



# Leasing Business Deep Dive

## Update FY 2023

Frankfurt/Main, March 2024



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# Agenda

- 1. Business Model and Strategy**
2. Funding
3. Risk Management
4. Lease Accounting & Reporting
5. Key takeaways

# Integrated Business Model within Industrial Trucks and Services

## Leasing is an important component growing the business

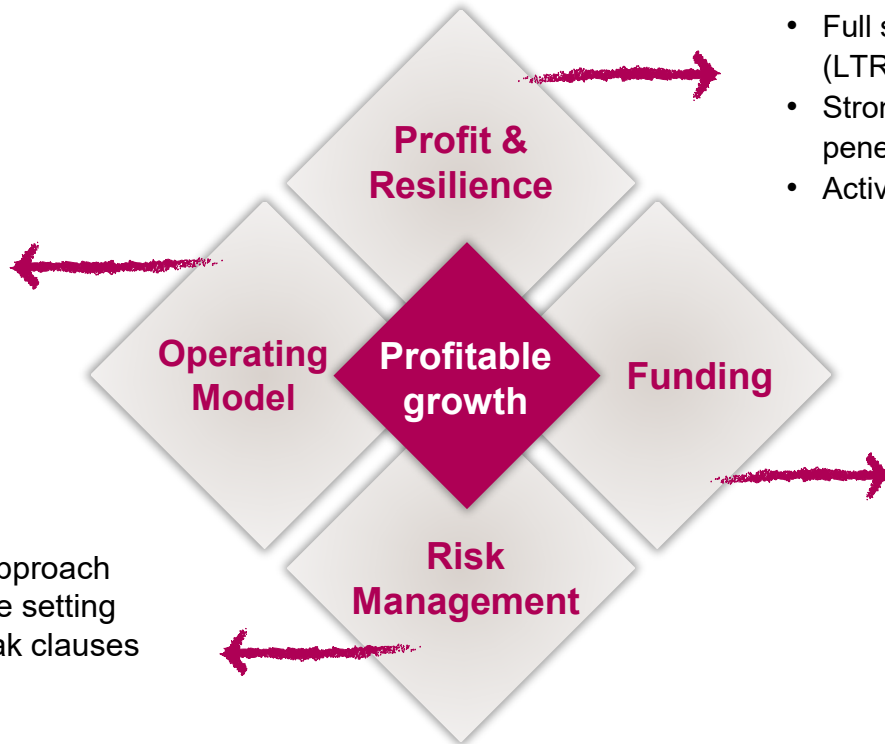


# Leasing and Rental Strategy

## Integrated approach to drive profitable growth

- Serve customers' needs
- Full integration into regional sales structures
- Central steering body for setting guard railing
- Separated captives in bigger markets

- Asset focused credit risk approach
- Conservative residual value setting
- Close management of break clauses



