KION GROUP AG

Q1 2022 Update Call

Conference Call Transcript

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Speakers: Rob Smith (CEO)

Rob Smith Thank you, Nairoby

Rob Smith

Thank you, Nairoby. Good afternoon, ladies and gentlemen, and welcome to today's update call. For today's call, please refer to our Q1 presentation that's on our IR Website.

In the next hour or so, I'll be talking you through our Q1 key financial and strategic highlights and our market update and segmental financials in more detail, and I'll end my presentation with some key takeaways for you, and then we'll go into Q&A.

Let's start together, please, on Page 3 with our key financial figures. In view of the ongoing and substantial uncertainties in the procurement markets, significantly exacerbated by the war in the Ukraine as well as by corona lockdowns recently, we withdrew our guidance earlier this month.

During Q1, we saw intensified material cost inflation and further supply chain disruptions, particularly impacting our adjusted EBIT and free cash flow during the quarter.

Before we go further, I would really like to thank and recognize our employees, our customers, our business partners all around the world for supporting our business in these extraordinary times.

Despite increasing economic uncertainty from the war in the Ukraine, demand for our products and solutions remained on a good level.

Order intake was up 10% year-on-year to €2.9 billion and contracted sequentially from a record high in the fourth quarter of '21. Given the ongoing challenges from supply chain disruptions, our revenue in the first quarter remained at similar levels to the fourth quarter at €2.7 billion. Adjusted EBIT finished at €170 million versus €215 million last year and a margin of 6.2%.

Significantly higher working capital needs impacted our free cashflow in the fourth quarter, ending at negative €433 million. And earnings per share were €0.61. At our virtual AGM on the 11th of May, we propose a dividend of €1.50 per share, a 35% payout ratio of last year's net income.

Let's look at some strategic highlights in the quarter on Page 4 together. I'd like to mention three examples that illustrate well how we're progressing as a global leader in intralogistics and supply chain solutions, combining our strengths across the group to offer the best integrated solutions for our customers.

This quarter, both Linde and STILL have presented their new autonomous mobile robots. These vehicles allow for a high degree of integration into many warehouse automation processes. And the attractive economics and flexibility of AMRs present a strong benefit to our customers.

In March, we exhibited on a joint booth our integrated solutions at MODEX in Atlanta, combining a whole range of Dematic and Linde solutions, featuring operator assistance systems, lifecycle services, and scalable forklift automation. These highlighted our joint offering from SCS and ITS and how we give customers a full range of intralogistics solutions.

We also continue to invest into our lithium-ion technology. To meet the increasing demand for lithium-ion-powered electrified warehouse trucks, we expanded our production facilities in Karlstein. With our new production line for 24-volt batteries, typically used in warehouse equipment, KION Battery Systems set the next milestone on our innovation and sustainability path.

Let's move together to Page 6, and I'll talk you through the industrial truck market and order intake. In the past, we've usually provided an update on the global industrial truck market in unit terms using WITS data. This time, following a recent assessment of European competition law, the WITS data regarding order intake in units is being delayed by three months since the beginning of this year. So this time, we're not able to describe the market development with WITS data as usual, and we'll do that according to our own assessment.

We expect that EMEA and the Americas have seen a strong start in the year and that APAC has seen a slight increase.

In KION, order intake grew 29% in EMEA, 76% in Americas, 20% in APAC, and globally, orders were up 29%, reaching 87,000 units, and 87% of those units were electrified.

EMEA continued to see a strong momentum in Q1. In North America, with our improved dealer network, we were able to achieve significant growth across all product segments, and we are investing in extending our local production capacity.

And our Growing in China strategy is bearing fruit, supporting growth in E and warehouse trucks, and the factory ramp-up in Jinan is running according to plan.

Page 7, we'll see the key financials for the ITS segment. Demand remained strong in the first quarter. Although the order intake was up sequentially in units, order intake in euros was down 15% to €2.1 billion. And the reasons for these are three.

First of all, the short-term rental fleet units, additional this quarter, as usual are reported in order intake units but not in euros. Secondly, we’ve seen strong sequential strong demand for light warehouse equipment, and third, a slight sequential decline in services, mainly driven lower used truck volumes.

At the end of the quarter, the order backlog increased 11% sequentially to €3.2 billion. This covers more than three quarters of new equipment sales. This implies that it’ll take longer for list price increases on our new trucks to drop through. Keep in mind, however, that more than 50% of ITS revenue comes from services, where we are more agile on pricing.

We managed the further intensified supply chain challenges and were able to keep revenue almost flat compared to the fourth quarter, coming in at €1.7 billion.

Q1 procurement costs intensified versus the fourth quarter, and additional semi-finished trucks that ended up in inventory created further inefficiencies in the production process and triggering increased costs for logistics, storage, and handling of these unfinished machines.

Adjusted EBIT margin finished up at 6.6%, up 20 basis points from the fourth quarter, and adjusted EBIT was €114 million.

On Page 8, let‘s look at the underlying market trends for Supple Chain Solutions segment. Medium- and long-term fundamentals for the supply chain automation market continue to be strong.

Overall, the structural market drivers are intact and include the continuing growth of ecommerce as a growth channel in all verticals. The consumers demand for faster delivery and ever-increasing labor costs and decreasing labor availability.

COVID clearly accelerated the marketplace, and the last 18 months witnessed sizable automation investments.

Only 10% of the global warehouses are fully automated, and headroom to grow in the market is enormous. This gives us strong confidence that the market continues to grow in double digits.

