

# KION GROUP AG

## Q3 2024 Pre-Close Call

### Conference Call Transcript

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Sebastian Ubert

Okay, I think we are complete. Thanks a lot for joining our Q3 2024 pre-close call from the KION Group. As in Q2, we have opened today's pre-close call to both the sell side and to the buy side. And to increase the compliance with the regulatory best practice recommendations we have from the ESMA, we will let you know that this pre-close call will be recorded and I will start the recording now. From this record we will also post a transcript later on our website as soon as possible. Please note that all the commentaries on the third quarter of 2024 are tentative, as the quarter is still ongoing and we don't yet have the full picture. This is particularly true for the third quarter, where July and August are impacted by the summer break and September can be a decisive month.

Let me start as usual with our IT&S business. I will start with the global industrial truck market, first with the recap, and then we come to the latest trends.

The global industrial truck market was stable in the first quarter, with some growth in the EMEA region and in APAC, but a strong decline in the Americas.

Market activity in the first 2 months of the second quarter -- we have so far data for May and April - they have followed these trends of Q1.

Like in Q1, growth was mainly driven by the EMEA and the APAC region and particularly by smaller warehouse equipment.

We confirm our view that we have given in the update with our H1 reporting. We expect the global industrial truck market to

remain around last year's level of roughly 2.1 million units, versus the slight growth that we were expecting before.

EMEA is now expected to stay around last year's level versus a slight growth as expected before. And we confirm the view that growth in APAC should remain the growth engine of the market, and we expect even a more pronounced decline in the Americas.

I'll give you the recap of the order intake in Q2 at KION Group before I come over to the recent trends. In Q2 '24, new orders were up sequentially, both in units - close to 64K units - and in money terms, reaching €1.966 billion.

On a year-on-year comparison, unit order intake was slightly up, while new orders in money terms were slightly down, mainly reflecting the higher share of APAC and smaller warehouse equipment in the order intake mix, like in the previous quarters.

Coming now to the trends that we have seen during Q3 of '24, it's a seasonally weaker summer months as well as the weak macro data that, together with the mix shifts we see skewed towards APAC and small warehouse equipment, so just the sequential decline in units and in money terms that could be somewhat below the prior-year Q3 level in both units and in money terms.

Coming to revenue, adjusted EBIT, and the margins, first, a recap of Q2 2024, when revenue stood at €2.15 billion and, with that, around the solid level of Q1 '24, but as expected, you saw that the adjusted EBIT margin in the second quarter with 10.7% has come down slightly from the level seen in Q1, when it was 11.1%, already starting to reflect the higher share of APAC and warehouse equipment compared to the first quarter.

Given the recent order intake patterns, we expect that this trend is likely to remain in the remainder of the year for revenue and for adjusted EBIT in the second half of this year.

We have confirmed the outlook and narrowed the guidance bandwidth post our Q2 results. And given the recent order intake patterns, we adjusted the upper end of our fiscal '24 revenue outlook for ITS to €8.7 billion from previously €9 billion and currently see a range between €8.5 billion to €8.7 billion.

Based on the solid H1 '24 adjusted EBIT margin of 10.9% and the recent order intake development, we have tightened our outlook for the adjusted EBIT to €870 million at the lower end and €930 million at the upper end coming from a range of €850 million to €950 million before.

For Q3, we see the recent trends in our IT&S business. We assume that revenue will reflect the usual seasonality, given that 2 out of 3 months, meaning July and August, in Q3 are impacted by the summer break, and with that, revenue could be comparable to the level seen in Q3 2023.

As expected, we assume the adjusted EBIT margin to soften somewhat sequentially, reflecting the order intake pattern since the beginning of the year, which was skewed towards APAC and smaller warehouse equipment.

The indication for the remainder of fiscal year '24 is, given the order intake patterns of the past quarters, we assume the adjusted EBIT margin is unlikely to improve sequentially in the fourth quarter compared to Q3.

Coming now to Supply Chain Solutions, I will start with the recap and recent trends. On the warehouse automation market, we indicated that, despite structural demand drivers, mainly labor scarcity, cost and acceleration in speed of fulfillment, and the initial Fed rate cuts in September, we still see customers continue to be hesitant to sign orders straight away, which is also driven by the continued macroeconomic uncertainty, the upcoming US election, and the expectations of further interest rate cuts ahead.

Coming to the order intake at the KION Group SCS, recap of Q2, you saw that the order intake at €677 million in Q2 remained soft and also included roughly €70 million of orders that spilled over from the first quarter.

