Konecranes Q2 2024

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Kiira: Here with me today, I have our President and CEO, Anders Svensson, and our CFO, Teo Ottola. Before we start, a kind reminder: This presentation contains forward-looking statements. Next, Anders and Teo will walk you through our Q2 results. Anders will start with the group numbers, after which Teo will focus on the business segments. The presentation is followed by a Q&A as usual. Now Anders the stage is yours.

00:00:43
Anders: Thank you, Kiira. Welcome also from my side to this webcast for the result of the second quarter. The headline of the quarter is a record-high comparable EBITA margin in all business segments. The demand environment remained healthy during the second quarter, even if it was down 11 percent on a strong comparable in the previous year. Sales execution was strong and we delivered above one billion in sales, up 13 percent versus the previous year. That gave us record-high comparable EBITA margin of 14.3 percent, and it was actually an all-time high in all business segments. The profitability improvement was mainly driven by higher volumes and also by price inflation management and strong strategy execution. I'm moving to the market environment and starting with our industrial customer segment. If you look at the manufacturing capacity utilization rate starting in the EU, it was down sequentially and also down on a year-on-year comparison by 2.3 percentage points. In the US, however, sequentially, it was up. If you look at a year-on-year comparison, it's actually quite flat.

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Anders: If we then move into the global manufacturing PMI that was in expansion. However, if you look at the Eurozone, still in contraction, while the US, China, India and Brazil are clearly in expansion. I move over to our Port Solution Customer Segments. Here, we normally look at the Global Container Throughput index. If you look at this, it continued on a high level, and on a year-on-year comparison, it's up six percent. That should talk about a strong market climate for our Port Solution customers. I'm moving to the group order intake and net sales. Starting with the order intake, we had a healthy order intake of 968 million, which was down 11.5 percent versus a strong comparable in the previous year. However, the order intake is the strongest we have had in the last four quarters. If you look into the different segments in service, we had an all-time high order intake. In Industrial Equipment, we were above 300 and on the same level as in Q1 and ahead of the Q3 and Q4 of the previous year. Then you look into Ports also here above the 300 million and the strongest order intake in the last four quarters. However, in the comparable one year ago, there were two significant order intakes.

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Anders: The first and the largest one was to Port of Virginia, where 36 automatic stacking cranes at a value of above €130 million, and there was also another one to Copenhagen Malmö Port. Our net sales execution was strong. We delivered €1,032 million, which was up 13 percent versus the previous year. We had an increase in all three segments. Geographical-wise, we had an increase in EMEA and in the Americas and a decrease in APAC. The mix for the group was slightly positive for the quarter. Moving into the group order book. Our book-to-bill for the quarter was slightly below one, thanks to the strong sales execution. If you compare it to the previous year, we are 12 percent down versus Q2/23. As you can see, that was a bit of a peak in the order book. Since then, we have improved our delivery capabilities and reduced lead times for customers. Going into the second half here with almost a three billion order book is a strong position. Then I move into our group comparable EBITA. Here we delivered €147 million. That was 50 percent up on the previous year where we did 98.

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Anders: That gave us a margin of 14.3 percent for the quarter. That was up 350 basis points versus the previous year. The group's comparable EBITA margin increased in all segments. It was at an all-time high then in all segments as well, and as I said in the beginning, it was driven by volume leverage, price inflation management, and strong strategy execution. If you look at the gross margin, it also improved on a year-on-year comparison. Now, we normally look at our financial target and our performance towards our financial targets. If you look at the quarter isolated, it's very strong; the group and all the segments are within the profitability range. Actually, in the top half of the profitability corridor, you can't look at one quarter isolated. When we look at Rolling 12 instead, we can see that group are now within the profitability corridor at 12.3 percent on a Rolling 12 basis. Service as well 20.8. You can see a strong performance from Industrial Equipment and Port Solutions getting quite close to their profitability corridors as well. That looks very good. If we instead then also cover the sales growth target, which was to grow above nominal world GDP.

