talk a little bit about how the software part of your business has been growing as well, even if we've seen the order intake being a little bit softer than it has been over the past couple of years?

Rob Smith

Sure, Martin. Good question. Let's confirm first of all that the artificial intelligence that we're understanding and seeing altogether in the market, it's a growing and important part of our business too. It's certainly a part of our product approach. It's a part of our software approach too.

The software business, as you know, we made a very important acquisition several years back of a software partner who's now an important part of our business. Software is at all levels. The entire stack first of all is integral to our business offerings and our solution offerings. And we have very good competencies in each part of the stack.

The trend over time in the software space is over time moving more and more software to the Cloud and breaking it up into more and more executable pieces that make a very good stack in terms of being able to replicate and drive installations faster over time with repeatable modular bases of software that are driving the different modular bases of systems and subsystems and integrating well into the overall warehouse execution and warehouse management system capability.

So that's a very important part of our competence. That's an important part of our solutioning. And yes, indeed, artificial intelligence and capabilities with that and insights that that's giving us is a part of our offerings.

Martin Wilkie

And do you think that some of the softness in the overall supply chain market, not just for you but across the industry, is also because customers are working out how to implement this? So are we seeing 2 effects? One is the hangover effect from lots of investment during the pandemic but secondly also customers wondering how to implement this new way of running supply chains, or is it simply seen it's the beginning of a new story, beginning of a new investment phase, and therefore is additive to what was invested in before?

Rob Smith

Yes, I would look at that in this way, Martin. Maybe 10% of the world's warehouses have significant levels of automation in them. And so there is a huge amount of runway and growth in front of us in this industry. Our long-term expectations in the Supply Chain Solutions market is easy 9% compound annual growth. And the whole world's customer base, they're all working against the same trends and all working against the same drivers of their industries.

People are expecting throughout the industrial verticals transparency and very, very clear and fast delivery performance throughout the entire supply chain with full transparency. People are not able to find manual labor in their warehousing operations and their logistical operations and factories. They need the automation capabilities. And customers are all working through their thinking on how to deal with those trends and how to solution their supply chains over time.

So it's not new that customers are trying to figure this out. And there's a lot of runway to go. Part of our solutioning is helping customers work through those. And that's why we talk about it takes 12 months, 24 months, even longer sometimes working with our customers to help them design their solutions and help them maximize the capabilities of the solutions we're putting in place for their business environment prior to the start point of a project.

	And so that assisting customers through their thinking and their solution design is an important part of our business. And it's as the world gets more and more technical and a little more complicated over time, that capability that we have will be a very important continued driver of closeness with customers and helping them make their choices and decisions and shape their supply chain trajectory.
Martin Wilkie	Great. Thank you very much.
Sebastian Growe	Hi, good afternoon, everybody. Hi, Rob. Hi, Christian. Two questions then from me, the first one around SCS and after touching on the US outlook, I would be interested in your assessment of the pipeline in EMEA and APAC as a guidance that requires some in-for-out business from what I do recall. So would it be fair to assume that quarter 2 should already see a clear pickup after the quarter 1 laggish start? And the second question around it is if you could also eventually help us with the postponed orders, if some of those have already been then recorded in the earlier part of the second quarter. And if I may quickly also ask one follow-up question around the ITS discussion for the margin guidance that you have provided, so I understand that the less favorable mix comment that you made, that they would be adjusted EBITA margin related. And I would then also assume that's clearly a lower gross profit margin. But if you could also help us understand how the factory load, etc., is affected by just growing the volume, that would be also quite important for us. Thank you.

Rob Smith

Hey, Sebastian, good to hear from you. So let's do the easy one, right? Some of the orders that have been postponed have already been signed. Some of that was the Easter holiday impact timing. So yes, indeed, and I think that'll help us with a good Q2 start in order intake as we go through the quarter and the year driving the order intake.

We don't usually break out pipelines on a regional basis, but the trends that we're discussing about having a good pipeline in each of those regions remains clear and remains strong. And the customer interactions are quite good and active on those. Choosing when that's going to turn into a start project is why we talk about -- when the project's going to start is why we discuss that being a lumpy business.

I'll tell you another -- as long as we're talking about that pipeline, I think another positive development we're seeing is looks like the e-commerce customers have grown into or are clearly growing into the capacity we helped them put in place over COVID. And they're returning to the tables, and the project discussions for capacity increases are clearly active.