Looking at our pipeline, it remains robust, and it's steadily increased over the last quarters. Nonetheless, increasing economic uncertainties, supply chain disruptions, and high raw material prices could trigger players to be cautious on their spend for additional capacity in the short term.

On Page 9, I'll summarize the key financials for the Supply Chain Solutions segment. We often get the question: Is the €1 billion mark the new normal for our order intake? And clearly, we've had quarters over €1 billion. But order intake in this business is lumpy by nature, especially as projects are increasingly getting bigger in size.

Q1 order intake in 2022 is 21% below the strong levels in Q4 and remains stable versus last year's levels. What I would point out is last year's levels, as we announced, included a €150 million order from a European grocery company.

At the end of March, order backlog was slightly down, finishing at €3.7 billion. Revenues improved slightly quarter-on-quarter and finished over €1 billion. And like in the fourth quarter, we continued to focus on protecting our customers' schedules. And this caused us not only to increasingly buy from higher-priced spot markets for material to secure material and components, but also keeping our labor forces, our technicians onsite and ready to install equipment at the moment it arrives.

EBIT margin remained stable versus the fourth quarter at 7.3% despite these intensified headwinds.

Let's go to Page 10 for the key financials for the overall group. The adjusted EBIT margins of our operating businesses were stable in the first quarter versus the fourth quarter. However, our adjusted EBIT for the group improved sequentially to €170 million and 6.2%, benefitting from a lower provisioning for variable remuneration during the quarter, predominately reported in the corporate services line.

The current low level of profitability for KION is not satisfying, and we're taking actions to address this.

Page 11 shows the reconciliation from adjusted EBITDA to the net income for the group. Reported EBIT included negative nonrecurring items of €31 million, mainly coming from write-offs in connection to the assets associated with our Russian business.

Net financial expenses decreased to €3 million negative, including an improved net interest result coming from our lease business.

And as we did not recognize deferred tax assets on the write-off on our Russian business, taxes increased sequentially, reaching €35 million in the first quarter. We ended the first quarter with a net income of €80 million and earnings per share of €0.61.

Page 12 shows our free cash flow statement. Q1 ‘22 free cashflow was negative at €433 million. Aside the low EBIT, the main driver for the negative free cash flow was the strong buildup of net working capital, primarily driven by higher inventory levels caused by further increased semi-finished trucks and the stocking of material and components to ensure future production and future project execution in these volatile times. In addition, contract assets and liabilities developed negatively due to milestone postponements from supply chain disruptions.

Net debt on Page 13. Net financial debt increased by €470 million, slightly surpassing the €1 billion mark, mainly caused by the weak free cashflow generation.

Our strong financial profile gave us the ability to cover our capital needs through a commercial paper program at very favorable conditions.

The leverage ratio, based on net financial debt, increased to 0.6x versus 0.3x at the end of 2021.

And higher discount rates had a positive effect on our pension liabilities that have come down to €1 billion at the end of the first quarter. Thus, the leverage on our industrial net debt increased to 2.3x vs 2.2x at the end of last year.

So I'd like to conclude on Page 15 with some key takeaways, please. The medium-term and the long-term fundamentals for our markets remain strong. In the short-term, the increasing economic uncertainties could trigger some players to be more cautious on their spend for additional capacity and could push out some project decisions.

With increasing raw material, increasing energy, and increasing logistics costs, it was time to become more agile on our pricing. Doing a price increase just once a year or twice a year, these days are behind us at KION. That's why we announced our second price increase for new trucks at the beginning of April and have taken further pricing actions in our service businesses.

Uncertainty remains high, which makes it impossible to provide a new outlook today. We will come back to the market with a new outlook for the year once we have better visibility.

I'd be very happy to take questions now. Back to you, Nairoby.

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. One moment for the first question, please.

Akash Gupta

Yes, hi, good afternoon, everybody. It's Akash here from JP Morgan. My first question is on 2023 target. I see, Rob, you have suspended 2022 guidance, but I was wondering if you can comment on '23 guidance on margins 10% to 12% and how realistic that is, but also on top line because now you are indicating that there could be some slowdown in SCS growth next year. So do you think that the target for Supply Chain Solutions revenue for next year is still valid in that backdrop?

And my follow-up question is on China, maybe if you can elaborate on exposure to China from sourcing point of view, and have you started to see any headwinds already in getting supplies from China that might require to run your factories elsewhere? Thank you.

Rob Smith

Sure, Akash. Thank you for those questions. Let's address them head on. With the economic and political uncertainties and the significant headwinds increase as the war on the Ukraine broke out and the corona shutdown and lockdowns in China, we retracted our guidance earlier this month based on the uncertainties in the market. And we do intend to come back and reinstate our guidance later this year when we have better visibility, and we'll update our medium-term targets for 2023 at the time we reinstate our guidance, Akash.

In terms of China and in terms of securing material flow, clearly, the lockdowns and the port congestions in China are going to have an impact on the supply chain, but that comes back to some of the uncertainty that we're talking about and the volatility.

So the supply chains are generally disrupted. We've not yet seen fully the impact yet, and we expect we'll see that in the months to come. So we're watching this very carefully, and it's part of our objective of returning to guidance as the uncertainty disperses over the course of the year.

Operator

Mr. Gupta, have you finished your questions?

Akash Gupta

Yes, thank you.

