Q1 2018 Wallenius Wilhelmsen Logistics ASA Earnings Presentation - Final

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Presentation

BJÃ¸RNAR BUKHOLM: Good morning, everyone. Welcome to the first quarter presentation for Wallenius Wilhelmsen. As always, we will have 2 presenters today: CEO, Craig Jasienski; and CFO, Rebekka Herlofsen. After the presentation, we will have a Q&A session. Those of you following us on the webcast can post questions online, and we will answer those as well. Craig, the floor is yours.

CRAIG JASIENSKI, CEO, WALLENIUS WILHELMSEN LOGISTICS ASA: Good morning, everybody. Good morning. Spring is here. Sorry our first quarter results, regrettably, not at the level we would like them to be but that's what we're going to use the morning now to explain where we see the differences and it's explicable but that's what we'd like to talk through.

It says here, highlights for the first quarter. I'd say it's a mix. There are some highlights there and there are sadly some lowlights, which we'll talk through, but let me look just straight to the EBITDA number of $128 million for the quarter. If we will look at some of the factors -- Rebekka will go into this shortly, but if we look at some of the factors that we had not planned for and that the market brought to us that we didn't assume, particularly around bunker, currency, and we had some bio security challenges in New Zealand, if we take those factors away, the remaining underlying business is pretty much in line with what we believe ourselves. And we have, in all fairness, being erring on caution throughout and here's some of the reasons why in many ways, it's coming home to roost now as we've talked about in previous quarters in fact.

On the positive side, the underlying volumes of high & heavy are in fact improving. You can see those very clearly in the numbers, and that's a very positive sign in many regards. But there's so many other factors, which is, frankly, taking the shine off that, and I will go into those again, of course, through the presentation.

During this quarter, as we've talked about last quarter, the ocean results are taking a beating, based on the new rate levels that we -- of contracts that we renewed hope last year. We had a reduction in the Hyundai/KIA volumes in terms of the portion of exports that we have in the contract. It was also reduced now in this quarter as per planned, and I talked about bunker and currency.

Landbased results overall are underlying actually quite stable. They are down in this quarter in the numbers that you've seen, mainly because SG&A cost allocation matter. That's been a positive on the ocean side and negative on solutions or landbased. Reason for that is very simply, as we've continue cleaning up around our merger, it's just making sure we have the money allocated in the right places.

On the -- again, on the good news, as far synergies are concerned, we're tracking now at $85 million out of a target of $120 million. We're very happy with how that's tracking. There is still some way to go, and we have this year to achieve it, but we're still very confident that we're going to get there.

And, last but not least, and it's definitely a highlight at the end of this slide and that is that we presented during the quarter, our new corporate visual identity to try and differentiate between our different brands as well as identify ourselves as the Wallenius Wilhelmsen Group. So there are our main mix of low and highlights for Q1.

The agenda, of course, is always pretty much the same. I'll give you a business update now and Rebekka will talk about the financial performance in somewhat more detail. I'll give a little bit of a market and business outlook, and we'll wrap up with questions at the end.

So back to the famous discussion around high & heavy. Yes, it's a positive development. Yes, it's in line with everything that we all see and that we all read and hear from the likes of Caterpillar and John Deere and Komatsu and JCB and CNHI, et cetera, et cetera. Here, I'm going to focus primarily on the year-on-year numbers. So year-on-year, the portion of high & heavy cubic meters is up 4 points, basically from 24% of our total volume to 28%, which is, of course, a very, very pleasing development. The challenge that we see continues to be an overall trade mix in our business and an overall customer mix in our business. With great pressures that we see in most trades, virtually, and a shift in the trade mix of the volumes that we are carrying, it does take the shine of the positive aspect of the increased high & heavy volume that we're carrying. I could look at it another way and say that if we didn't have that increase in volume, we would be somewhat more challenged on the results, so it still contributes positively to our business, but the rest of the market is somewhat taking the shine away, unfortunately.