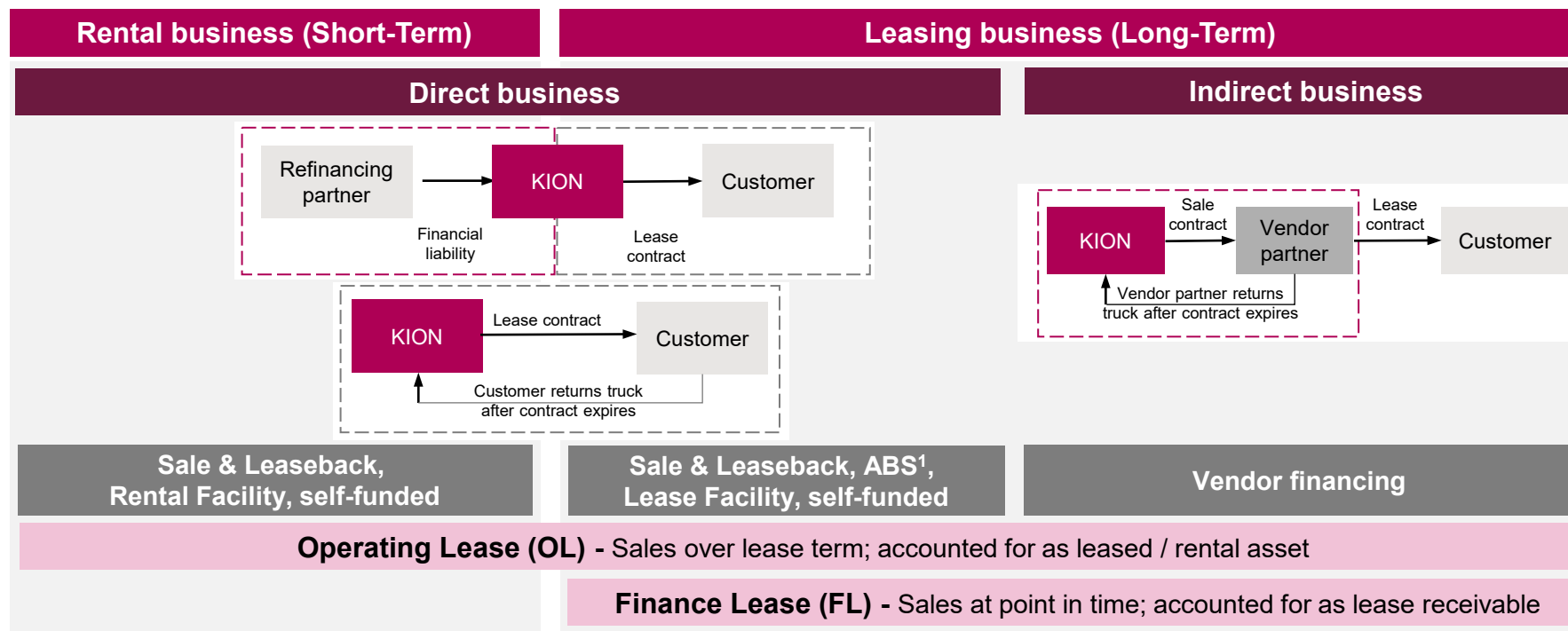
- Full support of life cycle management (LTR<sup>1</sup>, STR<sup>2</sup>, service, used trucks)
- Strong customer focus to optimized penetration and retention
- Active asset management

- Optimized structure to offer competitive funding
- Diversified funding-partner portfolio for stable access to market
- Matched funding (currency, interest rate, maturity)

1. Long-term rental 2. Short-term rental

# Lease Accounting – KION’s Leasing and Rental Business

## Contract and financing structure overview



1. Asset-backed securities

## Agenda

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# Funding Structure of Leasing & Short-Term Rental Business

## Increasing share of ABS / RCF optimizing funding condition

Instrument	Balance Sheet Position in €m <sup>1</sup>	Maturity Matched Funding	Interest Matched Funding
<b>ABS</b> (Asset-backed securities)		☑	☑
<b>SALB</b> (Sale-and-Leaseback)		☑	☑
<b>Indirect Leasing</b> (Vendor Financing)		☑	☑
<b>Lease/Rental Facility</b> (incl. Revolving Credit Facility)		☑	☑

1. Excluding deferred income





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## Risk Management Categories

All risk categories are actively managed and mitigated

### Residual Value Risk

- **Conservative residual value strategy** in place since FY 2001
- LTR<sup>1</sup> residual values allow for attractive profit margins in our used truck business
- KION has never recorded significant aggregated residual value losses

### Customer Default Risk

- Customer **default costs** are **below 20 basis points** per year
- Decrease of default costs in FY 2023
- Differentiated, asset-based risk approach leads to very low refusal rate
- Increasing use of automated scoring

### Break Clause Risk

- **Very low percentage rate** of contracts **carry a break clause risk**
- Utilization of break clauses has been rare
- No material impact on results
- Future customer utilization is expected to remain low