George Featherstone

Hi, hello, all, and thank you very much for taking my questions. I'll go one at a time. Just wondered with the first one whether you could help us understand the headwinds profitability that you think you might have as you're budgeting the rest of this year now compared to where you were at the start of the year because, clearly, supply chain issues were a problem already. So just wanted to know if there's a delta that you could share with us as you see things today.

Rob Smith

Well, George, in the face -- in times of retracted guidance, that's the entire discussion. And our team's working hard all over the company to improve profitability and work against those headwinds, but they're very significant, and there's a lot of them, and it's quite uncertain.

And so giving you a better answer prior to returning to guidance I think is not the right answer here. We're watching this uncertainty. We're working through it. And we will return with guidance in the back end of the year as the uncertainty clarifies and we are able to give a real -- give some solid views on the rest of the year.

George Featherstone

Okay. Understood. Clearly, in this quarter as well, free cash flow was very weak. Given the uncertainties that you talked about, you're likely to probably have more and more cash tied up in working capital for longer throughout the year. Do you expect that you will be able to deliver positive free cash flow in 2022?

Rob Smith

Well, that's a guidance story as well, George. We're working hard on that. We're very clear about it. There are very good reasons for the buildup. And we're also working on building it down over time as well.

George Featherstone	Okay. Understood. Thank you very much.
Sven Weier	Yes, hi, Rob. It's Sven from UBS. The first question is on what you said on pricing, and we appreciate clearly the higher agility that you put in place now. I was just also wondering what potentially you see on addressing the pricing of the backlog. Obviously, on the equipment side, you now have almost like a year of lead times and was just wondering if you see any scope for discussions with clients about the pricing of the backlog. That's the first one. Thank you.
Rob Smith	Sure, man, good question. And pricing agility, commercial agility really -- commercial agility is understanding the dynamics of the headwinds and understanding the dynamics of the material and energy and logistics in real time and working on pricing on a very agile basis, too, associated with those headwinds. And as I described, we have put now our second price increase in place in early April for new trucks. We've been working on our service elements and have made good progress on pricing and services. And order backlog is not taboo. And there's been moves in the order backlog as well.
Sven Weier	And can you shed some more color on the latter point, how you go about the backlog then? Is it affecting just the further out orders in the backlog or only some specific clients in the backlog, or would be really curious to hear some more color there.
Rob Smith	Sure, look, let's be addressing those things as we go through time. At this point, I'd like to stick with what I've said. It's not taboo. We're addressing these items. And we've put in place our second

new truck price increase in the course of this year. It was higher than the first one, and we're working on the service elements. And order backlog's not taboo.

Sven Weier

That's good to hear. And the second point, Rob, if I may, is just on the guidance order intake. I guess the most important reason for withdrawing the guidance was probably the uncertainty on earnings, whereas on the demand side, things seem to be coming in still quite nicely. And you talked about this -- the pipeline in SCS and how it has improved.

So did I understand you correctly that maybe yes in the near term, maybe next quarter, the order intake in SCS might be still hovering around the level of Q1, but the original order intake guidance you gave for SCS is still reflecting the pipeline, so to speak?

Rob Smith

Yes, man, in the middle of no guidance, you're asking me to guide for the second quarter. We don't have guidance in place. We got a lot of energy and effort in place. And there's good momentum, but we're not reinstating guidance at this point in time. There's still just too much uncertainty out there.

Sven Weier

Okay. But in the short term, it's fair to assume that SCS -- as you said, there might be some short-term push out there. So I guess it's probably unlikely that we see massive pickup in Q2.

Rob Smith

Well, what I'd tell you, man, the point is we -- a lot of automation orders are getting bigger and bigger over time. So when you get it, it's a big lump, and when you get it after a quarter ends, it's a big lump in the next quarter. So by definition, these things are lumpy.

We talked about this year versus last year. Last year, there was a €150 million good guy in the order intake all from one order. And so the pipeline on a midterm basis remains strong. The fundamentals are there. We're confident in our business.

Sven Weier

Okay. Thank you, Rob.

Will Turner

Hi, afternoon, everyone. A handful of questions from me. The first one is on the supply chain bottlenecks and the inventory buildup that you're having. Could you just elaborate on a bit more on what is it specifically that's causing the issues? I can imagine it's now much broader than just electrical components. But is there any specific product which is really holding up production? And what are you doing to kind of mitigate those issues?

Rob Smith

Sure, there's several elements, and the -- if you're asking about different products or different components, primarily we're talking about electronics, and we're talking about steel components. But the other element of the whole story is just the interruptions or the disruptions, if you will, in the supply chain and how containers that are foreseen to arrive at a specific point in time at very short notice get postponed or get delayed by a day or two or several weeks. And it's quite a moving picture on these disruptions.

So components, electronics, and steel and the overall precision of promised delivery dates turning into postponements on delivery dates at short notice is what drives a lot of inefficiencies, especially on keeping technicians onsite, keeping staff onsite to be able to put the material into the project as soon as arrives or scheduling factories and production plans in the factory. And all of a sudden, the container doesn't arrive. Maybe the container wasn't available, or maybe it got delayed in the port, and then you have to replan your production. So there are inefficiencies involved in that.

Will Turner

Okay. Great. And I guess, one of the facilities that may have been disrupted as well -- you have a factory near Shanghai, if I'm correct. Is that factory operational at the moment, or has that -- is that -- have you seen some disrupts at production there, and what's the latest there?