Overall, volumes, if we look again year-on-year, actually a pretty pleasing development in that it's only 2% down -- sorry, we're 2% up year-on-year. That's including the reduction of the Hyundai/KIA volumes out of Korea. So again, from an overall volume perspective, we're pretty satisfied where we are. We're quite happy with the development. It is easy in line with the way the markets are developing. That's a positive sign.

Go on to the trades a little bit more in detail now. It will -- not in depth explained but partly explain the challenges that we see. I'll start with Europe, North America, Oceania on the bottom left-hand corner there. As you can see, year-on-year, and again, I'm going to focus year-on-year now, reason for that is quarter-on-quarter, Q1 is always soft compared to Q4. It's a hard comparison, so let's look year-to-year, see how the business is going.

Europe to Oceania, despite the positiveness around high & heavy, if you look at the overall volume, it's only just increased. It's basically flat, so it's not really driving capacity. It's not really driving profitability in that particular area. The Atlantic shuttle, moving up to the top right, volumes are, in fact, up but the Atlantic area is a low-priced trade. So a significant increase in volume there doesn't necessarily bring great degrees of profitability. Both of those 2 trades I've just talked about has no impact from Hyundai and KIA. We're not carrying any volumes in those trades.

Moving over to Europe and Asia, again, I mean -- sorry, Europe to Asia, no Hyundai/KIA impact at all. Overall volumes are up slightly year-on-year and there's positive signs of more exports out of Europe into China. But again, this is a pretty low-priced route. This was a classic trade that used to be backhaul and has now became a main haul, which has been quite a shift in the industry over the last 5 years, or 5 to 8 years, in fact, in reality, so we see the challenges there.

Asia to Europe, volumes are down of what we've lifted year-on-year. There is a Hyundai/KIA impact there and that explains some of that drop there, again, year-on-year.

I'll leave South -- Asia-South America, West Coast alone, that's developing nicely but it's albeit somewhat smaller volumes.

From Asia to North America, volumes are down quite a lot year-on-year. There's a big Hyudai/KIA impact in there. We used to move a lot of business to the U.S. West Coast, which has changed in the new contract with Hyudai and KIA. So there, it gives you a quick snapshot of how we see the trades.

Again, what always is challenging for our business no matter how we look at it in terms of predictability in our results is this trade mix as that changes, our bottom line at an aggregate basis will change. The customer mix drives has an impact on profitability and there are factors that will always flip from quarter-to-quarter as we've talked about before.

I'd like to talk about rates now because this is the area where, and the reason why, we've continued to err on caution, and that's to see what's actually happening with the underlying revenue per CBM in the business. This slide is -- and you've seen this before, those who had been watching the presentations, we're going back to the second quarter of 2014 as an Index 100, this is an overall aggregate revenue per CBM across the ocean business in that period. Very nice to see a quarter-on-quarter increase in the average revenue per CBM, so that's pleasing to see. However, the reduction over time is, frankly, it's unsustainable. The picture you don't see here is if we drew this slide all the way back to 2012 and reindexed where we are today, is closer to 75% to 78% of where we used to be in terms of revenue per CBM. And that is going to continue to challenge the bottom line performance. And this is, again, the reason why we continue -- have continued to err on caution. Wonderful to see the volumes improving, but it's not going to be hitting the bottom line at the same degree that we may have been used to in the past. So we need to continue to focus on driving out costs where we can and also making sure that we have an improved trade cargo mix and eventually custom mix over time in order to deal with that. The market is what the market is. This is what the market delivers us. It's a very competitive and challenging marketplace. So therefore, rates are depressed and that's something that we need to deal with.

