

# **DEUTZ Aktiengesellschaft (DEUZF) Q1 2024 Earnings Call Transcript**

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**Body**

DEUTZ Aktiengesellschaft (DEUZF)

Q1 2024 Earnings Conference Call

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Company Participants

Mark Schneider - Head, Investor Relations, Communications and Marketing

Sebastian Schulte - Chief Executive Officer

Timo Krutoff - Chief Financial Officer

Conference Call Participants

Jorge Gonzalez - Hauck & Aufhäuser Investment Banking

Stefan Augustin - Warburg Research

Presentation

Mark Schneider

Good morning, everyone. Please note that this call is being recorded and a replay will be available on our website deutz.com later today. Your participation in the call implies you're consent with this. As this is my first call being responsible for IR, I'd like to thank Christian Ludwig for his commitment over the past years. It's his final day at DEUTZ.

Joining me today are our CEO, Sebastian Schulte as well as our CFO, Timo Krutoff. As usual, Sebastian will focus through the highlights of the performance of the group and then hand over to Timo, who will provide some details on our financial figures. Sebastian will close the presentation with our current market outlook and our guidance. After this introduction, we will be happy to answer your questions.

Please note that management's comments during this call will include forward-looking statements, which involve risks and uncertainties. For the discussion of risk factors, I encourage you to review the disclaimers contained in our annual report and this presentation. All documents relating to our Q1 '24 reporting are available on our website.

With that, I would like to hand over to our CEO, Sebastian Schulte.

Sebastian Schulte

Thank you very much, Mark and good morning, good day also from my side to our first earnings call for the financial year '24. And yes, it's been an interesting, but overall, a good start into the year, because we – because we started obviously in that year with a very solid performance in the first quarter and the economic situation has certainly softened or weakened up a little bit, particularly compared with a very strong demand situation in '22 and most of time through the year '23 as well, where clearly the demand for our products and the products of our competitors exceeded the supply, not only caused by the various supply chain disruptions we were experiencing, but also caused by the strong sort of rebound recovery after the COVID crisis.

And so yes, the economic situation has been back dropping a little bit and we will see that later in the order intake and revenue figures in detail, but also here on the highlights in a way. So, new orders in the first quarter have been just shy of €420 million, that's almost 19% down year-on-year due to this, as mentioned, economic – weakened economic conditions and also to be fair, in comparison with a fairly strong prior year quarter, but – and that's a bit of the light at the end of the tunnel to be seen. New orders for this first quarter are up sharply by also almost 20% if we compare to the fourth quarter of '23. So, it's down and a bit of an up on the level of €419 million when it comes to new orders.

Speaking of revenue, we are at €455 million, that's 10.3% down on our prior year period. We do experience some positive effects from product mix and price. We will come to that also later, but obviously again, it's a bit of a downtick compared to prior year period. What is positive clearly is that the revenue share for our service business has further increased to now 28%. I will give a bit of a bigger context also later on through the presentation.

And coming from the sort of weakening top line to very solid, stable bottom line, EBIT margin in the first quarter is 6.1%. So, that shows – and that's one of the core messages of our call today that shows that the DEUTZ business is really fairly robust now, increasingly robust. We have done a lot on making the business more robust even in these tough economic climate what we have right now and we clearly attribute that to the successful implementation of our strategic initiatives, as part of the Dual+ strategy.

To give that in a bit of a longer period and this is looking a long way back, but we did that on purpose to show really the period between '08 and now pretty much. And what we show here is, right, two lines: one is the revenue growth always, which I present in terms of changing to the prior year numbers, [Technical Difficulty] line as well as the EBIT margin. It's gray line. And we see the two crisis, the financial crisis in '08/09 as well as the COVID crisis in 2020. And what we see here, if we look at the past that both lines, revenue grows or revenue shrinking as well as EBIT margin go fairly hand-in-hand. So in other words, if we are at the top of the cycle, margin has been alright, the level of up to 6%, but nowhere not a single time above that. And if we are at the bottom line – bottom end of the cycle, either we are just scratching at the zero margin line or if it's a bigger crisis like the financial crisis and COVID, we are going heavily negative.