1. Long-term rental

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- 4. Lease Accounting & Reporting**
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## Lease Accounting – Balance Sheet

### Increase in (lease) liabilities resulting from growth of leasing business

#### Assets

in € million	Dec. 31, 2023	Dec. 31, 2022
Goodwill	3.558,0	3.619,4
Other intangible assets	2.106,9	2.162,1
<b>Leased assets</b>	<b>1.454,9</b>	<b>1.367,7</b>
<b>Rental assets</b>	<b>737,8</b>	<b>602,1</b>
Other property, plant and equipment	1.749,9	1.585,2
Equity-accounted investments	103,6	94,7
<b>Lease receivables</b>	<b>1.701,9</b>	<b>1.370,5</b>
Other financial assets	187,5	179,0
Other assets	121,3	131,1
Deferred taxes	443,2	300,8
<b>Non-current assets</b>	<b>12.165,1</b>	<b>11.412,6</b>
Inventories	1.817,1	1.804,6
<b>Lease receivables</b>	<b>612,5</b>	<b>519,8</b>
Contract assets	403,3	528,8
Trade receivables <sup>1</sup>	1.755,8	1.667,3
Income tax receivables	41,5	103,2
Other financial assets	65,5	80,3
Other assets	160,6	137,3
Cash and cash equivalents	311,8	318,1
Assets held for sale	55,2	27,4
<b>Current assets</b>	<b>5.223,3</b>	<b>5.186,7</b>
<b>Total assets</b>	<b>17.388,4</b>	<b>16.599,4</b>

#### Equity and liabilities

in € million	Dec. 31, 2023	Dec. 31, 2022
<b>Equity</b>	<b>6.772,7</b>	<b>6.607,8</b>
Retirement benefit obligation and similar obligations	775,7	712,8
Financial liabilities	1.285,6	1.361,8
<b>Liabilities from lease business</b>	<b>2.715,5</b>	<b>2.314,2</b>
<b>Liabilities from short-term rental business</b>	<b>509,9</b>	<b>354,1</b>
Other provisions	173,7	140,8
Other financial liabilities	556,0	478,3
<b>Other liabilities<sup>2</sup></b>	<b>177,7</b>	<b>185,9</b>
Deferred taxes	448,9	492,8
<b>Non-current liabilities</b>	<b>6.642,9</b>	<b>6.040,8</b>
Financial liabilities	236,8	626,7
<b>Liabilities from lease business</b>	<b>1.040,7</b>	<b>900,4</b>
<b>Liabilities from short-term rental business</b>	<b>206,7</b>	<b>190,1</b>
Contract liabilities	773,3	826,1
Trade payables	1.194,0	1.124,3
Income tax liabilities	89,3	42,4
Other provisions	278,6	229,4
Other financial liabilities <sup>1</sup>	328,5	286,4
<b>Other liabilities<sup>2</sup></b>	<b>779,8</b>	<b>697,8</b>
Liabilities directly associated with assets held for sale	45,2	27,2
<b>Current liabilities</b>	<b>4.972,8</b>	<b>4.950,8</b>
<b>Total equity and liabilities</b>	<b>17.388,4</b>	<b>16.599,4</b>

<sup>1</sup> Prior year figures adjusted

<sup>2</sup> Also contains non-lease related items

#### Overview

- Many of KION Group's balance sheet items are related to leasing business, especially:
  - **Leased assets**
  - **Rental assets**
  - **Lease receivables**
  - **Liabilities from lease business**
  - **Liabilities from short-term rental business**
- In general, the **development** on the asset and liability side of the balance sheet are **highly correlated**
- Therefore, an **increase in liabilities is resulting from an increase in leasing business** (i.e., lease related assets) and / or a higher dedicated refinancing portion of our leasing business
- Valuable information on KION Group's leasing business can be found in the Notes to the consolidated financial statements