Moving to the fleet quickly. We have 133 vessels in operation in the quarter. It's one vessel up. What you do see in this slide is we have 3 more short-term charters in operation compared to previous quarter. Compared to a year ago, it's not a big change. It's only one vessel overall. We see the market for today as far as tonnage is concerned. It is tightening up. It's tighter now than it, certainly, was to 1, to 2 and 3 quarters ago. That's a positive sign. We'd be happy to see a tightening of the tonnage market. That keep -- puts us in a better position from a supply/demand point of view as far as our ability to drive prices in the marketplace. I'd say on the hindside, worst case should things get, particularly bad and one of our customers strangely says that we're 2 tweets away from an economic disaster, the Trump tweets that is, should that occur, and we don't plan for that, but should it do, we've got quite a lot of downside flexibility in our fleets, so we can actually take out 22 vessels by 2019 if need be. So we're very comfortable with our downside flexibility, and we're still able to access the capacity in the market that we need on the upside as volumes continue to grow. So worst case, we're comfortable. Best case, we're looking at continuing to charter from the market, and we'll see what opportunities are around there to continue to strengthen the fleet where it makes sense. But I will continue to highlight and underline the fact that rates remain unsustainable and that's an area of prices. Basically, our prices remain unsustainable, and that's an area we have to continue to focus on also on the cost side.

Synergies, talk about those quickly. Tracking very well at $86 million. We confirmed or booked $10 million improvement in the quarter. Again, really satisfied how this is tracking. It's everything that we've set out to achieve. We've set our target at $120 million, as you know, from last quarter. I'm very confident that we'll get there. There are some ways to go, but we believe, based on current tracking and initiatives in the house, that we'll be there by the end of the year.

Next, and last before I hand to Rebekka is just a quick -- sorry, I'll go on to the visual identity in a second, but some highlights from the landbased side. The market overall is -- sorry, the business overall is quite stable. We are challenged in North America. The inventory levels are increasing. Sales are pretty flat, you'll see that shortly. That does challenge our operations. We've ended up with a lot more inventory, a lot more storage, a lot more handling of units and that makes a lot of the sites less efficient than they should otherwise be. So that takes, again, a little bit of the shine off the performance, but underlying, it's quite okay.

We have the terminal in Melbourne, which is now fully operational. We only had roughly half of the port area up until December last year. During this quarter, we've taken over the remaining space, so we now do operate the only multiuser over our terminal in Melbourne, Australia, and that's tracking very well from a results point of view.

Keen Transport, the U.S. equipment process that we brought in during Q4 is now in operational and contributing nicely to the business. We're very happy with that. And we've been able to increase the credit facility within the solutions business with $150 million in the last quarter.

We've done a couple of investments, as we've talked about in the past, Keen being one of them. We still have a very interesting pipeline in front of us. I don't have anything to present on that today, but there's an interesting pipeline and when we're ready and things are in place, we'll be able to bring them to you.

And, last but not least, we're proud of many things. We're also proud of this and that is the change in the corporate visual identity. We really wanted to clean up and establish clarity externally with all of our stakeholders that we are the Wallenius Wilhelmsen Group, we have that wonderful heritage and history behind us, but we also are very much a new company. The internal thinking is about being new and being fresh. We've organized in the operating entities, all the market facing units into different looks, so we have Wallenius Wilhelmsen Ocean, which is all about our ocean activities, the old WWL. Wallenius Wilhelmsen Solutions is everything we refer to as Landbased segment. We'll go in there, so it's all about service and infrastructural work that we do on the land. We have American Roll-On Role-Off Carriers as a part of our portfolio and of course, the important EUKOR Car Carriers in Korea. Their visual identity is basically remaining the same, given the stakeholders that they have. So that was launched in the market during March, in fact, and internally.

With that, I thank you, and I hand the word to Rebekka and I'll comeback for market outlook after.

REBEKKA GLASSER HERLOFSEN, CFO, WALLENIUS WILHELMSEN LOGISTICS ASA: Thanks, Craig and good thing the sun is shining outside because it feels a little bit gloomy in here. Let's face it, the numbers are weak for the quarter and it might even be puzzling to some if you look at it on a year-over-year basis. Revenues are actually up but close to $80 million but EBITDA is down by $18 million. So normally it should be other way around, it should be a plus. And there is a reason for that and that mainly has to do with the currency and the bunker developments year-on-year, but also some restructuring costs and the stinkbug infestation that we had on some vessels into New Zealand in the quarter. So if you add those effects together, it actually shaves $30 million off the results, so that's the main explanation.