So, we cannot say and we will never say that, obviously, we overcome the cycle because the cyclicity of the business that will remain and that's a given. However, with the changes we have done to the portfolio, with the changes we have done to cost structure as well as revenue structure, we managed to decouple this issue between top line and bottom line. And we see that, yes, actually quite nicely now in the first quarter '24, but also going back in '23 already, right, that even though revenue has been going down, profitability is going up and remaining on a stable level. So first quarter, 6.1% is a level that in the past, we have had only, let's say, once or twice on the top end of the cycle. So that's why we say, well, really with that consequent implementation of our Dual+ strategy, we have made the business much more resilient. And in other words, it also means if we're going uphill on the cycle again, – we expect – we are very confident that we are getting the margins way above the 6.1% that we have right now, but that's really looking into the midterm future.

And speaking of a couple of the mentioned topics here. So first of all, the big contributor to that driver making the business less cyclical is certainly the growth of our service activities. Having said that, also in the past 15 years, we've grown our service business with a CAGR of 5% between 2012 and 2021, so in line with the market, so solid development led to the fact that by 2022, the revenue share of service was a 24% coming from much lower numbers previously. And in the last year since we kicked off really Dual+ with that – also with that M&A activities, we doubled the CAGR from 5% to 10%, which brought us also already in the last year to almost like – to more than €480 million revenue. And for '24, we're expecting a number north of €500 million, and for '25, we stick with our midterm target from – announced a couple of years ago at €600 million. And in '24, already now revenue share of services at 28% are translating into €126 million, so both in absolute, as well as in relative terms, an increase. And what we don't disclose it for a good reason is the margin on the service business. But you can see by the overall group margins that relative growth of service revenue also pushed up the group margin, and that's one of the reasons why we're doing that.

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And focusing or continuing on what I know beyond the service business, our sort of operational focus points for this year. Briefly looking back, what helped us tremendously in '22 and '23 was the optimization of the portfolio, both within the engine business, as well as within our portfolio companies, mentioning here the sale of Torqeedo will come to that later. Also in the service business, the strong expansion in the United States with our DEUTZ Power Center, where we've added every year, 1 to 2 of these DPCs really increasing the coverage of that profitable business in the States. And this is not the end. We're continuing like that. And we've talked a lot in the previous calls about our pricing initiative, which we kicked off in February '22, and really manage that through all the way to the end of last year, where we set – where we somehow repaired the portfolio and managed to increase prices and pass on the cost increases to the customers being, let's say, defending our position here. But obviously, that one has a lasting effect, and we expect this level now to remain a bit more than stable. It's important to push back when it comes to request to reduce, but we're pretty successful here.

And also, on an operational point of view, we are able to manage our capacities fairly flexible. You may remember that in summer last year, where we experienced a super strong demand in our compact engine sub-4 liter, we added at a fairly short notice, the third shift in our assembly line 5 here, all with temp labors, by the way. So we didn't bring up fixed cost here, which made it easier for us when the demand dropped a little bit into this year to also take off this just again without having significant issues here with labor costs. So that was a good learning and a good experience and gives us confidence that also in the future when we have similar fluctuations, we're able to react quickly and effectively.

Meaning going to this year and beyond, whereas pricing and production portfolio was a focus for performance and a boost for performance last year, now it's important really for this year beyond to switch the focus stronger to material cost reduction, and also, capital allocation, I'll come to that in a minute. So we come from a situation, which was clearly sellers' market. Now we're going to a situation, which is more strongly like a bit of a buyers' market and yes, we are sellers, but we also buyers. So we've got a fairly huge material and component spend. And we have – we've been focusing now on reducing direct and indirect material cost and I'll come to that in a minute.

But before doing that, also let me briefly mention our now increased rigorosity and the management of our capital allocation, primarily in R&D. When it comes to the Green segment, we'll certainly focus a bit more on our hydrogen business here specifically, speaking of the hydrogen combustion engine, including the use of that product in a power generation unit in a genset. But also, we informed you on a regular basis about our new partnerships in the Classic segment with the alliance with Daimler Truck as well as Rolls-Royce Power Systems. That also allows us leveraging synergies, particularly also in R&D when it comes to development activities for new combustion engine. So that's what we'll already start feeding this year, but also in the years to come.