So when those convert and start projects, it's lumpy. It's good in each of the regions. And I think that that's probably the best overview I'd give you before we would drill into regions, which we haven't done before.

You want to talk to the ITS margin here?

Christian Harm

Yes, please. So Sebastian, then maybe I take your question on the ITS margin guidance. I was talking about the order book on the ITS side. And the order book actually is reflecting 6 months of new business revenue as we speak.

So when we look at the order intake pattern and that impact that's fully baked into our view of confirming the guidance to solidly stay double digit for the ITS segment as we speak. And that's just supported by the order intake pattern that we have seen and our expectation for the market going forward.

Sebastian Growe — And if I may quickly follow up on this one, when you talk about market expectations, I've also realized that you are calling the Americas market out for a significant decline in the first quarter. So historically at least, the US has been always called out as a lead indicator for the overall trucks market.

So the question that I'm then having obviously is if you could comment on what your confidence in an order pickup in IT&S and the remainder of the year is based on and how you read simply this current significant decline in the Americas.

Christian Harm — Yes, Sebastian, as you're tracking us for quite a while, I think the way you remember is probably also how historically you would actually look at that.

I think that the situation that we are looking at -- and not just we, actually the industry is looking at right now in North America -- is a bit more peculiar. We basically have a situation there of quite a bit of a stocking effect in the distribution channel with the indirect channel that is predominant in North America.

And that makes that part of the world market actually be a separate story in its own. And that's detached from developments and overall macro developments or whatever that we see for EMEA and for APAC that is driving the market there.

So historically, I would be with you. But at this point in time, I see those developments and/or those correlations actually do not hold.

Sebastian Growe — All right. That's encouraging. Thanks.

Elliott Robinson — Hi, Elliott from Bank of America here. A quick question on the IT&S orders, please. Could you just give us a bit more color on that negative mix impact that we saw in Q1? Obviously, it was flat volumes, but I was just wondering if you could break out effectively how much of that negative mix impact came from the APAC growth versus the actual product mix in warehouse trucks. Thank you.

Christian Harm — Sorry, we would not break out the different elements of the mix effect in the first quarter.

Elliott Robinson — Okay. No worries. Thank you very much anyway.

Lucas Ferhani — Thank you. Can I just come back on the cancelation? Was there any kind of reason provided, and also, can you comment a little bit on the size of the client and the vertical if you can as well? And also, does that lead to any kind of fee, any fee for KION or any cost for KION following this cancelation? Thank you.

Rob Smith — Sure, that's a good question, Lucas. I'm happy to give a little bit more color on that. As Christian said, it's very rare and will continue to be rare. They do happen, and when they happen, there are some good specific understandable reasons.

Let's talk about a project. It was a wholesale vertical that you're asking about. That customer is a long-term and good customer. We've got other active projects with them. We've got other active discussions on projects in the pipeline.

Basically, they had done quite a few multiple recent acquisitions. And as they're now sorting out the footprint and the capacities they need, having taken onboard the new acquisitions, those were after the previous projects had been started or teed up.

And so when they canceled it, since it had not yet been started but was a project we were going to do and then got stopped when they made their footprint reallocations, it's an understandable cancelation. No, it did not have any financial impact for us, other than it reduced the order book.

The other customer, for example, also a longstanding customer, also a wholesale vertical, they're just simply adjusting their capacity to current needs and have multiple projects in multiple sites. And by stopping this project, it's helping them make the adjustments they need to the capacities they have. It's a specific situation, and other projects with the customers are still in good conversation.

Lucas Ferhani

Thanks a lot for the detail. And on your expectation for Supply Chain Solutions, 9% CAGR, obviously, it's quite high. I think, since the COVID highs, we're generally struggling to get back to growth here.

So if I take this on the other side, if we come back in 2027 medium term and you haven't grown at 9% CAGR from here in this division, what do you think would have happened to the market? Does that mean the penetration doesn't go up? Does that mean it's too expensive in terms of Capex with high interest rates? What do you think could happen so that you don't actually deliver this 9% CAGR at market level for SCS?

Rob Smith

No, Lucas, that's not my expectations. My expectation is that the market is very clearly underpinned by the trends I've talked about, the very need for speed, need for transparency, lack of manual labor, need for automation that really drives the capabilities that customers need to be successful in the market.

So my expectation is the 9% over time, and my expectation, if you're following this now for several years, it was a very, very strong growth during COVID, primarily in the e-commerce space that drove a very strong growth rate.