Looking down at revenues quarter-on-quarter, we see that it reduces, same with the EBITDA. This is, of course, as Craig said, partly seasonal. So if we exclude the Hyundai/KIA volume effect, volumes were still down by around 8% and of course, then we have the contracted reduction. We had strike in Korea in January. So all in all, volumes came down by 12% in the quarter. In addition to that, we had the rate effect impacting results of $15 million as well, which had to do with contracts where we renegotiated last year but only took effect this quarter, so that's something we talked about before as well. And as if that's not enough, we also did not have a positive impact from project cargoes in the Atlantic this quarter, which was something which benefited both the third quarter and also went into the fourth quarter. So all of those are sort of the main explanations for the decline in revenue and also then adding currency effects, bunker effects, you see the reduction in the EBITDA.

A few external items this quarter, not many. They were related to office moves, as we keep consolidating offices, some further severance costs as well and also some cleanup on the IT side that continues. So $3 million all together.

Financial items looks very positive this quarter. It's not because we don't have the interest rates expenses as we had before. It has to do with the interest rate hedges that we've entered into. We did quite a lot of them last year, so now we're hedged at 70%. Going forward, 5 to 7 years, in time, and so we're benefiting now from the increase in interest rates. And the effect this quarter was actually as much as $30 million, so quite a positive.

Finally, though, a negative, the tax element keeps jumping up and down a little bit in the past few quarters. This time it's 2 main explanations. It's a dividend that we've taken out from EUKOR. They have to -- we have to pay withholding tax on that, part of that tax is actually disputed, but we still accrued for the full effect of that. And the other part has to do with the deferred tax assets, where we have reclassified a liability between some of our internal companies and leading then to a reduction in the deferred tax asset around $11 million. It's a noncash item but still, it impacts the P&L and it reduces the net profit down only to $10 million for the quarter, so as I said, fairly weak.

We thought it's worthwhile just to share with you, since we are explaining this quarter loss with bunkers and currency, may be give you some more detail on the development and how it works. I think we've said it many times now that we have clauses in our contracts, which mean we can charge on the bunker costs to our customers. We don't have it in all contracts, we have it in most. And where we don't have it, it kicks in at certain levels. So the higher the oil price, the more covered we actually are. The way it works is that we look back 3 months in time, calculate the average bunker price for that period, then there's a slight lag period before it's applied for around 3 months. So this creates a lag effect, to say so. And as such, you can say that bunkers is awash between revenues and the cost line, but we will have effects in quarters if the oil price moves up or down. And this chart really shows you that, that is what has happened the last few quarters. So the reason we still talk about this quarter is because it's come up further. If it levels out, it won't be a factor.

Then on currencies, we're a dollar company, of course, but around 20% of our operating expenses are in other currencies. It's mostly euros, it's the Korean won, it's the Swedish kronor actually, it's the Japanese yen and it's the Chinese Yuan that are the most relevant currencies for us, not so much the Norwegian kroner. And these costs are related to many things. It's could be local port expenses, it could be some Korean cost that we have in Swedish kronors and, of course, offices that we have around the world. And quarter-on-quarter, not so big effects on the currencies, but if you look year-on-year, it becomes quite a bit and with a $15 million effect year-on-year but only $5 million quarter-on-quarter.

In terms of hedging, of course, on bunkers, since we have surcharges, we do not hedge that unless there is an open contract, then we may do some hedging. On the currency, we do evaluate hedges from time to time. But we'd rather do it when the dollar is considered high historically and there hasn't really been the case, which is why we've been open.