Purchasing was just mentioned by myself. So we will not be able to provide here detailed numbers, but we want to explain to you the mechanics and principle. So we have fairly large purchasing volume, and we'll work here, both on cost cutting, as well as on CapEx reduction. We do have, obviously, some counter effects from some suppliers, but we actually are quite confident that we are able to fight most of that back. And we started with the beginning of the year, a holistic cost reduction program focusing on direct material – indirect material, as well as capital expenditure. And we work here with a sort of traditional or standard cost reduction initiatives, demand management, target cost analysis, design to cost, et cetera. So that's been going quite well.

We also will increase our best cost procurement spend, which is still on a fairly low level '23 at 4%. We're going to go – bring it up to 6%. So there is still room for improvement without increasing dependencies on certain regional countries in the world. And what we do expect for '24 is see a material cost savings in a double-digit million euro range. We're using the same methodology and a very similar approach like what we did in our pricing initiatives in the last 2 years. So the organization is now used to work rigorously on programs like that.

Let me also briefly recap one of our portfolio optimization points we achieved. The sale of Torqeedo is now completed. We sold it to Yamaha Motors. That's known to most of you, which we believe is really a best owner for the business and also recap in '23, Torqeedo recorded a net loss of around €23 million. So that's why not only financially, it's an important point to found a solution for – of that former portfolio company, it's also an important step in refocusing our green business because Torqeedo was certainly interesting from a technology perspective and also isolatedly from a market perspective, but didn't have very many synergies with our core business. I know, we can actually put a focus on developing product solutions, which meet actually the criteria of the markets relevant for us and the customers relevant for us.

Looking back, what does it mean for our numbers, apart from eliminating the loss of the business in the previous years. First of all, agreement was signed in January. Transaction completed just beginning of the second quarter. So the cash in was recorded already on April 3. So that also means that all the number effects for the sale will be recognized now in the second quarter. So, you won't see neither of the effects in the numbers which Timo will be presenting in a minute, but the cash in, it's almost €80 million that we made very clear. Book gain, we expect in the second quarter to be in the low double-digit million area, an important step in our refocusing and reorganization and part of the Dual+ strategy. And yes, Dual+ strategy, just a short update, what – why we're making progress. I mentioned a few of the points already.

Classic focus on performance, performance, performance, very much now on efficiency and material cost reduction, as mentioned earlier. But also strategically, we have signed now the partnership agreement with Rolls-Royce Power System by the end of March. So was an interesting time at the end of March and beginning of April with those two M&A deals being signed, respectively, closed and the deal is expected to be closed, completed in the middle of this year. And thus, we expect to benefit from the positive impact on revenue, as well as bottom line throughout the second half of this fiscal year.

DEUTZ's Green sale of Torqeedo I mentioned already, but also operationally, we're making great progress with our hydrogen genset order from China. The first four gensets are – have been shipped. Further ones are being assembled right now. So the situation here is well on track and shows that after the sale of Torqeedo, we're making good progress with Green products, in particular, when they are quite close to our core. And let's not forget service business. We'll see the numbers when Timo was presenting in detail, but what we see already in our year-on-year growth of almost 4%. And part of that is that the market is – the service market and the parts market is typically much more stable than the new product market, but also the integration of the acquisitions we closed in the last year, I mean, will they now begin to show here the full year effect. And speaking of acquisitions, we will continue these sort of very targeted structured M&A activities, a few targets on the pipeline, nothing to be reported yet, but on our road to €600 million. Our road to €600 million is well defined, and we see that with great confidence.

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Yes, well, that was my first start through the highlights. And with that, I will hand over to Timo to give you more details of the numbers.

Timo Krutoff

Yes. Thank you, Sebastian, and a very good morning to all of you here from Cologne. Yes. Let me now give you little more details on the financial numbers. Looking at the first four KPIs – three KPIs here, we're now looking at new order intake, unit sales and revenue. Sebastian already mentioned that the new order intake is down by 19%. So that in general, of course, isn't the best if we compare it to the quarter one of last year, but quarter one last year was a very, very strong quarter. So in general, that's the effect wouldn't have been so big if we had a more normal quarter, but anyway.