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Anders: If you look at the previous year, '23, we had a growth of 20.5 percent in comparable currencies versus 22. So far this year, we are running at 7.8 percent growth in comparable currencies, so also, here, I think we are delivering on our target. Then I move into the demand outlook. Within our industrial customer segments, we say

that our demand environment within industrial customer segments has remained good and continues on a healthy level. We have seen that during '23 and also the first half year here of '24, the demand environment has remained good. We are not saying that there is no uncertainty anymore in the market. Of course, there is. However, we see it as quite stable on a good and healthy level within the industrial segment. Interest rates are negatively impacting customers' decision-making process. Not that they cancel or discontinue projects more, but that they take longer to make decisions when it comes to larger projects such as process cranes not affecting standard crane and component deliveries in the same way.

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Anders: funnel continues to be strong, also containing process cranes to a large extent, and we see a good inflow of new cases into the funnel. Then, if I move to the port customer segment, we say that Global Container Throughput continues on a high level, and long-term prospects related to Global Container handling remain good overall. If we look at the pipeline here, it's also in a very good state, with cyclic products and projects of different sizes. You know as well as we do that this product business fluctuates mainly depending on the timing of decision-making in larger customer projects. We haven't had a really big project in the last couple of quarters, as you are aware. I think delivering 300 million plus without those kind of projects is a very good level for us. Now we see, if we look at the second half, that there are some projects that come more into a decision-making process with customers. We are looking positively towards that. Then I go into the Financial Guidance for 2024. Starting with net sales are expected to remain approximately on the same level or to increase in 2024 compared to 2023.

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Anders: Then we say that comparable EBITA margin is expected to improve in 2024 compared to 2023, and as you know, we upgraded this statement in June. With that, I would like to summarize that we are very happy with our performance in the second quarter and also in the first half of the year. We're looking forward to the second half of the year. With that, I would like to invite our CFO, Mr. Teo, to dive a little bit more into our financial numbers. Go ahead, Teo.

00:10:20
Teo: Thank you, Anders. Before going into the business segment numbers, we could take a brief look at the Group profitability bridge. This is the comparable EBITA bridge between Q2/24 and Q2/23. This one looks very good. The year-on-year improvement now is €49 million. As a comparison, if we take a look at the first quarter, there the year-on-year improvement was only €6 million. Now, this is a clear step forward in this respect. The improvement in year-on-year and Q&Q basically comes mainly from two aspects. One of them is the underlying volume, and the other one is net of inflation pricing. As Anders mentioned, our sales increased by 13 percent. The price impact in the year-on-year comparison is around five percent , maybe a little bit more. However, this gives us a very good underlying volume improvement in a year-on-year comparison, which obviously is feasible in the operating leverage of the company in the second quarter. Then, we can take a look at the price impact. This five percent price increase in comparison to the situation a year ago is more than inflation.

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Teo: This gives us a net inflation pricing benefit in a year-on-year comparison. In comparison to Q1, we didn't basically have any underlying volume improvement in Q1 in a year-on-year comparison because the sales were not that high. We did have a net inflation pricing impact also in Q1, but in the second quarter, it was somewhat more. Then, when we take a look at this Q1 versus Q2, fixed costs continue to be well in control, and this emphasises the impact of operating leverage. The execution as a whole. The efficiency of the operations was very good, and this is also a positive delta in comparison to the previous year. We had good execution in Q1 as well in a year-on-year comparison. This may not be different from a sequential point of view, but definitely on a year-on-year basis. Underlying volume improvement, net of inflation pricing and good execution overall throughout the company, contributed to the big delta that we have in Q2 versus the situation one year ago. If we move into the segment level, we start with Service, as usual.

