



Leasing Business Deep Dive

Update FY 2022

Frankfurt, March 2022

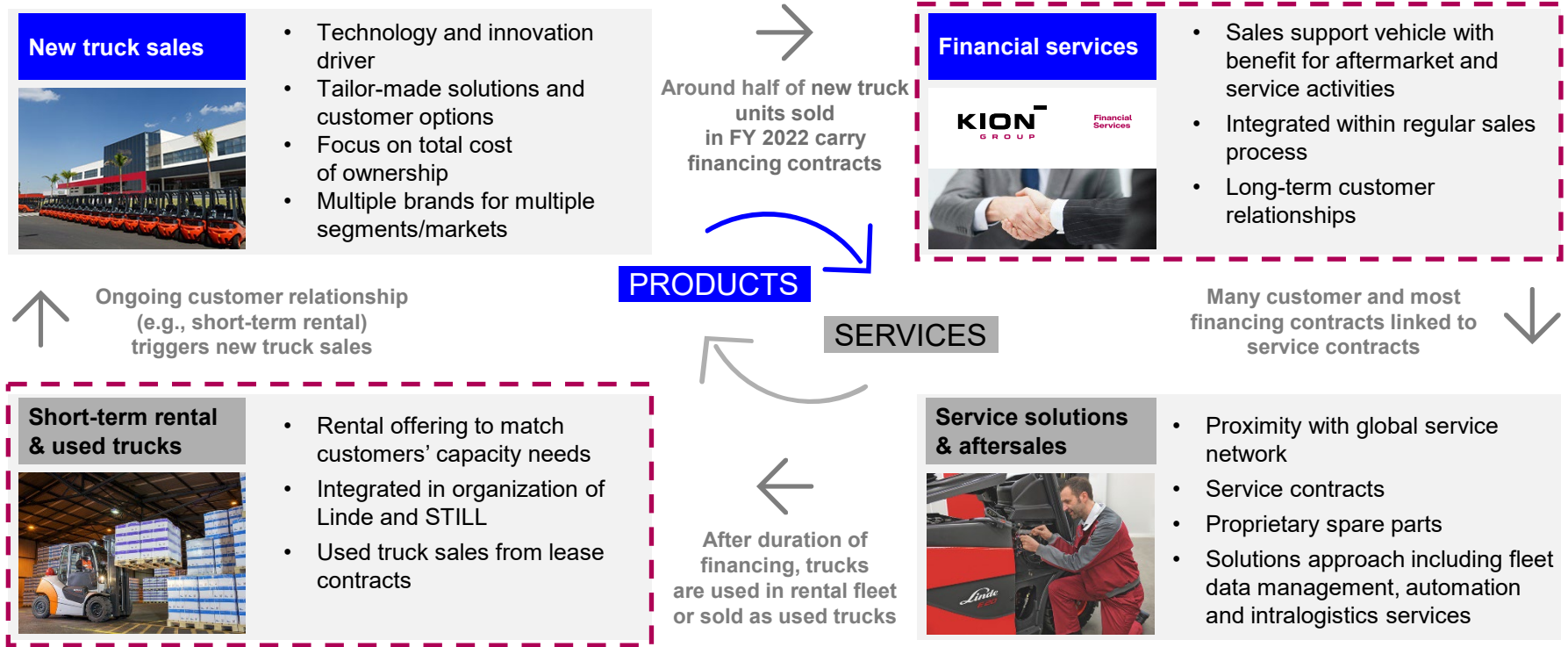


Agenda

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

Industrial Trucks and Services

Integrated business model

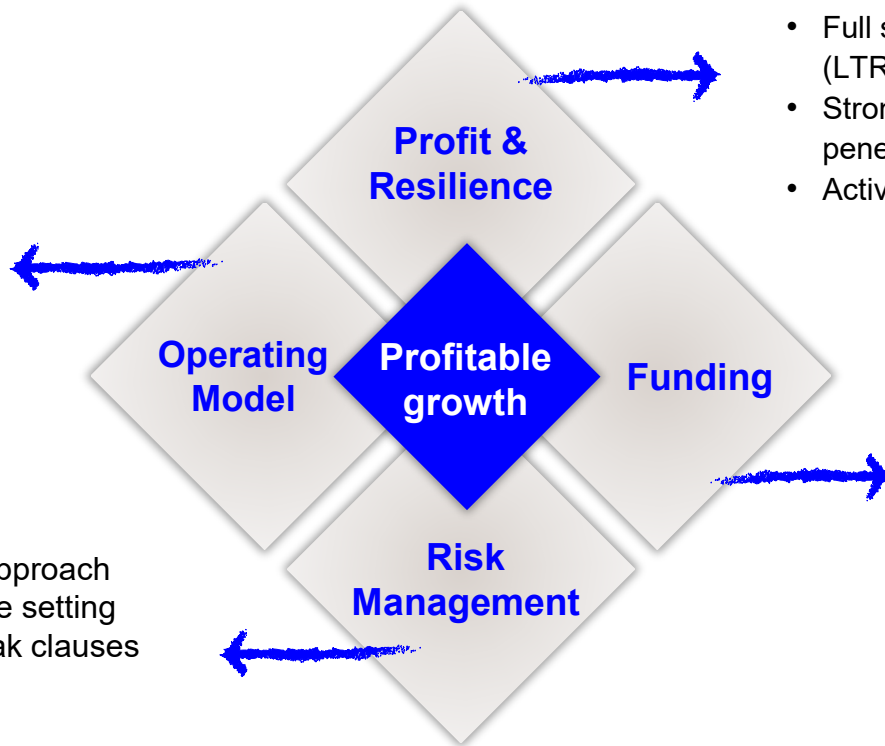