On the sales side, and this is more important sales and revenue side, we can see that unit sales were down 17%, but at the same time, revenue was only down 10%. And this is due to, yes, one topic we have heard already in the last year, quite again a few times, is our very successful pricing strategy. But the other part and this is really in times like that, I can't stress that point often enough is our service business. We see very little volatility in the service business. So in times of downturn on the engine sales, this supports sales revenue and especially our EBIT side, very strongly and is very good for us. The book-to-bill ratio is a little below 1. That means exactly 0.92, but in-line with what we had expected.

Looking now a little more into the breakdown of the regions and the applications. So let me start on the right side with the region. So I think this gives us a good picture of what's happening in the markets. Let me start with the good parts. So the U.S. is pretty much flat. We are down 1% compared to previous year, and the U.S. now makes up 26% of our total sales volume by region. So just a little over a quarter. So compared to when we look back in the past years, last year, it was 24%, now it's 26%. So the market is still growing for us in terms of percentage and flat if we look into absolute numbers. The German market doesn't look as bad as one might have expected as well, so minus 1.9%. I would still call that almost flat, so that is good. The thing, where we do see a significant downturn is the European market without Germany, where we are down 24 – 20.4% with a total market share from our side of 35%, that, of course, is a hit.

On the other side, if we look at the applications per segment, then we can especially point out the Material Handling segment, which is still growing. It's up 8.2% compared to the previous year and also makes up 26% of our total sales. Looking at the number above that, the Service segment now is our biggest segment. So that is very, very good 28% of total sales volume this year. And Sebastian mentioned that already, also up 3.8%. So these two make up more than 50% of our sales volume and are on a good track. On the other hand, construction equipment, not surprising with everything we see in the market and also the agricultural side, down 20% and 27%. So this is where the reduction in the end comes from.

Looking at EBIT, yes, we did have a very, very successful last year. We shouldn't forget that. That was the most successful year of the DEUTZ's history if we look at EBIT and the margins. But still in a time like that, where we see an economic downturn and sales volume is down usually, you have an issue because of your fixed cost allocation. And of course, we see that in our numbers as well. But if you look at it, we ended up at 6.1%, which means €27.7 million in absolute numbers. So we did have a guidance also a midterm guidance. We're going to talk about that in a little bit, which was between 6% and 7% for 2025, which was always our goal to reach that in that year. And yes, we did reach that last year already, and we're still within this range. I think in a time, where you have more headwinds than tailwinds, it is very good that we are above the 6% still.

Looking at the R&D spending and capital expenditure in general, yes, we're not [indiscernible] on this still. So we are investing in the future of the company. You can still see that, especially on the R&D side. For those of you, who are not aware of that, we are not capitalizing, where we've almost capitalized nothing or anything on the R&D side, so that hits the bottom line right away. And so, if you look at our EBIT result, we do have an effect here, and we still increased our R&D spending by almost 14%, which is, of course, good for the future of the company. But Sebastian mentioned that we are going to talk about reallocation of these spendings for the next months to come and let's see what we're doing there.

Our capital expenditure looks like it's been much smaller than last year, but this is due to the special effect of quarter one of last year, where we did do the deal with Daimler and had a huge effect of that. So in general here, I think we are in-line with what a normal quarter for us means and also in-line with what we have planned.

On the working capital side, we did do a lot of optimization for – in the last year, coming from a very high number in the summer and reduced these over the – especially over the last two quarters and especially in Q4. So we did a lot of the optimization already, and we're pretty happy that we could keep that low level now. So we are pretty much flat on the working capital side.

A little bit on cash flow, quite a few numbers here. I would like to focus, especially on the free cash flow from continued operations before M&A. It's the second from the right here. So we still have a positive free cash flow. That is also good in times like that shows the resilience of the company. We ended up at 5.1%, sorry, €5.1 million in absolute numbers. And as Sebastian mentioned, there's no money in yet from Torqeedo. Torqeedo was closed in quarter two. So we see the cash flow – the positive cash flow of that deal in quarter two. So that's going to give us a significant boost here. So therefore, net debt, not many changes, which is in-line with the free cash flow development.

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Short look, and this is my last slide now on the Classic segment and the Green segment. I think in the Classic segment that most numbers we've already looked at – in the end here, we see that R&D spending is pretty much flat on the Classic side. And the EBIT here adjusted with 37% is still a very, very good contribution to the company that is very successful. On the other side, we see – and this is may be now some more information, the Green segment. If we look at new orders, unit sales and revenue, of course, these are now very small numbers since Torqeedo is not included anymore. But at least if we look at it from a percentage perspective, we should see a little impact – positive impact from the gensets going to China within the next months or quarters of this year.