Given that the order intake remains lumpy and due to the typical seasonality, 2 out of 3 months in Q3 are impacted by the summer break, and the continued uncertainty, we assume that Q3 order intake is unlikely to recover much from the underlying level of Q2, meaning excluding those spillovers.

Coming to revenue and EBIT, we saw in the second quarter of 2024 that revenue was marginally up quarter-on-quarter and year-on-year but remained on a subdued level overall, reflecting last year's order intake.

We continue to make good progress in working through the legacy projects during the second quarter, resulting in a further improved adjusted EBIT that stood at €23 million and a margin of 3.2%.

We also confirmed the outlook and even narrowed the guidance bandwidth post Q2 and based on the solid performance in the first half, we have narrowed the outlook ranges for '24 in SCS as well, lifting the lower end of the revenue outlook by €100 million to now €2.8 billion. And also, we increase the lower end of the adjusted EBIT outlook by €20 million to €80 million. And this also confirms our view of H2 being better than H1.

Coming now to the recent trends of the third quarter, we assume that revenue has likely stabilized around the levels seen in the first quarter of the year. And given the continued progress in completing our legacy projects and initial contributions from the measures to adjust our cost base should translate into a small sequential improvement in the adjusted EBIT as well as in the margin.

For the remainder of 2024, we can give the indication that it's in line with our full-year outlook, and we expect to finish more or less all of the legacy projects except for a handful of projects to remain with us in 2025 and 1 into '26. This should support further improvements in the adjusted EBIT line in the next quarters. And keep in mind in addition the cost optimization measures we initiated at the end of 2023 should also start to benefit the bottom line from the second half of this year.

Coming now to the group level, on order intake and revenue, we can say it's more or less the sum of the segments. When we think about the adjusted EBIT line, the corporate services and the consolidation line, this is trending slightly less negative than what we have seen in the first 2 quarters of 2024. On the purchase price allocation, PPA, this is again following the usual quarterly pattern, which means it's excluding the spike that you have seen

in the last quarter, which was due to the goodwill write-off of KION ITS in Americas.

Please note that we have updated our guidance range with the Q2 results. We now assume PPA items to range between minus €110 million to minus €115 million for the entire year, which all brokers have not yet reflected in their latest estimates.

On the non-recurring items line, we would assume a small to mid-single-digit negative amount in the third quarter, which is in line with our full year view of minus €10 million to minus €20 million.

On the net financial expenses, we assume those to develop slightly more negative than in the second quarter of 2024 and consistent with the guidance range of minus €170 million to minus €190 million for the year.

On the tax line, you should assume that tax expenses are somewhat lower sequentially and in line with our guidance range of 30% to 35% for the year.

All these items together should lead to a net income that is substantially improving on a sequential basis but also on a year-on-year basis.

Coming to the free cash flow, with the earnings that we would generate and some initial improvements in the net working capital, you should assume that the free cash flow is more or less stable compared to the second quarter of 2024.

Those would be my initial remarks on Q3. And with that, I would open up the line for the Q&A session. Please raise your hand so

I can take them one by one. I see the first question coming in from Sven from UBS.

Sven Weier

Yes, hi, Sebastian. Thanks for doing the call. I got two questions, please. The first one is on the order intake comments you made on the truck business. If I understood you correctly, the guidance is somewhat lower than Q3 2023.

Question I have is, does it mean that Q4 order intake needs to go up to be flat in Europe? That's the first one.

Sebastian Ubert

Thanks, Sven, for the question. Yes, you understood correctly that it's the typical seasonality that we see. So Q3 has always been the weakest in our IT&S business, and we would assume that these shifts in the mix more towards APAC and towards the smaller warehouse equipment will cause a level that is somewhat below last year's level.

We do not give guidance on order intake, so therefore, I cannot give you any comment on the fourth quarter yet, but we will likely give an update about the current trading once we have, let's say, Q3 figures and we get a deeper insight in how the fourth quarter is going to develop.

Sven Weier

Because your guidance for Europe is flat, right, for the market, for the year, right?

Sebastian Ubert

Yes, that's true for the market, but also, when you recall, the market was growing in the first quarter, the market was continuing to grow in the first 2 months of the second quarter. In those 2 quarters, we would not exactly be at the same pace as the market. The reason for that is that some of the market growth



came especially from the region of Eastern Europe and here Russia in particular, where we have stopped doing business some 2 years ago. So we did not follow that same path of the market so far.