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Teo: Order intake €406 million. This is a growth of 8.5 percent with comparable currencies year-on-year. We had growth both in field services as well as in parts. Of the regions, we had growth in the Americas and EMEA, but a decrease in APAC. The agreement base also grew by 5.7 percent year-on-year and sales €396 million. That is 8.8 percent higher than a year ago in comparable currencies. Again, growth both in field service as well as parts, and also from the regional perspective or regional perspective, so all regions actually increased in sales in Q2 versus the year ago. The order book is on the same level as we were one year ago. Then EBITA is on an extremely good level, €87 million or 22.1 percent, a good improvement year, given by the pricing impact, as discussed underlying volume improvement, and also from the execution point of view, the quarter was good. All

of those contributed nicely to the profit improvement. Industrial Equipment. Their order intake was €305 million.

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Teo: That is a decline in external orders of approximately 11 percent in the year-on-year comparison. Again, with comparable currency, we had a year-on-year growth in Standard Cranes as well as in Components, but we had a clear decline in Process Cranes. The Process Cranes funnels have continued to be good. However, as Anders mentioned, the decision-making time has become longer, and as a result of that, the Process Crane order intake was lower than what we had a year ago. Then again, in a sequential comparison, if we take a look at that one, Standard Cranes actually increased in order intake. In Components, we had a decline. Sequentially, Process Cranes were more or less on the same level as they were in Q1. The Component order intake decline is primarily a result of the price increases that we made in Q1, and usually, there is pre-buying as a result of that. That was the case now as well, and Q2 orders were lower, exactly the same as we had one year ago. Sales are €327 million, that is, external sales from the external sales point of view, up 6.8 percent.

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Teo: We had growth in all major business units and of the regions in EMEA and Americas, whereas a decline in Asia-Pacific. Order book declined by some 5.8 percent in a year-on-year comparison. Then to the EBITA excellent result here, €32 million, 9.8 percent. This is almost a four percentage point improvement year-on-year, driven by volume here as well, but primarily actually strategy execution. For example, the optimization program that we have been running for industrial businesses, impacting mostly Industrial Equipment, has been generating benefits. We also had one time positives in the amount of roughly 4 million here as a result of the project settlements that we that we did during the second quarter. On the Port Solutions side, we have an order intake of €308 million. That is a decline of 27 percent in comparable currencies year-on-year. We had very good order intake in Mobile Harbour Cranes as well as in Straddle Carriers. Of the regions, if you take a look at that one. We had actual growth in APAC, whereas we had a decline in the other two regions.

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Teo: Again, sequentially, order intake actually increased as a result of the same business units as we had in year-on-year comparison as well, so as for straddle carriers. If we take a look at the early cyclical product groups like lift trucks, growth year-on-year sequentially, there is a slight decline. From Port Service, also an important one, there we had a year-on-year, more or less flattish situation. In Q2, we had growth. Sales were on a very good level. This is a very high growth of 25 percent year-on-year, €348 million. We had very good deliveries in RTGs. We also had very good sales in Port Service, which is supporting the mix going forward or now as well. Then when we take a look at the EBITA €36 million or 10.5 percent. Here, also like in Industrial Equipment, an improvement of almost four percentage points. This is driven by the underlying very big volume improvement, but also definitely the price. Mix was particularly good for Port Solutions in this quarter as a result of the high share of service and, for example, RTGs.

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Kiira: Teo, I'm sorry to interrupt. Apparently, there is some problem or issue with your microphone. Could you take this one?

00:18:53
Teo: Okay, but I don't need to repeat everything.

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Kiira: No.