We can also see here that we are spending more on the R&D side, especially in the Green segment. So we came from €6.2 million last year to €8.8 million here and therefore, are significantly investing in the Green segment. And this is also then – that makes up the difference. If you look at EBIT adjusted, the Green segment now is negative at €9.6 million, which is with €8.8 million R&D spending almost entirely from the R&D side.

This is it from my side. And I'm going to hand back to Sebastian and thank you.

Sebastian Schulte

Thank you very much, Timo. And as it says, the outlook for '24 before looking out for '24, let me briefly look back again to recap the highlights of the first quarter, running through fairly quickly. New orders, down almost 19% at €419 million; unit sales down 18% at 38,000 units; revenue down 10% at €454 million, implying a book-to-bill ratio of 0.92. So just a bit below 1, but also are stabilizing compared to fourth quarter. EBIT margin, 6.1%. And I mean, if you look at the adjusted EBIT of €27.7 million, yes, it's down compared to a strong Q1 last year. However, if you annualize that, we are on triple-digit numbers here. So let's say, not a bad outlook in this difficult environment right now. Free cash flow at €5 million. Partnership with Rolls-Royce Power Systems now signed in the end of March. Sale of Rolls-Torqeedo closed at the beginning of April. So once more, very important 5 days around the change from the first to the second quarter for the company. And our service business has a very stabilizing factor with now almost 30% of revenue in the first quarter.

And with that in mind, we are confirming our guidance for 2024. Unit sales, yes, we're coming down from 187,000 engines almost in the range of between 160,000 and 180,000. We do see us within that range and clear – clearly. So the fall in demand is reflected in those expected unit sales. If you look at revenue coming from €2.1 billion to the range of €1.9 billion between €2.1 billion and both unit sales, as well as revenue, let's bear in mind that the agreement with Rolls-Royce Power Systems here should begin to have a good effect, a positive effect on revenue and also on EBIT from the middle of the year. So that's supporting us here.

Adjusted EBIT margin in 2023, we're at 5.7%. Now, we will give the guidance for the year between 5.0% and 6.5%. And as we've just learned 6.1% in the first quarter. So here in the middle of the range, even at the slightly above the midpoint. And as explained, supports really – supported really by the expanded service business and a much, much more robust pricing and cost structure. That means we are in a way better position in terms of resilience to really meet here or compensate is, I think the better word to compensate the situation on the top line for the new engines.

Free cash flow coming from the €56 million before M&A, again, for M&A, see a mid-double-digit million-euro amount for this year.

Speaking briefly about the midterm targets, which, well, this has been defined for 2025. Obviously, it's not so much midterm. It gets well the short-term now. And we'll still see these numbers confirm the €2.5 billion revenue, as well as the service business at €600 million, as mentioned earlier, and the margin between 6% and 7%. Given outlook in October this year, we're going to host another Capital Markets Day, where we'll obviously talk a bit more detail about the midterm than the new midterm. But for the time being, we're confirming here our targets also for '25.

Yes, and that's it pretty much for this first quarter. What I think we can clearly say, we believe it's a sound set of figures that really shows and confirms a good operational and strategic development despite the lower engine volumes, which we see. So we are optimistic, confident to make our 160-year anniversary year also for the short-term, a successful year and continuing to write our positive story of the Dual+ strategy.

And with that in mind, thanks for your time on this morning, and we're available for questions as usual.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from Jorge Gonzalez from Hauck & Aufhäuser Investment Banking. Please go ahead.

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Jorge Gonzalez

Hello. Good morning. Thank you for taking my questions. I have a few questions. The first one, I am interested if you can comment on the end market that is supporting the stable revenue in Germany. I am curious, especially taking into account that other companies with exposure – with similar exposure to construction are suffering more in this region, is the forklift market helping you, material handling market, or what you can tell us about this?

Sebastian Schulte

Maybe if you go through all your questions, and then we give a…

Jorge Gonzalez

Yes. Of course.

Sebastian Schulte

It's easier for us.