Leasing and Rental Strategy

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



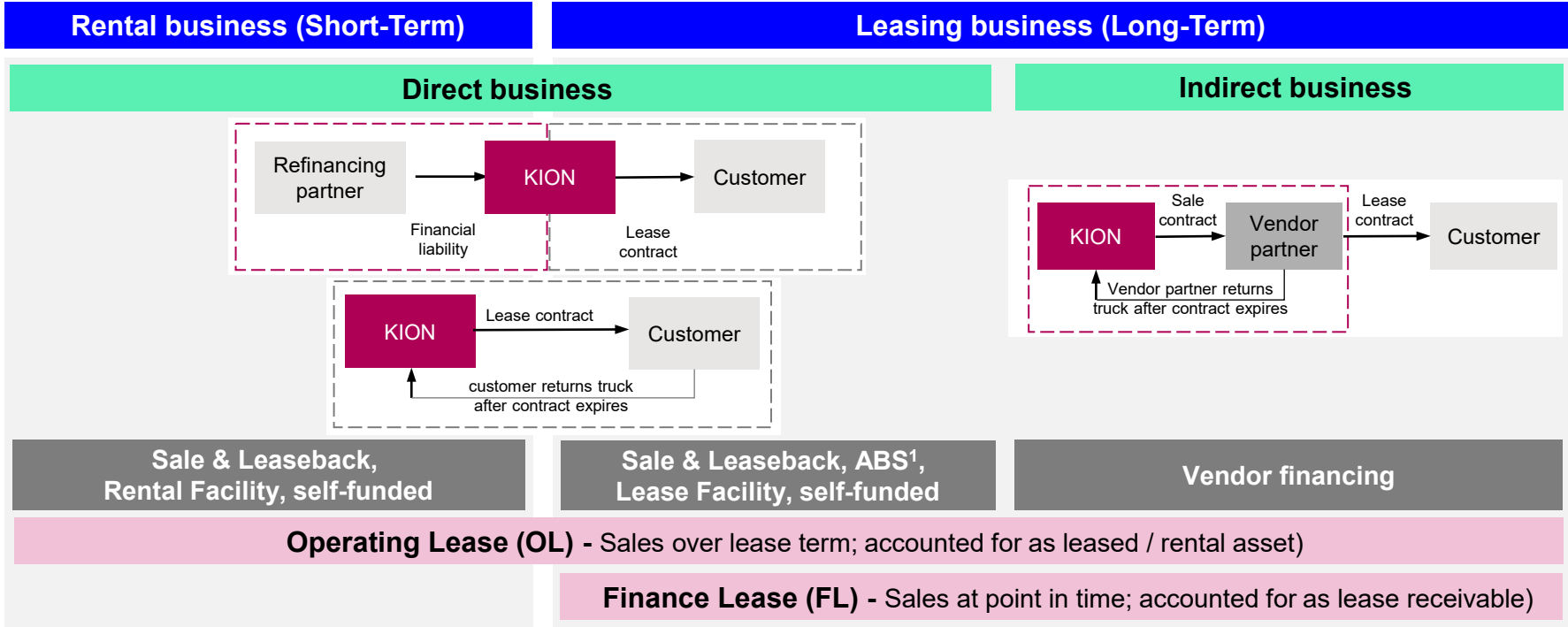
- Full support of life cycle management (LTR¹, STR², service, used trucks)
- Strong customer focus to optimized penetration and retention
- Active asset management