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Teo: When we take a look at the net working capital and free cash flow, networking capital reached €458 million. This is 11.2 percent of rolling 12-month sales. It is on target of being below 12 percent of rolling 12-month sales. However, sequentially, we have an increase here. It is actually coming basically from all the business segments. However, one of the big reasons is the project timing within Port Solutions. Consequently, free cash flow in the quarter was quite low, driven by the net working capital increase. However, when we take a look at the rolling 12-month situation, our cash conversion still continues to be on a good level. Then as a final slide before the Q&A. Gearing and return on capital employed, our net debt was €438 million at the end of the second quarter, up from the first quarter as a result of the dividend payment. Gearing, 27 percent. When we take a look at the return on capital employed, now on a comparable basis, we are reaching a level that is above 20 percent. A very good level driven by the profitability improvement. This one concludes actually the presentation, and then we can go into the Q&A.

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00:20:39
Kiira: Thank you, Teo. Thank you, Anders. Once again, my apologies for the bad audio quality. I hope it gets better from now on. Why don't we start with the Q&A, then? You can send us questions through the chat function, or then questions can also be asked on that line. Maybe we start with the questions from the line please. Please, operator, go ahead. [silence 00:21:05-00:21:10]

00:21:09
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Daniela Costa from Goldman Sachs. Please go ahead.

00:21:35
Ilaria: Good morning. Thanks for taking my question. It's Ilaria here on behalf of Daniela. My first question is around free cash flow, so you had a sequential increase in net working capital in this quarter. My question is, how should we think about the evolution in the second half of the year? The second question is on pricing. I wanted to ask, do you think this pricing level is sustainable? Did you have major benefits in this quarter that you think might not be repeated going forward? Thanks.

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Teo: If we start with the free cash flow question. Correct. Net working capital increased from Q1 to Q2, generating lower cash flow for the second quarter than previously. This is, however, in line with so-called normal fluctuation, and the target that we have set for ourselves on a mid-term basis is that we should be below 12 percent of Rolling 12-month sales, and now we are at 11.2 percent. We are within the target. There are no major changes in terms and conditions with customers. There is no structural change. This is more like a project timing topic. The balance between inventory and advanced payments when it comes to the Ports business, and also when it comes to the Process Cranes in Industrial Equipment. Nothing dramatic, nothing alarming. We are within the target. You asked about H2. That will also then depend on the project timing, and that is the reason why we actually usually refrain from giving any guidance on the cash flow due to it being very difficult to estimate as a result of the, timings. It's always a one-time event, and at the end of the quarter, that's what the balance sheet situation there is. However, as I said, there is nothing to be concerned about in this respect. Shall I take the pricing or do you want to?

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Anders: Go ahead.

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Teo: On the pricing impact, what we have been saying all along is that we are expecting to be able to do a small positive delta as a result of the net inflation pricing impact. This has been the case for several quarters in the past, and we believe that we will continue to be able to do that going forward as well. A second quarter, from that perspective, was somewhat better than the first quarter and was somewhat better than the previous quarter, say, Q3 and Q4, from the delta point of view. This is primarily as a result of the mix. The impact mostly comes from Ports, and it's also driven by the product mix and how the timing of the deliveries has come about. However, the basic thing is that we believe that we will be able to do a small positive delta as a result of the rate of inflation pricing. Raw materials. I think you asked about those as well. Now that the raw material costs have been going down, we have benefited from that one to some extent. For example, in the second quarter, we will most likely benefit from that a little bit going forward as well because of the cost levels of the raw materials being what they are versus the pricing earlier.

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Teo: However, this is not a structural gain. This will even out over time. However, for Q2 and maybe to some extent in the near future, we will be seeing a small additional positive delta as a result of this.

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Ilaria: Very clear. Thanks. [silence 00:25:57-00:26:03]

00:26:04
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

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Antti Kansanen: Hi, guys. It's Antti from SEB. A couple of questions from me as well. The first one is on kind of the mix comments that you made. Firstly, on the industrial side regarding slower orders on Processed Cranes versus Components and Standard Cranes. I wanted to better understand if this will have a major positive mix

impact on margins going forward, as I assume that there's still a kind of a margin difference between the lower-margin Process Cranes and the rest. On the same theme then on the Ports, I also wanted to understand how big of an impact the positive mix has on Q2, and would you expect that to start to normalize going forward?