Rob Smith

Yes, as you know -- good points, Will. We've got three factories operational, and we laid the ground -- by the way, the third factory, the Jinan truck factory, the production ramp up is going very well there. That's our third factory operational in China and the fourth that we're building now, those are moving well.

So we don't have factories being shut down, but the entire situation, once again, factories need a steady flow of parts. And with shutdowns, that's making things more difficult, and supply chain interruptions. So we're operational. And it's a moving picture, and it's quite a tenuous situation with the lockdowns.

Will Turner

Okay. That's clear. Thanks. And then just a final question. Sorry to labor on this a little bit, but the comments you made around Supply Chain Solutions and potentially being some weakness in the short term, and just to clarify, basically, you're seeing decisions being postponed for the larger product orders. Those orders are still there. They're just being postponed. And there's been no change in your existing backlog.

Have you had any of your current backlog of orders customers saying, “Actually, you know what? Deliver this in a couple of months’ time”?

Rob Smith

No, good question. There are no cancellations in the backlog. These are important decisions that people are making to strategically give themselves a better competitive advantage and change their business in many times through significant automation projects.

And so those are deliberate. Those are thoughtful. Those are committed. Those are over a significant period of time and good-sized projects. And so it’s very rare, and we haven’t had any cancellations.

What is the case is a milestone may be delayed, or a project could be postponed for a period of time, as customers are also sorting through their own assessments of the uncertainties in the market.

But as we talked about, medium and long term very strong, the fundamentals are absolutely there. The need for automation, the drive for supply chain automation is very much there. So we’re -- good expectations of that market and good expectations of our business.

Will Turner

Okay. Great. Well, many thanks for answering questions.

Gael de Bray

Yes, hi, good afternoon. Thanks very much for the time. I have a couple of questions, please. The first one is really on the pricing dynamics. So I think you raised prices already by about 5% in January. There was a second price increase in April which might actually have been even higher. So do you see actually competitors following on your price increases? So that's the first question.

Then secondly, are you now fully covering cost inflation for the trucks that will be delivered in 9 months on the back of these price increases you've already implemented, or do you still need to do more to fully cover cost inflation? And if that's the case, how much more do you think you can do before we start to see some demand destruction? Thanks very much.

Rob Smith

Good question, Gael. And those -- that's a balance, and it's a dynamic balance. You're asking us if we're -- got explicit visibility to explicit customer pricing actions -- competitor pricing actions. No, but I'm very clear that you're also on track with the question that you -- or the assessment you made.

Our price increase effective at the beginning of this year was a bit over 5%. The one we put in place at the beginning of April was certainly more than that. And we're working this in a very agile approach, recognizing, though, that with €3.2 billion of backlog, trucks that we're taking orders for now will be produced in the next 6 to 14 months. And so it will take a period of time with the price increases we're putting in place right now, will come to -- into production and get invoiced and come to the bottom line.

The whole point of agile pricing is to keep our eyes on that very carefully and to follow those cost movements, and we do expect to cover our material costs today. We expect to cover our material costs tomorrow, and we're working that with this agile -- commercial agile pricing approach.

Gael de Bray

Okay. Thanks very much. Can I have a second question on SCS? Would it be possible to give me a rough idea of the share of the SCS backlog which currently benefits from escalation clauses? And looking at the more recent order development, have you been able to secure orders with more protective conditions, or is there actually some reluctance from clients about this, about the implementation of logistics as a cost plus a limit or, more broadly speaking, escalation clauses?

Rob Smith

Sure, Gael. You can imagine that material escalations and inflation escalations are increasingly on the radar screen in the entire industry there. And customers and market participants understand that we're in a very dynamic environment. And so the agile -- commercially agile pricing I'm describing affects all of our business. And our SCS business is focused on this. Our ITS business is focused on this.

I think we've not given a projection or an insight into how much is and how much isn't, and I'd rather not at this point in time. But I tell you it's absolutely on people's radar screens. And those are conversations that people are having.

Bottom line is our automation installations in the SCS market are giving our customers strategic advantages, strategic competitive advantages, and it's a value-for-value kind of business. And so we're very focused on that and the agility on commercials and pricing certainly applies to contractual -- setting up projects with contractual conditions in place and operating those over time.

Gael de Bray

Okay. Thanks very much.

Sebastian Growe

Yes, hello, good afternoon, everybody. Hi, Rob. The first one was a follow up on the Supply Chain Solutions business. And I would be interested in, after having seen the gross margin contracting obviously quite significantly, and I understand the root cause around cost inflation and inefficiencies, but could you shed some light around what is happening in terms of mix, or has this changed also to the bad, or is this really only in a certain way coming down to cost inflation and inefficiencies, and that should sort of normalize over time? That's the first question.

The second question is around working capital. And after this massive increase and risk buffers on the inventory side, do you feel that you are now pretty well equipped, so to speak, on the working capital side, or do you see really a need for even higher working capital levels, or on an absolute basis, this is sort of sufficient to handle the situation?

And the last one, with about 1 month down the road after the second price round for IT&S, can you just give us a comment on how well these have been taken by customers so far or if you could simply comment also on the sequential development, on the monthly order development, that would be very much appreciated and helpful for everybody, I guess.

Rob Smith

Hello, Sebastian, good to hear from you. So let's talk SCS. Let's talk mix. Let's talk -- at one point in time, with very, very significant new build growth last year, we grew that business 45% to 50% depending on currency last year year-on-year versus a market growth of about 21%.