- 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

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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 ¹	Maturity Matched Funding	Interest Matched Funding
ABS (Asset-backed securities)		☑	☑
SALB (Sale-and-Leaseback)		☑	☑
Indirect Leasing (Vendor Financing)		☑	☑
Lease/Rental Facility (incl. Revolving Credit Facility)		☑	☑

1. Excluding deferred income

FY 2022
FY 2021
FY 2020

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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
- LTR¹ 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 at a **level of roughly 20 basis points** per year
- No significant increase of default costs in FY 2022
- Differentiated, asset-based risk approach leads to very low refusal rate
- Increasing use of automated scoring

Break Clause Risk

- Only **single digit percentage rate** of contracts **carry 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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Lease Accounting – Balance Sheet

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

Assets		Equity and liabilities	
in € million	Dec. 31, 2022	in € million	Dec. 31, 2022
Goodwill	3,619.4	Equity	5,607.8
Other intangible assets	2,162.1		
Leased assets	1,367.7	Retirement benefit obligation and similar obligations	712.8
Rental assets	602.1	Financial liabilities	1,361.8
Other property, plant and equipment	1,585.2	Liabilities from lease business	2,314.2
Equity-accounted investments	94.7	Liabilities from short-term rental business	354.1
Lease receivables	1,370.5	Other provisions	140.8
Other financial assets	179.0	Other financial liabilities	478.3
Other assets	131.1	Other liabilities¹	185.9
Deferred taxes	300.8	Deferred taxes	492.8
Non-current assets	11,412.6	Non-current liabilities	6,040.8
		Financial liabilities	626.7
Inventories	1,804.6	Liabilities from lease business	900.4
Lease receivables	519.8	Liabilities from short-term rental business	190.1
Contract assets	528.8	Contract liabilities	826.1
Trade receivables	1,596.4	Trade payables	1,124.3
Income tax receivables	103.2	Income tax liabilities	42.4
Other financial assets	80.3	Other provisions	229.4
Other assets	137.3	Other financial liabilities	215.4
Cash and cash equivalents	318.1	Other liabilities¹	697.8
Assets held for sale	27.4	Liabilities directly associated with assets held for sale	27.2
Current assets	5,115.8	Current liabilities	4,879.9
Total assets	16,528.4	Total equity and liabilities	16,528.4

¹ Also contains non-lease related items; Source: KION Group, Annual Report 2022, p. 157-158

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, 2022 (2021)

Leased assets €1,367.7 m (€1,391.5 m)	Liabilities from lease business €3,214.6 m (€3,070.8 m)	Leasing business
Lease receivables €1,890.3 m (€1,784.0 m)	Deferred revenues¹ €182.0 m (€241.7 m)	
Rental assets €602.1 m (€542.8 m)	Liabilities from short-term rental business €544.2 m (€488.9 m)	Rental business
	Deferred revenues¹ €7.1 m (€21.7 m)	

Direct vs. indirect leasing as at Dec 31, 2022 (2021)