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Anders: I will start, and then you complement. Looking at the industrial side, then first on the order intake here. Given that Process Cranes are a little bit more affected due to high interest rates in the decision-making process than Standard Cranes or Components, that will have some effect on deliveries. However, since the lead time of those is much longer, that effect gets diluted. We don't expect that mix change in order intake will have a significant positive effect on the margins going forward. There can be some effect in some quarters, but then again, it's fluctuating since it's project deliveries much like on the port side, but on a smaller scale. Then, your question on Ports. Here it's more about what kind of deliveries we have in each quarter, and those are product deliveries. If we deliver in a quarter, products with an averagely higher margin than other products, then in that quarter, the margin goes up. If we have a good service sales quarter, then the margin goes up.

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Anders: It's more dependent on project deliveries than the underlying sustainable continuous business, which we have all the time. That makes us dependent on product deliveries, and that will vary in quarters going forward as well. If you want to complement anything.

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Teo: Maybe just a couple of couple of additions. Part of your question was whether there is still a margin difference between Process Cranes and, for example, Components. Yes, there is. If this kind of thing continues structurally, it would impact margins. However, as Anders said, we do not really believe that there would be a structural change. This is more like a timing topic, and Process Cranes funnels continue to be good. The expectation is that the orders will flow in at some point in time as well. As an overall comment regarding the mix, though, we can note that we are now slightly more optimistic or positive about the mix's impact as a whole for the group this year. At the beginning of the year, we were a little bit hesitant. We were of the opinion that maybe the mix is even negative, but now we can say that based on the current understanding, the overall delivery mix will be somewhat favorable this year in comparison to what it was the year before. This is primarily driven by Service. The higher share of Service and a good share of Port Service within Ports are some of the drivers that are impacting this comment.

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Anders: I think it's good to say as well that Process Cranes is a little bit like the Port's projects in terms of order intake. It's a bit lumpy. Also here, when you don't get so much in one quarter, the probability that you will get more in the next quarter increases. We don't see a structural change, that there will be no Process Cranes going forward. I think that's important to state as well.

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Antti Kansanen: That's that's very clear. I guess you kind of touched upon my second question already, but that was more on the guidance upgrading in June and the reasons behind it. These Q2 margins were at least much stronger than I had expected, but was this more about the mix comments that you, Teo, mentioned that you see a stronger mix for the full year, or is there something on the strategy execution that is actually moving well ahead of your plans, or what were the main reasons?

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Anders: I think we have several reasons here. One is we had a good volume leverage in the quarter that gave us a good result. We had, like Teo said, a positive mix, both for the group and then especially in Port Solutions. Teo also touched on the price inflation situation, which was maybe more positive in the second quarter than it usually is. Very clean quarter in terms of performance. There are no performance issues on either Process Crane's side or on the Port's side, which can sometimes impact somewhat negatively. Then we had a four million legal case that was decided in our favor. That also helped the result positively in the quarter. We are still expecting in the third quarter an improvement year-on-year, but we are not maybe expecting that it's at the same level as the second quarter.

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Antti Kansanen: Thank you.

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Teo: Maybe to clarify that the mix was not a major reason behind the upgrade in the financial guidance. It was

more the other things that Anders was describing, like strategy execution and operational efficiency, that we are more comfortable with now than earlier, and the net of inflation pricing as well.

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Antti Kansanen: That's clear. Congrats on a great quarter, and thanks for the answers.

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Anders: Thank you.

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Kiira: Thank you.

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Kiira: Next question, please.