And so as you put in place new build, over time, the service element picks back up. So with the very strong service installation

-- new build installation last year, a bit of service mix, but it's not a big deal there, in terms of an overall mix story.

Working capital, it may increase, and that's part of the uncertainties that we're working through. Our term is working against that and the market's -- our team is working on reducing working capital, and the market's giving us some headaches. But we're working through that. I'm not going to say it's going to get bigger. I'm not going to say it's going to get less. We're working on making it less. It could get larger.

I would say that we've got very solid financials. We've got our good two investment grade credit ratings. We've been able to cover that with our commercial paper program at favorable terms. And we got our eyes on that. We got our eyes on the profitability. And we got our eyes on bringing the guidance back when the market uncertainty comes -- reduces, and we can come back with some solid guidance for the rest of the year.

You asked about pricing, and what's the pricing -- what's the market demand reflection after having indeed put pricing up twice this year. The demand remains strong. And it is the second price increase we've put up this year, and indeed, things -- the demand and the order intake remains on a good basis.

Sebastian Growe

If I may just ask a very quick follow up around SCS because my question was rather on the project mix, not so much really on solutions versus service, but inside the solutions, if you have seen sort of any mix shift in the sense that you're selling more third-party solutions like one of the Norwegian companies, for instance, that is listed, where you get probably a smaller margin than selling your own conveyor sorters and whatever. So that is more the nucleus of the question.

Rob Smith

Okay. I get you. No, our Supply Chain Solutions business is the world’s leading integrator of our own and third-party technology with a full software stack and being able to put all that into a solution that’s giving our customers competitive strategic advantages. And there is no specific mix change between own and third-party technology. We do integrate by the way with a very strong partner, the ones that you’re talking about, and integrate their modules successfully into overall solutions.

Very good example of that is our microfulfillment centers for urban grocery locations. So no change in those kind of mix. Things are in a good way. I’d say between 30% to 40% is third party. Between 30% and 40% is our own. And that’s how those projects go into place. And as the leading integrator, we integrate all that in an overall solution for our customers.

Sebastian Growe

All right. Thank you for that.

Katie Self

Hi, good afternoon. Thank you for taking my questions. I’ve got two, one on ITS and then one on SCS, if I could. So just on ITS, I wonder if you can help me understand a bit better the dynamics between new truck sales, used truck, and on short-term rental. And particularly, could you just explain a bit the rationale behind increasing additions to your short-term rental fleet as we’re getting to a point where industrial growth is perhaps starting to moderate?

We’ve seen in the past that typically new sales would follow that, and utilization can come down with that. Do you see a risk that you end up with overcapacity in your fleet as these orders eventually feed through into the P&L? So that's question one.

My second question, just around the SCS margin, I totally understand and, look, respect the point that you can't give explicit guidance, but just if qualitatively you could help us understand where the downside protection is in that SCS margin.

As analysts looking at this stock, we haven't really seen SCS in a sort of significant down period or anything like that. So it's difficult for us to gauge just how far down those margins could come. Any help you could give us that -- aside from pricing, what measures do you have to protect that bottom line? Thank you.

Rob Smith

Okay, Katie, let's work through those one at a time. You're asking about ITS, and you're asking about the dynamics of new trucks, leased trucks, used trucks, rental trucks. It's a very significant capability we have and an overall sustainable element of being able to have our trucks have a first life, have a second life, have a third life.

Our trucks go out new as either sold or leased. The ones that go out on a lease program include a full service with it. They will come back. We'll give an -- we'll have an opportunity to refurb and either sell it again as used or put it into the rental fleet.

In terms of new trucks, sometimes we -- rental fleets are for rentals up to 12 months. Sometimes, they're a week. Sometimes, they're a month. Sometimes, they're several months, but up to 12. And then the leasing is 3, 4, 5 years, depending, once I say -- as I say, with a full service contract.

And on a cyclicality point of view, when those trucks come back after three lives, then we're able to do very significant amount of recycling on those trucks and those materials.

The lease -- maybe one dynamic I'd share with you, one of the reasons that there were fewer used trucks available in the discussion about units versus euros in the order intake for the quarter, with material availability and longer lead times on new trucks, many of our customers, we've been helping them by extending the lease contracts. And then when the lease contracts get extended, there are less leased vehicles coming back that we would then sell as used trucks. So that's one dynamic to talk -- to mention for you.

And as the short-term rental fleet gets older, then you put new trucks into it, and there's always a constant flow of either new or maybe coming back off of first lease into the short-term rental fleet.

Is that helpful for you? Is that what you were looking for there?

Katie Self

That is. That's helpful color. Thank you. I guess, if I could just ask just a little bit more specifically, what I'm thinking about is, as we looked into the second half of 2019, a number of KION's competitors started cutting additions to their rental fleet before KION.

And while that meant it seemed that their orders underperformed for a while because of this dynamic you talk about with additions to the rental fleet being included in units, it meant their margins were more protected into the downcycle because they didn't have as large a fixed cost base. I guess, I'm wondering whether you see any risk of a repeat of that scenario, in which case KION's margins could fall further than peers.

Rob Smith

No, we've been looking at that carefully, and we don't see a risk on that, Katie.

Katie Self

Great. Thank you.

Philippe Lorrain

Yes, thanks for taking my questions. So the first one is really like on the rental fleet orders and the comments you made with regard to that effect on the Q1 order intake. So if you exclude rental fleet orders, could you tell us roughly what the order intake growth was in unit terms?