Jorge Gonzalez

So, the rest of questions are basically on the guidance. So, with decent start to the year and taking into account the normally – normally the first quarter is a little bit more softer than the second quarter at least. I was wondering, how you see the increase in volumes for the rest of the year, taking into account that the midpoint of the guidance is around 170,000 and that implies growth for the rest of the year. Do you think it's going to be, or it should more in the last semester or you are already foreseeing some growth in the second quarter? I am asking this, especially because I see that the backlog is going down, and I was wondering if this is going to be a problem for the second quarter or not necessarily? That's my second question. And my last question is regarding the service sales. And so, you mentioned that you are expecting €500 million – more than €500 million for the year. So basically, the run rate for the first quarter, I understand that goes for the rest of the year. Is any inorganic growth or any faster pace expected through the year that we should take into account for service? That are all of my questions. Thank you.

Sebastian Schulte

Yes. Let me start with looking at the end market, why it's been stable in Germany. I mean, if you compare here the first quarter '24 versus the first quarter '23, and what – I mean units sold, and Germany were down 9%, but revenue was, as we said, fairly stable. So, we do see in Germany a slight decline in construction equipment. We see a slight increase in material handling in terms of units sold, but it's been compensated to a large extent by the successful pricing initiatives in both sectors. That's why Germany has been all in fairly stable if we compare quarter one this year to quarter one last year. And well, anticipating a potential follow-up question, we saw particular in construction equipment, and also and more even its agricultural equipment, in the rest of Europe, we saw a rather larger drop, which could not be compensated by our pricing initiatives. So, that's – that's for the explanation on the end market. If you look at the outlook for the rest of the year, and first of all, we are not overly worried about the absolute level we have now in terms of order backlog. Yes, compared to the previous 2 years, it's way below however, and albeit, we went through that, I think a couple of times in the last months during these calls. We are now a little bit below sort of the normal level pre-crisis. So, it's not a massive point of concern. Obviously, the numbers, the order backlog we have had in the last 2 years, so we are extremely comfortable. Looking back at – or coming back to your question on looking to the second half of the year, we see it a bit region-by-region differently. We see on a low level in Asia, slight – a very slight uptick in Asia, but that's not going to support the cake too much. But we see at least some positive signals from individual customers in Europe, but we see the most sort of robust development still from the United States going into the second half. And let's not forget that the business, the Rolls-Royce Power Systems business, which we are going to integrate in the beginning of the second half of the year will bring us quite a substantial top line and also bottom line. Let's bear in mind, this business is on an annual level, brings a revenue of €300 million. So, if it's coming on July 1st, it's €150 million, if it's coming on August 1st, it's €120 million, roughly. So, that certainly supports us in being comfortable about the volume expectation for the second half of the year. And mind you, the question on service, the third one, I have just missed.

Jorge Gonzalez

Are there any M&A…?

Sebastian Schulte

Okay. Sorry, he was just explaining to me. There is the – we are working on some, but it's not that mature yet that we are feeling comfortable to talk about that. But we are working on some. And what we have done over the last 2 years is that we have built up a pipeline of activities with a focus in Europe, as well as in Americas. We don't focus too much here in the service M&A in Asia and China, because here the business is not overly attractive, particularly compared to the other two regions I have just mentioned. So, in short, we are working on something, and you and the group here will be the first to know as soon as we are able to do so.

Jorge Gonzalez

Thank you, Sebastian. Maybe quick follow-ups on what you commented. On the pricing side, is there any business mix maybe if it, like smaller – like a smaller weight of the compact engines than last year, or is just price increases that we should take – we should consider at least flat or even slightly higher prices for the year? That is my first follow-up. And the second very quickly, on the comments that you did on the market, I am maybe missing a comment on the order intake, like you did in the first quarter. Is there any – is any continued trend in terms of the order intake, like we have seen in Q1, improving – sequential improvement maybe to be expected in second quarter?

Sebastian Schulte

Yes. Let me start with the first question. If you look on a year-over-year comparison, we will see price increases because the pricing initiative from last year, not all the price increases were effective on January 1st. So, we will see some effects, which relate to finalization of negotiations, let's say, effective 1st of July, 1st of September and so on, which didn't show the full year effect last year, and they will obviously now start impacting from the beginning of the year. If we look on a sort of year-over-year basis without this intra-year effect, I do expect a fairly stable situation into '24. So bear in mind, in the last 2 years, we managed to increase by between 8% and 10%, 8% and 12%. And that's certainly not possible right now anymore in that market environment, but we also – and that's the good news. We also do not see any reductions in that. That's why it's important for us to switch the focus on always riding the wave and the value chain a little faster than others. That's what really helped us in '22 and '23, and we want to continue riding that wave that way. So, that helps us here. And then you talked about the second question was about…

Jorge Gonzalez

Order intake.