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Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

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Tom Skogman: Hello. It's Tom here from Carnegie. Great to see good numbers. I assume you have had some good orders for a couple of years now, and it's filtering through in sales. I can see that the number of employees was up by only two percent year-on-year, so clearly less than sales growth. However, when I look into next year, the order book is a bit down, and the number of employees is actually up. On the other hand, you have these new modular products coming, you know, that should give a lot of savings, but I don't really know whether that will lead to mainly savings on the supply side, or will you need less own employees to deliver this? What do you think about this kind of number of employees going into into next year? Is there any kind of reason to consider some cuts in order to keep the great momentum going, as you probably will have less help from the top line next year as it looks now?

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Anders: Thanks, Tom. If you look at our performance, if you go back to 2022, during 2023, we increased the number of employees by 64. Then, if you look at this quarter, the number of employees increased by roughly 70 people. We got roughly 70 people with the acquisitions, we made roughly 60 with the Kocks acquisition in April and roughly 10 with the Dungs acquisition. That's very much aligned with the number of people coming in through acquisitions. We are generally not increasing the number of people. If you compare it to the level of 2022, I think we have shown internal efficiency improvement quite significantly. It has to do a lot with our strategy execution and what we decide to prioritize in the company to drive efficiency and value add for our customers. We talked about the order intake previously. It is lumpy when it comes to the process side of the Industrial segment and the port side. I mentioned that we are positive regarding the process side in the second half of the year, as well as projects coming into decision-making with port customers in the second half of the year as well. I think you need to look more on an annual basis when you look at order intake development, and it will shift from year to year a little bit.

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Anders: Some of those port projects offer deliveries three years from now, so you can't really look at half a year and compare it.

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Tom Skogman: Can you give some comment on the order backlog beyond the current year and what is for delivery this year?

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Anders: We do that once a year in the annual report. I don't have the numbers in my head, but we did that. If you look at the annual report, you will find that and that's updated. However, as we have stated, we didn't get any significant large orders in the first half year, so it's mainly those significant large orders that have a really long lead time. Most of the other products are delivered within 12 to 18 months, even if they are big products.

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Teo: It is correct what Anders is saying that we are not actually disclosing in the appendix is the order book timing on a quarterly basis. Maybe it's fair to say at this point in time, that the decline that we have in the order book is not for the current year. The order book for the current year is now on par or actually slightly higher than what it was one year ago for '23. Your point about order intake and order book going forward. The decline in the order book is for the years beyond this year when we take a look at the current situation.

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Tom Skogman: Then, I wonder about the gross margin and SG&A equals development. I don't think you mentioned that much in your presentation, and you have made some pretty big changes to how you distribute the cranes, for instance. How is the margin improvement split between these items?

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Teo: The two main items that we have in the optimization program are the platform renewals or reduction of the number of platforms, as well as renewals of platforms. Then, go-to-market, which you are now referring to in your question. We are maintaining the same forecast for the overall results of this optimization program, 40 to €50 million, as we have been having. It had an impact in the second quarter as well. Several million less than five, though, but several million anyway. Then, to your question, do we split the savings between these two main items? Unfortunately not. We are just saying that both of these topics have had an impact and will have an impact. We have been able to proceed with them as planned by and large, in some cases even quicker than what we planned. We are happy with the results of the program from the financial point of view. However, the more accurate split we unfortunately do not disclose.

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Kiira: Thank you, Tom.

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Anders: I think one addition to that is that it's so easy to get snowed in on only talking about the optimization program. Let's remember that that is the initiative in Industrial Equipment, primarily with some effect on Service as well. The strategy execution program is much, much wider. When we talk about strategy execution and performance as a component in the improvement, it's much wider than just the optimization program. I just wanted to highlight that.

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Kiira: Thank you. Let's now take the next question from the line, please. [silence 00:39:26-00:39:32]

00:39:33
Operator: The next question comes from Tomi Railo, from DNB. Please go ahead. [silence 00:39:38-00:39:43]

00:39:44
Tomi Railo: Hi, Anders and Teo. I'm Tomi here from DNB. Congratulations on the strong set of numbers for the second quarter. I have a couple of questions. First, I'm wondering about Industrial Equipment. As we see, order the backlog is down. Your run rate orders are roughly 300 million per quarter, suggesting a 1.2 billion sales portfolio. Do you believe that you can grow or stay flat in sales for Industrial Equipment this year compared to last year?