And the second question is more on SCS. Are you already seeing orders for the reshoring of certain manufacturing capacities into higher-cost regions?

Rob Smith

Okay. Hey, I come back to the amount of units that went into the rental fleet. I guess, if you would do that, it's probably 6 points. And so 29 is 23 would be the answer for you on that one.

Ask me again your second question, Philippe.

Philippe Lorrain

Yes, I was wondering whether you start seeing already orders in the warehouse automation for the reshoring of certain manufacturing capacities into higher-cost regions. That's following basically the start of the trade wars under the Trump presidency, that fact as well that we learned from the pandemic that perhaps the globalization had gone a bit too far, so these kind of thoughts. And I was just wondering whether you've seen already customers placing orders with regard to that.

Rob Smith

No. You know what's the big driver on orders and automation is what I was talking about before. There's a very strong demand in the market using online ordering. And ecommerce used to be -- I guess we all were tracking it as a vertical by itself, but in the meantime, all the other verticals have an important element of ecommerce as well.

People are ordering online. People want things same day, next day latest, and labor is very hard to get in warehouses. Manual labor is getting very scarce. And so there is a lot of focus on getting automation to help companies be able to achieve their needs and their abilities to deliver on the ecommerce environment.

I'd also point out people are investing local for local in North America, but people are investing for a lot of different reasons. And as people adjust their supply chains, I don't see too many stopping one supply chain for the expense of another or starting one at the expense of the first.

People are basically adding flexibility to their supply chains. They're recognizing that, when you only have one source, no matter where it is, there's a certain amount of vulnerability. And if it's a longer ways away and there's supply chain interruptions, that's even more risk involved. And so people are adding to their existing supply chains to have flexibility in it, and in many cases, that would involve and does involve automation.

Philippe Lorrain

Okay. Perfect. Thank you very much.

Martin Wilkie	Yes, thanks, good afternoon. It's Martin from Citi. So a couple of questions. So the first one is on customer behavior and the cost base. So obviously, the trucks themselves are now more expensive, but what we've seen in some parts of the world, diesel prices are up 40%. And so are you seeing changes in customer behavior in terms of trading down or switching from combustion to electric, or has there been a sort of switch because of rising running cost of trucks? And the second question was then on -- just coming back to leasing. Could you remind us of the dynamics that, if presumably second-hand trucks are more valuable because the new trucks are more expensive and presumably scarcer to come by, are customers able to keep the truck at the end of the lease period with paying a pre-agreed price rather than you getting it back? And are customers beginning to do more of that in order to profit from inflation in the secondhand markets? Thank you.
Rob Smith	Well, let's talk about that, too, Martin. You're asking about customers' behavior and rising running costs. What I'd mention to you is about maximum 15% or so. We've got quite an echo somewhere.
Martin Wilkie	Let me mute my line in case it's me.
Rob Smith	Can you hear me now, Martin? Echo's gone. That's good. Look, coming back to the rising running costs, fuel is an important running cost, and our customers see our industrial trucks as very important capital good investments and are buying them on a total cost of ownership basis. Maybe 15% of the overall total cost of ownership is the new price in the first place or the investment in the first place.

Next one after that, of course, is if it's internal combustion, is the fuel, is the energy. And a very significant portion, 60% to 65%, maybe even 70% is the operator themselves. So there's a focus on moving to automation in our trucks, and we have a good automated capability and automation capabilities, and our AGVs and AMRs, as I was talking about before on our strategic highlights.

And clearly, yes, as diesel costs go up, operating costs for internal combustions go up. On the other hand, there is a longer-term, in many cases, a contract in place, or it's an ownership. The truck is already there.

You ask if there's a mix change. We don't see a specific mix change between internal combustion and E. But what I would point out to you is you see we've got 87%, almost 90% of our order intake is electric. Why is that? I guess you know.

Warehouse trucks are growing, and warehouse trucks are almost exclusively electric. And then the internal combustion and the E-trucks are both counterbalanced. In total -- counterbalanced have internal combustion and electric battery operations. And in total, about 87% of our order entry is electric and electrified.

And as you see on Page -- must be 6, you can see how that's developed over time. It's reasonably stable, but it's higher than it was several years back. And I would anticipate, as we would go forward, it would continue to grow.

Within the electrification, there's a lot of advantage associated with the lithium-ion batteries. And that's why we're excited about extending and expanding our lithium-ion capacity in the KION Battery Systems.

You asked about the value of a leased truck. You see it also in the car market. You saw what's happening on pricing on used cars when new cars have longer delivery times. Leased or used trucks, it's a dynamic market, too. And clearly, there's a time advantage.

There is no change in customer behavior when the lease timing ends. In some cases, we have extended the lease if somebody's expecting a new truck coming and it's not available yet. So those are individual discussions, and we work on helping our customers find good solutions that work for them. Those trucks, as I said, do have a second, do have a third life, and we don't see inflation playing a role there.

Martin Wilkie — Great. Thank you.

Jorge González Sadornil — Thank you very much. Hello, Rob. My first question is also regarding Supply Chain Solutions unit and -- but more from a qualitative point of view. So we have seen industrial truck order intake being very strong, and I was wondering, what is the difference now that is making industrial truck order -- that this is strong, taking into account that that should be reflecting that the demand for the warehouse equipment is strong but is not reflected in Supply Chain Solutions orders?