Sven Weier

The second question I had was on SCS in terms of the impact of rate cuts. Now with the start of the Fed, it's probably too early to say whether that means anything in terms of clients feeling more inclined to move ahead. Do we need a few more of those cuts, do you reckon?

Sebastian Ubert

Well, the Fed and the ECB both have started to cut rates, but I think also the expectation in the market is for further rate cuts ahead of us. And I would not assume that these initial cuts will straightaway open the CapEx buckets. I think the underlying trends and the need for automation is unbroken for our customers but also given that, in the States, we have the US election coming up in November. We have still uncertainty about the macro picture. I think those are still elements that hold back the customers to sign the orders, they keep on being hesitant.

Nonetheless our pipeline is well filled, and as I think also many others in our industry currently see, it takes a bit longer to convert the pipeline into a firm order.

Sven Weier

Okay. Thank you.

Sebastian Ubert

Then I have Martin Wilkie having raised his hand. Martin?

Martin Wilkie

Yes, thank you. Yes, just one question. You mentioned that the adjusted margin is unlikely to improve in Q4. You touched on it slightly here, but just to clarify, the seasonality of the margins has

been kind of volatile over the past few years. Is that comment about unlikely to improve in Q4, is that an underlying comment as opposed to just sort of a seasonal comment, just to understand kind of what you're talking about in terms of backlog conversion of margins into Q4?

Sebastian Ubert

Well, I think you have our guidance range that gives you a certain implied second half of the year. I indicated that already earlier this year the mix shift we saw in the order intake during the first half, meaning more towards APAC, more towards smaller warehouse equipment, will take its toll in the second half and that the margin is unlikely to stay at the very high levels that we have seen during the first half. And with that, we would assume that this should hold true for both Q4 and for the third quarter.

Martin Wilkie

Thanks. And if I could have a follow-up, obviously, you give us the backlog data, and so we can sort of track the over times, and obviously, the backlog in the truck business is still elevated relative to history.

When we look at the revenue that you deliver, is that sort of a genuine demand level, or are the trucks that have been delivered now that were sort of held up because of either bottlenecks or components or other reasons -- so just understand how we should think about that backlog normalization and how that's impacting what you print in the second half of the year.

Sebastian Ubert

I think what you have seen is that the order book has come down and with that also our lead times. In 2022, we had a peak that was anywhere between 12 to 15 months. In the meantime, we talked about that we have a reach of the order book at the end of the second quarter which was around half a year and that we are

working on bringing that further down into a range that is anything between 4 to 6 months.

We are not yet there, but we are getting closer to that. And with that, you could assume that the demand that we see is currently, let's say, more of a normalized level than what we had in the past 2 years.

Martin Wilkie

Great. Thank you.

Sebastian Ubert

You're welcome. See the next raised hand, Gael de-Bray from Deutsche Bank.

Gael de-Bray

Thanks, Sebastian. Just I'm sorry, but I think I missed what you said about the ITS margin for Q3. What was the exact wording, please, for Q3?

Sebastian Ubert

Well, what we have indicated for the third quarter is that we assume that the margin is likely to fall below the strong level that we have seen in the first half of the year. And remember, we had 11.1% in Q1. We had 10.7% in the second quarter, and we would assume that, given on the revenue recognition that is reflecting also the usual seasonality, we had 2 out of 3 months impacted by the summer break. Also, we had our factories closed for some weeks during summer.

This would, first of all, impact the revenue. And with that, we assume that the adjusted EBIT margin is also to soften somewhat sequentially, which is then also reflecting the order intake pattern since the beginning of the year. And remember, here, we have seen the trend of orders being skewed towards APAC and smaller warehouse equipment.

Gael de-Bray                      On this point, do you expect a relatively similar sequential deterioration between Q3 and Q2 compared to what we saw in Q2 versus Q1?

Sebastian Ubert                      Well, I think that needs to be seen. But you know what has happened last year that the Q3 margin was somewhat softer than the first half, and this would be something which is normal in that quarter. I cannot give you the details now, as the quarter is still running, but it should be a sequential decline compared to what we have seen in the second quarter.

Gael de-Bray                      Okay. But still in the – well, still above the 10% level you had talked about previously for H2, right?

Sebastian Ubert                      Nothing to say against that.

Gael de-Bray                      Okay. And then the second question I have is on the order dynamics. So is there a price increase considered for early 2025? And if that's the case, will you -- well, when will you start talking to clients about this?