There has been a normalization over the past 2 years. And our expectation is it's getting back into growth mode over the course of this year, and over the longer term, the growth rates that we're projecting, we feel very comfortable about, is underpinned by those trends and underpinned by good market understanding and analysis.

Lucas Ferhani

Thank you. And maybe just a follow up on that, do you see then the possibility or risk -- because you talked about potentially demand coming back end of 2023, early 2024, and it seems to be a bit further pushed back. So do you see a risk that actually it's not necessarily an H2 pickup, but it's more of a 2025 pickup?

Rob Smith

No, as we've been describing, we've reconfirmed our full-year guidance for the year and our expectations as we've communicated them. I think a slow start in Q1 is a slow start in Q1. And we expect that the market over the course of this year goes back into growth mode on a revenue basis.

Lucas Ferhani — Perfect. Thanks a lot.

Philippe Lorrain — Good afternoon, everybody. A quick question to come back to the point you made on the factoring, so in your Annual Report, you were stating a factoring volume of about €112 million. And from my memory, factoring volumes were never huge, so maybe it's 1% of sales, or it’s definitely less than 10% of total receivables.

So by how much have you reduced the volume in Q1, and is it a structural change that you have here? Because I did not really pick up that from your comments. Thanks.

Christian Harm — Yes, Philippe, if you look in the Annual Report, we're actually talking about €65.9 million for the assessment of the factoring lines, and about half of that was the effect that I was talking to in the first quarter, so €35 million.

Philippe Lorrain — And is it structural, so i.e., will you keep that that way, or are you going to reverse it again?

Christian Harm — The point is, obviously, we will not continue to do on-balance-sheet factoring. I think that goes without saying. So we are working with our financing partners to actually look at the underlying contractual arrangement to fit them into an off-balance-sheet arrangement, as you would expect from a factoring arrangement actually.

Philippe Lorrain — Thank you.

Alexander Hauenstein Yes, hello. Thanks for taking my questions. Can you hear me?

Christian Harm Yes, we can.

Alexander Hauenstein Perfect. Thank you. I've got a question with regard to Dematic's AutoStore distribution partnership with regard to the AutoStore systems. And I'm wondering if you could comment about how happy you are with this kind of cooperation. Is this kind of material in terms of the systems you're selling here? Can you comment on that? So this would be the first question.

And the second would be -- I understand there's a mini-load project going on. Is it right that you plan still to come to the market by 2024 here, and could you give us some color here maybe upfront? Is that something which also might have a game-changing effect here for your activities within the segment? Thank you.

Rob Smith Alexander, we're very happy with the good collaboration and work we're doing with AutoStore. We're one of the very important integrator routes to market for them. They go to market through players like us, and we're a very important part of that channel for them.

It's a good -- I correct you. It's not a system. It's actually a subsystem in our overall solution for, for example, a microfulfillment center. It incorporates an AutoStore subsystem and puts other modules and systems around that for an overall microfulfillment center solution.

But it's good collaboration. It's very good for giving our customers our USPs on a microfulfillment center. It's good business for us, and it's good business for AutoStore. So it's clearly a sustainable and good business model.

And it's a unique solution that we're providing customers, and it's an important way of addressing, for example, tight downtown footprints and you getting the most out of downtown properties that have walk-in customers out front and small storage rooms in the back, enables some good e-commerce, and it enables good fulfillment for customers and SKU availability, our overall solution does. And AutoStore subsystem is a good part of that.

Alexander Hauenstein — Okay. Thank you. And some comments on the mini-load projects?

Rob Smith — We don't comment particular new product introductions, Alexander. I'm not quite sure which one you're talking about, and we've talked about several on our Website and have some exciting developments underway, but don't particularly have a -- maybe help me with your question better, or we could take it offline, and we could work with our IR team. Why don't you do that? And then we can drill down on the specifics of your question.

Alexander Hauenstein — All right. I can do that. Thank you.

Rob Smith — Sure. Thank you.

Operator — Ladies and gentlemen, that was our last question. And I would now like to hand back to Rob Smith for closing comments.

Rob Smith

Thanks very much, Francy, and thank you, all, for joining our call and for your good strong interest and good questions today. It was a good solid start in the first quarter, and it underpins our commitment and our conviction on our full-year guidance.

So we're looking forward to discussing that further with you in person at different conferences and times going forward and when we're out and about in the next couple weeks and months. So until then, take good care, and thank you very much. Bye, bye.