I understand that the increase in size obviously could be -- could explain part of this in one quarter, but what are the conversations you're having with clients? Are not clients worried about the increasing lead times? What are you seeing in terms of the

	potential volume that is accumulating from this effect, these increasing lead times to basically deliver projects?
Rob Smith	So that increasing lead time, Jorge, is clearly something that everybody's working on and working against. And as I say, our lead times at this point, depending on truck and depending on configurations and things, will be somewhere between 6 and 14 months. And that's part of a consideration a customer's making on new versus taking a lease or taking a used truck or extending a lease on a machine they've already got with us, for example.
	I want to help you with the first part of your question, too, and I think I'm answering the second part. Come back with the first part, Jorge.
Jorge González Sadornil	Yes, yes, so is not the increase in lead times also helping you to sell more automation products in the short term? Are not clients taking into account that there is still a strong demand for industrial trucks? I understand that the demand for warehouse equipment is still strong, how this is not being reflected in the order intake for automation.
Rob Smith	Okay. I get you. So look at it this way, please, Jorge. The industrial truck is not a substitute for automation. And the -- basically, what they do is they're complementary, and those are two elements of an overall intralogistics and supply chain solutions that our customers are getting from us.
	You put those elements together. You put additional elements, and you put an entire software stack on it, and you help someone have a multichannel fulfillment center. You help them have a microfulfillment center. You have warehouses that'll have a lot of

automation perhaps on the grocery side and have some trucks on the beverage side. There are a lot of different elements, and they're complementary.

The exciting thing about KION's offering is we have the full suite of intralogistics and supply chain solutions. And one isn't a substitute for the other. They complement each other, and they give the customer all the elements of the solution they're looking for. That might be a way to look at it.

I guess the other element you're asking about maybe is -- you were asking about a tradeoff. I'm describing there isn't a tradeoff. I'm describing they're complementary and augment each other. You're asking about the order entry and trucks being strong and order entry in supply chain.

I come back to the statement: real big orders and lots of orders over time, the trend in the automation is orders. Some are getting bigger over time. And the lumpiness of that industry and the orders coming in, do they hit a quarter? Do they come a couple weeks later? That's why we're talking about lumpiness when we talk about supply chain. But -- Supply Chain Solutions.

But we see both markets have very good medium and long terms. And we were describing the short-term dynamics in some of the other questions today.

Jorge González Sadornil: I see. My last question is regarding the consensus. So after you dropped the guidance because of this -- obviously, this uncertainty that we have now, the consensus have reduced a lot of estimates and now is around 200 million below in adjusted EBIT. I don't know if you have any comment regarding this because, taking into account that analysts will have difficulties to really estimate the impact of the increase of the steel and other raw materials, it would be interesting to know if you are comfortable with this new estimate from consensus.

Rob Smith

Jorge, I would -- I'd come back to the conversation we were having earlier about, in a time of retracted guidance, we retracted it exactly because of the uncertainties in the market and the challenges and the headwinds and the supply chain and logistics disruptions.

And that was exacerbated when the war on Ukraine broke out, and it was further exacerbated as the corona lockdowns come into place. And so with that uncertainty, we shall come back with guidance for the rest of the year later on in the year as that uncertainty alleviates over time and we have a good strong view of where we're going to land.

Jorge González Sadornil

Okay. Thank you very much, Rob.

Rob Smith

Hey, if Katie is still on the line, I'm recognizing, Katie, I think I picked up on your ITS question, but I missed the opportunity to answer your SCS question for you. If you're still there, I'd be more than happy to help you.

Okay. Well, everybody that is on the line, maybe mention to Katie I did want to come back and didn't want to shortchange her on a question. And I think that's being a good corporate citizen together on these calls. So happy to help you next time, Katie. Happy to pick up a call with our IR department if you want to come back for another follow-up question.

Will Turner	Hi there. Sorry about this. I thought Katie actually asked quite a good question. So as just a member of the audience, I'd actually be quite interested to hear what your response was. I think it was along the lines of, where could a Supply Chain Solutions margin go to in a downturn or in a more challenging environment, or along those lines. I'd be quite interested to hear.
Rob Smith	Will, you're double dipping. But I get a feeling you're helping Katie. And I do -- now I recognize the question again. Katie, Will, ladies and gentlemen, that's a guidance question. And we're planning to reinstate guidance when we've got a good view. I can tell you that people all across our company in Supply Chain Solutions and Industrial Trucks and Services are working very hard to do very good business this year. And with all the uncertainty out there, we're working to improve our business day for day on quarter for quarter, and we're working very hard at that. But coming with guidance with the amount of uncertainty we've got in the market wouldn't be an appropriate thing to do. So we're going to keep right on it and be working hard at it, and we'll be coming back when the market helps us with a bit of less uncertainty out there and as these significant economic and political challenges the whole world's going through become more clear over the course of the year. So I think that's the best way to answer both Katie and Will's question.
Will Turner	I guess, just like kind of a follow up on that, in terms of the -- how you price the projects in Supply Chain Solutions, are they then -- is there passthrough mechanisms for this challenging

environment, or do you have a certain number of projects which are kind of lumpy fixed prices, and therefore, it's a bit more difficult? I'm just thinking for the next coming couple of quarters.

Rob Smith

Sure, Will. You can imagine, with a portfolio of over 1,000 projects underway at any given point in time in the year or 1,000 or more over the course of the year, some do, some don't. Increasingly obviously in this environment, more and more and more will. But for many years, we weren't in an environment like this, and some projects are still in the pipeline like that. And we're working on being agile, as I say, in all of our businesses. And our Supply Chain Solutions team is working just as hard at this as our ITS team.