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Anders: I think I mentioned it, and Teo mentioned it. Standard cranes are growing, components are growing. Where we are not growing is in the Process Cranes which is then, as you can understand, quite a lot down. Then what we see in our sales funnel, in the number of projects, in the value in the sales funnel regarding Process Cranes, it's actually very strong. We see that those projects are coming closer to decision-making. From that perspective, and given that we have similar performance as in Q1 and better than in Q3 and Q4, we are very confident about the Industrial Equipment going forward in terms of order intake and in terms of growth as well. Then I want to also remind you that when we launched the strategy, we wanted to grow significantly faster than the market in Service and significantly faster than the market in Ports. We said more in line with market and Industrial Equipment. The reason was that we felt that we had more to do in terms of fixing stability and profitability before we focused on growth. I think the stability we have, to a large extent, is already completed, and we are now working with the optimization program as the main engine in the profitability phase.

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Anders: We are already on some parts in the growth phase, like Components, for example, and Standard Cranes. However, there are still some things that we're working on to fix in terms of the profitability phase. I think we are very much performing in line with our own plans and in line with our own expectations when it comes to Industrial Equipment, and we are not worried about the lower order intake in Process Cranes in the first half year.

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Tomi Railo: Maybe a follow-up to that. Essentially, I know that you don't give divisional guidance, but if you were to rank the sales increase this year, it is more tilted to services and Port Solutions because I have some

difficulty to calculate growth unless the backlog is for faster deliveries in Industrial Equipment that the run rate is 1.2 billion of orders.

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Anders: You are correct that the strategy is that the service and Ports should go quicker than Industrial Equipment, just like we communicated on Capital Markets Day, and that's still the target. There are elements, as I said, within Industrial Equipment where we have a growth focus and that is also being delivered on and that is the Standard Cranes and the Components. We have not had a growth focus in the Process Cranes, but rather a stability and profitability focus on that side. I think the team has been fantastic in performing that, and they are improving coming into the growth phase as well going forward in a much better shape than where we were two years ago.

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Tomi Railo: Excellent. Thank you. If you could just maybe describe a little bit the end market conditions. If there are any surprises that show strength, and which weakness? If you can comment.

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Anders: If we start with the demand outlook, I think I've gone through that already. If we then look into the geographical markets and I think that's been covered quite well also entails run-through. However, the Americas, and especially North America, is performing very well and stable on a very strong level. Europe is somewhat improving. I would say Germany in Europe may be above expectations if you look at the macro indicators, you would assume that it's not performing very well at all. For us, it's actually doing better than macro indicators would indicate. Northern Europe is also quite strong. Southern Europe is a bit weaker. The Middle East is quite strong. In APAC, we have much more competition, but I think we are holding our market share in the top-tier market. Anything to add, Teo, on that?

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Teo: Nothing to add.

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Tomi Railo: Just to follow up and for clarification. In terms of the customer industries, are there any particular positives or negatives to highlight from there? What do you see in metals, energy, pulp and paper, automotive, and general manufacturing?

00:45:22
Anders: Starting with the strongest one, I would say it's power, where waste to energy, nuclear, et cetera, is very strong. We have logistics on the port side as well which is very strong. General manufacturing, I think it's performing at a very good level. Maybe not strengthening for now, but very stable at a good level. Other strengths we have seen in the automotive and aerospace have been strong for us as well. We have seen strength in green steel also in the quarter. Otherwise, metals may not be at any peak. That is at an okay level. Pulp and paper have been weak. We have seen some tenths of coming back in pulp and paper, which is a positive. Then, defense, I would say, is also a strong sector currently. I think that summarises most of it. The rest, I would say, are flat.