# Lease Accounting – Balance Sheet

## Direct leasing business drives KION's balance sheet

### Leasing and rental balances as at Dec 31, 2023 (2022)

<p><b>Leased assets</b> €1,454.9m (€1,367.7m)</p>	<p><b>Liabilities from lease business</b> €3,756.2m (€3,214.6m)</p>	<b>Leasing business</b>
<p><b>Lease receivables</b> €2,314.4m (€1,890.3m)</p>	<p><b>Deferred revenues<sup>1</sup></b> €165.0m (€182.0m)</p>	
<p><b>Rental assets</b> €737.8m (€602.1m)</p>	<p><b>Liabilities from short-term rental business</b> €716.6m (€544.2m)</p>	<b>Rental business</b>
	<p><b>Deferred revenues<sup>1</sup></b> €3.5m (€7.1m)</p>	

1. Contained in "other liabilities"

### Direct vs. indirect leasing as at Dec 31, 2023 (2022)

<p><b>Leased assets</b> (Operating lease) €1,199.4m (€1,077.3m)</p>	<p><b>Liabilities from lease business</b> €3,620.5m (€3,048.4m)</p>	<b>Direct</b>
<p><b>Lease receivables</b> (Finance lease) €2,314.4m (€1,890.3m)</p>	<p><b>Deferred revenues<sup>1</sup></b> €0.6m (€4.1m)</p>	
<p><b>Leased assets</b> €255.5m (€290.4m)</p>	<p><b>Liabilities from lease business (residual value)</b> €135.7m (€166.3m)</p>	<b>Indirect</b>
	<p><b>Deferred revenues<sup>1</sup></b> €164.4m (€177.9m)</p>	

## Lease Accounting – Income Statement

### Leasing business contributes 14% to total KION Revenue

#### Condensed consolidated income statement

in € million	2023	2022
Revenue	11.433,7	11.135,6
Cost of sales	-8.652,5	-9.011,5
<b>Gross profit</b>	<b>2.781,2</b>	<b>2.124,0</b>
Selling expenses	-1.143,3	-1.118,6
Research and development costs	-235,1	-203,3
Administrative expenses	-760,9	-656,0
Other income	136,0	138,9
Other expenses	-130,2	-130,9
Profit from equity-accounted investments	12,8	14,1
<b>Earnings before interest and tax</b>	<b>660,6</b>	<b>168,3</b>
Financial income	207,8	303,3
Financial expenses	-408,6	-333,5
<b>Net financial expenses</b>	<b>-200,8</b>	<b>-30,2</b>
<b>Earnings before tax</b>	<b>459,8</b>	<b>138,0</b>

#### Revenue with third parties by product category

in € million	2023	2022
<b>Industrial Trucks &amp; Services</b>	<b>8.464,2</b>	<b>7.344,2</b>
New business	4.465,2	3.623,2
Service business	3.999,0	3.721,0
– Aftersales	2.089,7	1.940,7
– Rental business	1.163,6	1.105,9
– Used trucks	460,8	418,0
– Other	284,9	256,3
<b>Supply Chain Solutions</b>	<b>2.968,4</b>	<b>3.789,4</b>
Business solutions	1.930,9	2.827,6
Service business	1.037,4	961,8
<b>Corporate Services</b>	<b>1,1</b>	<b>1,9</b>
<b>Total revenue</b>	<b>11.433,7</b>	<b>11.135,6</b>

Leasing (FL) = €989m (2022: €726m)

Leasing (OL) = €575m (2022: €560m)  
 Rental (OL) = €589m (2022: €546m)

- Leasing & Rental business accounts for 19% of total KION Revenue and 25% of total ITS Revenue
- Leasing only (FL & OL) accounts for 14% of total KION Revenue
- Share of finance lease Revenue from New Business amounts to 22%