Sebastian Schulte

Order intake, so we have had a, let's say, on the level we have shown right now, for the first quarter, we expect a similar level now on the second quarter, a bit of monthly ups and downs, but this is at the moment, let's say, fairly stable development on that reduced level. But obviously, that's why it relates to my initial answer to your very first question as soon as the first end markets, either by geography or by application segment will start kicking off. We will see that in the order intake. But let's see, we look cautiously optimistic towards the rest of the year.

Jorge Gonzalez

Thank you very much Sebastian and Timo. I will go back to the line.

Sebastian Schulte

Thank you, Jorge.

Operator

And the next question comes from Stefan Augustin from Warburg Research. Please go ahead.

Stefan Augustin

Hello gentlemen. Thank you very much for the question. And staying with the orders recognized, I think two days ago that TEREX, which is one of your larger clients increased the outlook for the aerial work platforms, which I think you are delivering. So, the question here would be, let's say, simply looking from that important customer in the U.S. is that an increase versus your original expectations? And the second question I have is on the Green segment. You mentioned that some of the sales for the Chinese gensets would kick in and that you continue to be – or that you will be a bit more prudent in allocating R&D. So, can we already assume for the second quarter that the loss in green is a bit below that of Q1? And the final one is actually a bit more for the housekeeping. I recognize that some of the costs for Torqeedo were on the group level. Going forward, I assume that the one-off book gain will be booked at DOP level and that other costs for the transaction remain on group level. Is that the right thinking to it?

Sebastian Schulte

Alright. Thanks Mr. Augustin. First of all, on Terex and the question on Terex, so yes, we also observed that statement, obviously. And then that fulfills – that not fulfills, that confirms our positive vibe when it comes, first of all, to the U.S. material handling customers, not only Terex, it's also JLG, who are continuing to be fairly bullish in the products and segments, where we are delivering them to. And Terex, in fact, in line with also some good news or slightly higher orders from KION are even helping us in sales to Germany. So, that's good. And I have to be very clear that both of these American customers, Terex and JLG, I mean they grow – they want to grow continuously, and they want to grow with DEUTZ. So, that is a very, very good news. And so yes, we confirm that view. Then you talked about…

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Stefan Augustin

Green R&D.

Sebastian Schulte

So, Green R&D, exactly Green R&D, let's see. We believe we maybe – we may see first slight results in the second quarter, but the focus of those activities goes very much into, let's say, the second half of the year. So, important is that we are making now the right decisions to refocus. And yes, we will expect a stabilization of that result at least on the marginal level in the second quarter, but then more towards second half of the year. You then asked about the way we talked and we account for the Torqeedo sale. So, the deconsolidation effect, so the book gain, we expect, or we will book in the second quarter, that will be shown in the discontinued operations, will also show the result of Torqeedo in the first quarter in the discontinued operations, and both will see special items as well. So, that is here for the housekeeping, it makes a little bit complicated. But obviously, if there are still follow-up questions, we can always explain that also besides the call. And they are, as usual, in M&A transactions of that nature. There are also some costs relating to the transactions for particular for consultants supporting here, and that will also be shown – or that will be shown, as a special impact within the continued operations.

Stefan Augustin

Thank you very much.

Operator

[Operator Instructions] So, it seems there are no further questions at this time. So, I would like to turn the conference back to Mark Schneider for any closing comments.

Mark Schneider

Mohit, thank you very much, and thank you everyone for your interest. If you have further questions like Sebastian already mentioned later on, please reach out to me. I just want to highlight two other special dates within the next days. We have the official ceremony of our 160 years anniversary on Friday. It's not that relevant to the capital market, but I think it shows DEUTZ's long tradition and our ideas for the future. And then I think we will talk about the AGM, which will take place as a virtual format on May 8. Thank you very much for your interest. Talk to you soon and all the best. Thank you.

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