Leased assets (Operating lease) €1,077.3 m (€1,022.1 m)	Liabilities from lease business €3,048.4 m (€2,858.3 m)	Direct
Lease receivables (Finance lease) €1,890.3 m (€1,784.0 m)	Deferred revenues¹ €4.1 m (€9.2 m)	
Leased assets €290.4 m (€369.4 m)	Liabilities from lease business (residual value) €166.3 m (€212.6 m)	Indirect
	Deferred revenues¹ €177.9 m (€232.5 m)	

1. Contained in "other liabilities"

Source: KION Group, Annual Report 2022, p. 197-198, 202, 224-226, 229-230

Lease Accounting – Income Statement

Leasing business contributes 12% to total KION Revenue

Condensed consolidated income statement

in € million	2022
Revenue	11.135,6
Cost of sales	-9.011,5
Gross profit	2.124,0
Selling expenses	-1.118,6
Research and development costs	-203,3
Administrative expenses	-656,0
Other income	138,9
Other expenses	-130,9
Profit from equity-accounted investments	14,1
Earnings before interest and tax	168,3
Financial income	303,3
Financial expenses	-333,5
Net financial expenses	-30,2
Earnings before tax	138,0

Revenue with third parties by product category

in € million	2022
Industrial Trucks & Services	7,344.2
New business	3,623.2
Service business	3,721.0
– Aftersales	1,940.7
– Rental business	1,105.9
– Used trucks	418.0
– Other	256.3
Supply Chain Solutions	3,789.4
Business solutions	2,827.6
Service business	961.8
Corporate Services	1.9
Total revenue	11,135.6

Leasing (FL) = €726m

Leasing (OL) = €560m
Rental (OL) = €546m

- Leasing & Rental business accounts for 16% of total KION Revenue and 25% of total ITS Revenue
- Leasing only (FL & OL) accounts for 12% of total KION Revenue
- Share of finance lease Revenue from New Business amounts to 20%

Source: KION Group, Annual Report 2022, p. 87, 155

Lease Accounting – Income Statement

Timely recognition of income differs between Finance and Operating Lease

FY 2022	LTR ¹ (FL)	LTR ¹ (OL)	STR ² (OL)
Business line	New business	Rental business	Rental business
Recognition			
Revenue (FY 2021)	€726m (€708m)	€560m (€537m)	€546m (€463m)
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; Source: KION Group, Annual Report 2022, p. 184-185, 189-191

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	2022
Earnings before interest and tax	168,3
Amortization, depreciation and impairment minus reversals of impairment on non-current assets without lease and rental assets	469,7
Depreciation and impairment minus reversals of impairment on lease and rental assets	563,8
Non-cash reversals of deferred revenue from lease business	-115,3
Other non-cash income (-)/expenses (+)	26,7
Gains (-)/losses (+) on disposal of non-current assets	-4,9
Change in leased assets (excluding depreciation) and receivables/liabilities from lease business	-261,5
Change in rental assets (excluding depreciation) and liabilities from short-term rental business	-222,0
Change in net working capital	-804,5
thereof inventories	-163,2
thereof trade receivables and trade payables	-590,9
thereof contract assets and contract liabilities	-50,3
Cash payments for defined benefit obligations	-35,5
Change in other provisions	30,9
Change in other operating assets/liabilities	-1,5
Taxes paid	-160,0
Cash flow from operating activities	-345,9

1

2

3

Understanding the cash flow statement

KION's leasing business is presented as operating cash flow

- 1 *Earnings before interest and tax* is the basis for the (indirect) calculation of the **operating cash flow (OCF)**
→ Contains the **EBIT** from leasing & rental business
- 2 Due to the indirect determination of the OCF, non-cash leasing items included in EBIT, i.e., **depreciation** (€563.8m) and **deferred revenue** (-€115.3m) are reversed = **+€448.5m**
- 3 Changes in **leased assets**, **rental assets** as well as **lease receivables** and dedicated **liabilities** are off-set against each other = **-€483.5m**. Changes in lease receivables and liabilities also contain interest income and expenses



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

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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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