# Lease Accounting – Income Statement

## Timely recognition of income differs between Finance and Operating Lease

FY 2023	LTR <sup>1</sup> (FL)	LTR <sup>1</sup> (OL)	STR <sup>2</sup> (OL)
Business line	New business	Rental business	Rental business
Recognition			
Revenue (FY 2022)	€989m (€726m)	€575m (€560m)	€589m (€546m)
Cost of sales, SG&A			
= EBIT impact			
Financial income		✗	✗
Financial expense			
= EBT impact			



At commencement of the lease contract



Over time

1. Long-term rental 2. Short-term rental

### Finance Lease (FL) vs. Operating Lease (OL)

- (In-) direct leasing business classified as a **Finance Lease** generates Revenue and Cost of sales at commencement of the lease contract
- (In-) direct leasing business classified as an **Operating Lease** generates Revenues and Cost of sales (i.e., depreciation) over the lease term
- Refinancing of KION's leasing business causes financial expenses (finance and operating lease) as well as interest income (finance lease)
- Customer payments made under **Operating Leases** are fully recognized as revenue, covering amortization and interest

# Lease Accounting – Cash Flow Statement

## Leasing business is operating cash flow accretive

### Consolidated statement of cash flows

in € million	2023	2022
<b>Earnings before interest and tax</b>	<b>660,6</b>	<b>168,3</b>
Amortization, depreciation and impairment minus reversals of impairment on non-current assets without lease and rental assets	485,5	469,7
<b>Depreciation and impairment minus reversals of impairment on lease and rental assets</b>	<b>567,5</b>	<b>563,8</b>
<b>Non-cash reversals of deferred revenue from lease business</b>	<b>-91,8</b>	<b>-115,3</b>
Other non-cash income (-)/expenses (+)	16,6	26,7
Gains (-)/losses (+) on disposal of non-current assets	-5,9	-4,9
<b>Change in assets/liabilities from lease and short-term rental business</b>	<b>-461,8</b>	<b>-483,5</b>
<b>thereof change in leased assets (excluding depreciation and interest) and receivables/liabilities from lease business</b>	<b>-214,1</b>	<b>-272,1</b>
<b>thereof change in rental assets (excluding depreciation and interest) and liabilities from short-term rental business</b>	<b>-186,8</b>	<b>-222,0</b>
<b>thereof interest received from lease business</b>	<b>102,0</b>	<b>80,6</b>
<b>thereof interest paid from lease and short-term rental business</b>	<b>-162,9</b>	<b>-69,9</b>
Change in net working capital	27,5	-804,5
thereof inventories	-31,7	-163,2
thereof trade receivables and trade payables	-22,3	-590,9
thereof contract assets and contract liabilities	81,4	-50,3
Cash payments for defined benefit obligations	-85,9	-35,5
Change in other provisions	81,1	30,9
Change in other operating assets/liabilities	130,5	-1,5
Taxes paid	-180,0	-160,0
<b>Cash flow from operating activities</b>	<b>1.144,0</b>	<b>-345,9</b>

**1**

### Understanding the cash flow statement

#### KION's leasing business is presented as operating cash flow

1. EBIT is the basis for the (indirect) calculation of the **operating cash flow (OCF)** incl. EBIT from leasing & rental business
2. Due to the indirect determination of the OCF, non-cash leasing items included in EBIT, i.e., **depreciation €567.5m** (2022: €563.8m) and **deferred revenue of -€91.8m** (2022: -€115.3m) are reversed = **+€475.7m** (2022: +€448.5m)
3. Changes in **leased assets, rental assets** as well as **lease receivables** and dedicated **liabilities** are off-set against each other = **-€461.8m** (2022: -€483.5m)

**2**
**3**


Taking all relevant lease positions into consideration, leasing and rental business activities usually have a **positive OCF effect**



## Agenda

1. Business Model and Strategy
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- 5. Key takeaways**

# Leasing Business Deep Dive

## Key takeaways

1. Leasing business is an **important component** of the integrated ITS business model
2. **Well managed risk profile** with **resilient income streams**
3. Optimized refinancing structure supports **competitive funding costs**
4. Leasing operations are **EBIT and operating cash flow accretive**



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