So back to Ocean results. We've covered it a bit already. And so ocean, when we say ocean here, not the same as in the brand, it includes EUKOR and ARC as well. So Ocean delivered a revenue of $750 million. That's a 4% increase over the previous year, but 10% reduction compared to the previous quarter. So as I said, this increase in revenue is despite the fact that we lost the Hyundai/KIA volumes. It's despite the fact that rates have come down and it's, of course, due to the underlying growth in volumes, which is a good positive. So if we take out the Hyundai/KIA effect, volumes would actually have been up 6.5% for the year. But a lot of this growth has come in the Atlantic and as Craig just alluded to, it's not the best paying region in our portfolio. And another very positive note is, of course, the high & heavy volumes, up 17% year-on-year and 6% quarter-on-quarter. The quarter-on-quarter revenue decrease, as we said, has some to do with seasonality. It has to do that we didn't have the project cargoes in the Atlantic and, of course, we didn't get the same support from volumes as we had last year, somewhat offsets by the bunkers surcharges that we talked about. And of course, then when we get to EBITDA, you also have to take in account to currency and bunker effect that we talked about as well as the restructuring cost and the stinkbug affair.

So in sum, it feels almost like a perfect storm this quarter, very many factors moving in the wrong direction at the same time, still, that doesn't take away the fact that rates are at a very low level, even unsustainable in some areas. What causes us to still be somewhat optimistic is the tightening of the tonnage supply and improvement in volumes.

Then on to Landbased. As you can see on the top line, the Landbased continues to grow also in this quarter, but not so on the EBITDA line. Growth is very much related to the Keen acquisition. Came into our accounts 7th of December last year as well as the fact that the Melbourne terminal that we call MIRRAT, had a ramp up this year. So we're now operating at full capacity and it's the only terminal in that area. Still, EBITDA, down. Obvious explanation has to do with cost allocation, increased cost to Landbased and a reduction on the Ocean side. This is related to cleaning up on the IT portfolio and also getting a better grip on how to allocate those costs. But that, of course, doesn't impact the group results.

Most importantly, as I said, the improvement comes from the additions of Keen and MIRRAT, so something is also been weakening and that is the business in the U.S., where we continue to have inefficiencies and congestions, increasing cost because of overcapacity in the market, and we do see that the demand is tapering off in the U.S., and we do expect the OEMs to start to reduce the production in the U.S. So I think in sum for Landbased, we have some positives, some negatives. The development in the U.S. is a negative. The terminals are doing well. Volumes increasing, of course, and MIRRAT now producing full capacity and also then Keen is looking like a very good and timely acquisition.

Cash flow, down quite a bit this quarter, $147 million. I'd like to state that $120 million of them relate to early repayment of debt that will be taken up again in the next quarter, so that's the very sort of short-term effect that you shouldn't pay too much attention to. The CapEx number related to an acquisition of a vessel in EUKOR, that was on a sale-leaseback, that will then be bank financed and then is related to installments on the new buildings and some dry dockings. So if you adjust for these factors, then the cash flow was down by only $23 million, and we did installments of debt of around $100 million in the quarter, so the free cash flow was positive in the quarter.

Coming quarter, though, we have the fine to the EU, EUR 207 million, which is due and the bond that we will repay, which is around $100 million, so there will be a negative development in the next quarter, but we do have the cash position to sustain that. And that's really what the balance sheet shows, not very exciting to present this time, not very many changes. Equity ratio, slightly up and the cash balance continues to be very good at $649 million. And as I said, we repaid some loans this quarter, but that's part of a refinancing, which where we now drawn up new facilities.

Then, finally, I'm not going to talk about brands, but the legal and restructuring project that has now been concluded successfully. We have completed a new legal structure, which is in line with the branding structure, so each company has now separate financing. There are no cross defaults, no guarantees between the companies, so that they stand on their own legs. And all loans in -- all loans sit on the company level as well. It's only the bonds that sit on the holding level. What we've done is really on the ocean side to the very left. All loans have either been refinanced or amended, so they now have all the same covenant package and same type of terms, and we negotiated a new facility of $475 million, which was priced at 185 basis points, so quite attractive. And as you see here, the new covenant package is also quite good, in our view. We have minimum cash. We have covenant on positive working capital and also loan-to-value clauses, so it fits us is very well. And to sum that up, of course, our debt maturity profile changes when we do refinancings, so we'd like to's show you the new structure. You can study that yourself at your own leisure but the only point I wanted to make is that in the next few years, of course, we still have quite a lot of installment on our loans but very little debt that has to be refinanced, so it's a good and solid picture.