And I expect that that's a good visibility for you, 1,000 projects plus over the course of the year, each one of them, and we're working on having more and more riders, of course, as part of our agility programs.

Will Turner

Yes, this makes sense. Thank you.

Katie Self

Hi, thanks. Thanks, Rob, for coming back. No, I appreciate it and to Will for asking the question. That was the question. He's absolutely right. I guess, just -- it just -- if I can follow up slightly just one of the questions on a qualitative basis because I appreciate that you can't give guidance at this time, but one of the things I wanted to understand because all of us are relatively new to looking at this business, right, at Dematic since it's only been part of KION for a few years, is just qualitatively, where can you get downside protection?

	Aside from implementing price increases, which will take understandably some time to come through, are there other levers you have that could give you some kind of downside protection on that margin in SCS?
Rob Smith	Sure, Katie. The Supply Chain Solutions business has -- that's a great environment to be having as we are giving our customers strategic advantages as we're putting these installations in place, there's a real understanding on both sides that it's a value-for-value project together.
	And in the course of a project, there are many opportunities for discussions about scope and having change order discussions and having negotiations as people go through those projects and they get to understand each other better, and sometimes, you realize that, hey, if we do an addition here or make a modification there, it'll make things even better during the course of the project, and then there's a discussion and agreement, a change order that goes into place.
	And so there are opportunities indeed to steer these things in -- during the life of the project and over the course of the project.
Katie Self	That's really helpful. Thank you.
Rob Smith	Well, Katie, I didn't want you to feel shortchanged. And I certainly wasn't trying to miss your second question.
Katie Self	No, I appreciate it. Thank you very much.
Rob Smith	Okay. Hey, Nairoby, I think we might be at the point where it's time to have some closing remarks. Are you okay with that?

Operator	We have a last question, if you don't mind.
Rob Smith	Let's take it. Sure, who we got?
Philippe Lorrain	Yes, thanks, Rob, for taking that last question. Just like briefly to understand, since you quantified the effect from the rental fleet ordering on the Q1 stats that we've seen, do I understand that right that actually there was a negative mix effect that was weighing a little bit on the order intake in monetary terms in ITS, or perhaps my calculations are wrong?
Rob Smith	No, no, that's a good understanding. I'd be happy to share it again. Look, the bottom line is, when you -- as you put trucks into the rental fleet, they are new truck incremental trucks, and therefore, we count them in the units. However, since it is going into our own rental fleet, we don't count them in the external reported revenue. And so that's the one element of the distinction you're asking for.
	Secondly, if you think about all the different kind of industrial trucks out there, in the warehouse truck space, there's some quite light -- quite a light range of warehouse trucks and therefore and less expensive. And so as warehouse trucks and light trucks get increasing shares, then there's certainly a mix element there.
	And then as we talked about, we did over time extend our -- the small ones I'm talking about are the -- I guess, maybe if you want to know more about that, if you're walking through a grocery store, for example, and you see someone stocking the aisles with a manual pallet jack, a walk-behind pallet jack, those never used

to be part of the industrial truck market statistics, the WITS statistics that I was talking about earlier.

But as those got electrified and those get a motor on them or a battery on them, all of a sudden, they are counted in the overall statistics, and so they're visible. And as they're -- the automated are more interesting or the electrified ones are more interesting than the manual ones, and so there's a good growing market there. We play in that market. And that's an element of the mix that we're talking about.

And then as we also mentioned, as customers ask to extend their lease contracts for a period of time, as we did that, then there were less trucks coming back that were used trucks that we would sell as used trucks, and the used truck sales are counted in our services revenue. And so a slight decline in services basically because we were selling less used trucks because they were being used longer during the leases, and that would be the explanation behind those three reasons for the order intake in euros versus the order intake in units.

Philippe Lorrain

So I understand correctly that you had like really in the warehouse segment actually these mix effects because it wasn't really like visible, let's say, if you consider IC versus E versus warehouse trucks, as of the information that's provided on stats.

Rob Smith

Yes, that's the shift I'm talking about is within the warehouse segment, right?

Philippe Lorrain

Okay. And is my understanding correct as well that we could consider that the sales that you do across the whole service offering in IT&S, much is more or less the order intake in the specific period also for that kind of activity because it's short lived?

Rob Smith

Yes, that's a pretty good understanding. Service sales can be in and out in the same day, in and out in the same week, certainly in and out in the same quarter. Sometimes, there's something scheduled one quarter for an onsite delivery or an onsite work a little later, but there's clearly a much more in and out in the service business, in and out in the same period.

Philippe Lorrain

Perfect. Thanks so much, Rob.

Rob Smith

Okay.

Operator

So we have no more questions. I hand back to you, Rob, for any closing comments.

Rob Smith

Well, thank you, Nairoby, and thank to each of you for joining our call today and your strong interest in our company and in our industry. We're excited about the industry we're in, and we're really proud of our company and how it's doing. And we're very excited about our prospects for the future.

I'd point out to you, as a highlight, we publish our 2021 Sustainability Report tomorrow. Please take a look at that, and you'll see the exciting progress and journey that we are on with our sustainability in KION. So take a look.

I look forward to talking with you about that as you have a chance to take a look at that and read through it and discuss that together. Hope to see you in person when we're out and about over the next period of time and looking and picking up these conversations when we get together.

So thank you and thanks for your time and thanks for the very good questions.