Sebastian Ubert                      Well, Gael, you know that, in the past, we had this fixed pricing mechanism. Once a year with a low single-digit increase, but since '22, we have changed over to this agile approach that we are actively monitoring the cost base on a monthly basis that allows us in theory to adjust pricing on a monthly basis.

But so far, we did only 1 price increase that was effective in January of this year, which was in the very low single digits. And if we feel there's a necessity to talk to customers to change

pricing, we will let them know up front a little bit, but so far, we have not done any further pricing action.

Gael de-Bray

You don't really have any specific visibility in terms of benefiting from preordering activity in Q4 at this stage?

Martin Wilkie

No.

Gael de-Bray

Okay. Thanks.

Sebastian Ubert

Then I see Lucas Ferhani has raised his hand.

Lucas Ferhani

Yes, thanks for the remarks. I had one on SCS. I think, for a lot of the calls we had, interest rates were given as the reason why maybe we didn't see the order recovery in that part, and now we're starting to see it. Feels like maybe the commentary there is not necessarily positive or more positive or seeing some type of inflection point.

Do you think the game is interest rates can go lower, and so it's going to take more time, or maybe is there something like on the client side where maybe the demand on their business is not there, and so they don't feel the need to automate, even if it makes sense long term?

Sebastian Ubert

Well, I think the underlying trends have not changed. And with that, there's also this underlying base need that our customers have to start the automation journey or to go ahead on their automation journey.

Nonetheless, we have now seen the Fed moving with a 50 bps rate cut following the ECB, which also has lowered 25 bps. But

maybe it's a little bit too early yet to tell whether this has been the impact that everyone was waiting for.

And also, remember that, in the States, we have an election year, so there's always a little bit of a, let's say, holding back before the election. And with that, I would not put too much hope on the next coming weeks or quarter ahead. Maybe this would be something more into next year.

Lucas Ferhani

Okay. Perfect. And just the second one on ITS industrial trucks, it's been a rather kind of different cycle to maybe what we're used to. I'm trying to see, to push you on that. If the market is flattish or if your units are roughly flattish and you do around 40 units for the year, do you think we sequentially improve from here? Kind of what you see from customers from demand maybe pushing a little bit over the long term, or do you think it's kind of volatile and flattish?

I think, where do you see that number within the cycle, where you reached the peak that was very, very high, but obviously, you were quite a bit lower pre-COVID?

Sebastian Ubert

Yes, the market has seen its spike in 2021 when the market was up almost 40%, and since then, it has corrected since 2 years where we have seen declines, reaching last year roughly 2.1 million units, which we would assume to see a stabilization during 2024 with some growth in EMEA and APAC and further strong deterioration in the Americas.

We would assume that overall EMEA should somewhat revert in the second half and, with that, become also a stable market more or less at the end of this year.

And when I look into our order intake in unit terms, we have seen a pretty stable development in the first half. And assuming some normal seasonality, maybe a little bit related to the current weak macro data, I would say that also this kind of stabilization just below last year's level is a good starting point for Q3.

Lucas Ferhani

Thank you.

Sebastian Ubert

Then I have a follow up question from Sven from UBS.

Sven Weier

Yes, thanks, Sebastian, for taking the follow-up. It's just on Chinese competition. I was just wondering because I remember, during the pandemic, there was more intense competition. I think you also back then lost a little bit of market share. Was just wondering, with the slowness in the Chinese domestic markets, do you see the Chinese competitors becoming more aggressive again also over in Europe, or is there no change at this point?

Sebastian Ubert

Well, I think they started to make inroads into Europe in in those days, especially in the southern and eastern parts, and some markets like in Russia is today fully in the hands of the Chinese players. On the other hand, we still see them here and there, but exactly this is the reason why we have started to develop our value platform back in 2021, which we launched in APAC initially, and we saw the global rollout of those products during '23 and the first months of this year.

So this is how we think that we can keep the Chinese players at a certain distance. We see them in the statistics, but when we talk to our customers and our salespeople, they do not necessarily see them that much at our customer base.

Sven Weier

Understood. Thank you.

Sebastian Ubert

Welcome. Are there any other questions on the line?

Well, if not the case, then I would say thank you very much for dialing in, taking our messages into the third quarter results, and talk to all of you at the end of October, when we will release our results, as always, at 7:00 a.m. in the morning. Thank you and goodbye.