Okay. That's it for me.

CRAIG JASIENSKI: Okay. Okay, let me talk through just the market and the business outlook looking forward but before I even get at that, I would like to reaffirm a few points that's particularly off the back of Rebekka's presentation.

Look, we're solid. We're in a good position. We're in a great space in the market, as per today. We're operating the largest size of fleet in the world, so we're extremely well-positioned, and we're very happy to see that volumes in some of our key areas like high & heavy and breakbulk are in fact improving. So we feel we're standing on a very, very strong platform, but we do remain challenged in the market for the various reasons that we've talked about and will continue to talk to. But I think that's an important message to leave everybody as well, that it's not shaky ground, it's a very solid ground but it's just at a low platform at this point in time.

So moving to the market. Order sales in the first quarter, if again, we look at year-on-year, they were up 2.6% globally. The U.S. is the market, which has basically flattened out. It's really a sideways picture all-round. It did drop quarter-on-quarter in the U.S., but that's mainly because of seasonal reasons, so that was not unexpected. Sales in Western Europe are down year-on-year. Chinese market is the one that still continues to really drive. And if you look at the bubble chart on the right, I think the real picture there is that cluster of countries in the bottom left-hand corner, which represent the largest markets, excluding China, it's a pretty lackluster picture as far as quarter-on-quarter and future growth rates are concerned. So again, what we see in terms of global automotive sales, they are not going to grow at any amazing pace. It's going to trickle at 1%

to 2% per annum over time. But China is really leaning out there as far as quarterly growth and long-term expectations. So China does quite simply drive the global car market at this point in time. That's from a sales point of view but probably more important to us and to you is how does it look on the export side because that's what we actually carry.

On the export side, we don't have any exciting sort of really exciting changes in the export picture that's driving profitability for us. The export driving areas, if you go up to the top right-hand corner of the bubble chart there, they're all -- it's nice-sized exports like Europe and North America, they're good-sized markets as far as experts are concerned. They're growing nicely from a quarter-by-quarter basis. They're also growing nicely based on forecasts out to 2022. The challenge is they're low-priced. The challenge is that those markets don't have, and haven't historically attracted very high price levels because historically, it's either been into Europe, North America trading or European exports really were up until 5 years ago, backhaul trade and now, they become main haul. So the mix, as we see more and more of these exporting regions that are familiar to us growing in terms of volume and that we're carrying that the real impact is not fantastic because it's pretty challenged prices. Even in the other areas where prices may be perhaps slightly better than other markets, they have been under tremendous pressure because the mix of global car exports and sales has become more and more fragmented over time, which means that every carrier in the world is operating global trade patent where they're looking to fill vessels on all of their old backhaul roots and that will always keep the pressure on price. We have to also bear in mind that over the last couple of years, we've had an oversupply situation with car carriers, so that's also driven the price effect. So these are the challenges we see with exports, even as they increase, they don't necessarily equate to direct profitability, which is pretty much what you've seen in Q1.

Next, if we hop over to the high & heavy markets, just to talk quickly through those. Picture on the left here is actually a mix of construction and rolling mining equipment. We don't have the data from Parker Bay this quarter to show you just the rolling mining equipment, so this is consolidated together. It's growing at a very nice pace and you can see that -- we can certainly look in the U.S. and see that construction investment and activity is definitely up. Europe has softened somewhat and Australia is at all-time highs or certainly all-time recent highs as well far as construction investment and activity is concerned. So that all very much matches the machinery export increases that we see and again, it's reflective in the high & heavy portion of business that we're now carrying compared to previous quarters.

I'll hop to mining. Now, we look at nonrolling mining equipment, so this is either really big stuff that's going breakbulk on our vessels or it's the smaller stuff, which is ending up in containers. Has seen a pretty good growth since Q1 2017, which we're all familiar with. Has actually dipped down from quarter-to-quarter. It's only a 40% growth rate, so it's still a pretty good growth rate but it has dipped somewhat.

Again, also this picture as far as heavy mining equipment is concerned, it matches with our high & heavy portion growing. Again, we're up 4% more CBM year-on-year but as I've said, the shift in trading patterns, the backhaul rates becoming mainhaul trades, really takes the shine off that extra cargo that we're achieving in the vessels those days.

Let's look at the order book. I've talked a little bit before about our downside flexibility, and we certainly had no intention to present the doomsday scenario at all, but I think it's just comforting for everyone to know that should things go sour, we're okay. But more looking forward and being somewhat more optimistic, as the supply/demand picture is firming up, the order book is still very thin. That's a very clear picture. That's good for rates. In our view, of course, it's not so good for short-term TCE hires, but it's certainly good for the industry longer-term. There's a reason why the order book is thin. And it's probably most have the same view that we have and that is the fact that the underlying performance has not been supporting the investments based on the last few years development. And that's probably a very, very good explanation as to why the order book remains thin. It's something we're looking at, of course, more seriously as we see the supply/demand picture starting to close, we'll continue to look for the opportunities in the market to see what there is, what need there is for increased capacity over time. But again, if we go back to these car volume numbers and if you look at the expected growth of car exports over the next, let's say, the following 3 to 5 years, automotive export really drives the demand picture for car carriers, and that's not growing. So certainly from our perspective as an operator, we'd be focusing primarily on replacement capacity because we don't want the fleet to over age, so there is a need to bring in replacement capacity over time. And if there's opportunities out there, we'll try to take them. But again, there is really, I think the order book is a reflection of the poor earnings that we see currently.

To close off, before we go over to question time. Yes, look, positive volume development, as we've talked about, covered clearly high & heavy very well, I think. Tonnage supply picture does continue to improve, that's pleasing. These 2 factors, the first 2 points here, really connects and bodes well to the points that we have been making over the last several quarters and that is, we have a solid platform, we're on the road to recovery as far as the industry is concerned, brighter days ahead but it is going to take time. That's what we've been saying all along. Market remains at a depressed level. As the supply/demand picture tightens up, we'll be able to turn that picture around. I'm very happy with the development on synergies. As we said, that's helping us along the way. It's giving us that even more stronger platform to stand on. The lower Hyundai/KIA volumes out of Korea, we carry that with us now forward for the next 2 years as a current contract, so that will continue to have an impact. It's not going to worsen necessarily, depending on trade mix, but it will continue to have a depressed impact on what we see.

So all in all, we remain positive for the longer term -- mid- to long-term outlook without question, but we continue to caution ourselves quarter-by-quarter as we see the underlying fundamentals of the market starting to improve.

Okay. I will close with those comments and ask Rebekka to join me upfront and we'll open for any questions.

Questions and Answers

CARL FREDERICK BJERKE, RESEARCH ANALYST, SEB, RESEARCH DIVISION: Carl Bjerke from SEB. You mentioned initially Craig that there's an imbalance in trade volumes going in and out of different regions globally. Is there any sort of quick fix you can do to smooth out these imbalances by using price or other mechanisms?

CRAIG JASIENSKI: Yes, the quick fix is, and we do that on a regular basis, when there's spot cargo in the market, and I will caution and say that spot cargo is not the greatest portion of our business and what's available in the market, but it's a few percentage of the volume, so we're always attracting spot cargoes where we have open capacity to try and smooth out that imbalance. So that's a constant focus of the sales organization, particularly. Short-term fixes are -- they're hard because we -- pleasingly, we have 80% to 90% of our business locked up in contracts, so short of canceling contracts, which is definitely not a preferred route. It's hard to have very short-term remedies. Well, I would say, though, as a good news is, we've got also this year, a number of contracts expiring, and we can take a somewhat continued clear view on those and see where we can improve the imbalance in the system based on how we respond to those tenders. We've overburdened you with information.

REBEKKA GLASSER HERLOFSEN: Yes. Did a good job. Anything from the web? Nothing?

CRAIG JASIENSKI: Anything on the web? Thank you for listening. Thank you for your patience and enjoy the rest of the day. Thank you.

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