00:46:35
Tomi Railo: Excellent. Thank you very much. I'll leave it there.

00:46:37
Kiira: Thank you. Let's now take the next question, please. [silence 00:46:39-00:46:43]

00:46:44
Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:46:54
Mikael Doepel: Thank you. Thanks for taking my questions. First of all, I come back to the earlier question about the mix. It's obvious that the mix plays a role in terms of profitability depending on what you deliver, but given that you have an order backlog now for the equipment side of your business, both for industrials as well as Ports, I think your visibility into the second half revenue should actually be quite good there, partly also on the Service side. My question is, do you see any meaningful change in the mix in the revenues in the second half of this year compared to what you saw in Q2? That would be my first question.

00:47:36
Anders: Maybe if I take high-level and then Teo, you complement. We said that the mix was slightly positive

for the group now. Flat in Service, slightly down in Industrial Equipment and then positive in Ports. That is exactly the mix that we are expecting for the rest of the year as well. Then, within that, you have a mix between the products, and those are dependent on project deliveries, and on the longer deliveries, we have good visibility. On the more short cyclic products, we have less visibility. We are not giving any mix for costs either going forward, more than what we have said regarding the sales outlook and the profitability outlook, but there will be no significant changes. [silence 00:48:34-00:48:38]

00:48:39
Mikael Doepel: Okay, so no significant change in H2 compared to Q2, I guess, is what you're saying.

00:48:46
Teo: I will add a little bit to the mix within the Ports where it actually was very good now in the second quarter. Maybe we do not expect within Ports the mix to continue exactly on as good a level as it was now in the second quarter. This doesn't take away the earlier comment that we believe that now, in a year-on-year comparison, overall, the mix for '24 will most likely be slightly better than '23. This isolated Q2 from the Port's point of view was really good. Maybe that can even out a little bit. However, in relation to the mix between the different segments, as Anders pointed out, there it's crucial to what are the deliveries and what is the share of sales in Service versus Industrial Equipment versus Ports.

00:49:38
Anders: In Ports we expect a better mix this year than the previous year. Even if it's not at the same level as in Q2, it's still a better mix than the previous year.

00:49:52
Mikael Doepel: Understood. Good. My second question is on the larger order you mentioned, I think, in the opening remarks as well, and also commented here now. Doing some better activity there, I think you mentioned Process Cranes at least, some big orders must be finalized there. However, we also see improved activity on the Port side on some bigger projects there, or is this only related to the Industrial Equipment business?

00:50:21
Anders: No, I think that must have been a misunderstanding. It's primarily related to the Port side, and it's not increased activity. It's the timing of the customer projects. When the customer comes to decision-making in those larger projects we see that that timing we haven't seen in sort of the first half year for the larger project. We now have some of those customer projects that we've been following for years that are coming to the decision process in the second half of the quarter. Then we also said that if we don't see a structural change in Process Cranes, even if there is delayed decision-making on the industrial side, and if you don't get projects in one quarter, then the likelihood of getting them in the sequential quarters increases. That comment was mainly related to Ports, but it's also somewhat applicable to the industrial side.

00:51:22
Mikael Doepel: Yes, because you also said that it's a good sales funnel there, Process Cranes.

00:51:27
Anders: Yes. That hasn't changed. The sales funnel has been the same in Process Cranes all the time. It's more decision-making timing.

00:51:37
Mikael Doepel: Well, that's very clear. Maybe just a final one. If you want to add anything. I think Teo already went through this a bit in his presentation, but in terms of the short-cycle product demand, any commentary around that in terms of what you see in the market right now going forward?

00:52:01
Teo: We are seeing the environment going forward relatively similar to what it has been, which is in line with our, demand outlook as well, particularly for the industrial side. The markets have been good. We are expecting a healthy situation going forward as well. This is applicable to the short-cycle part of the business as well. Nothing dramatic, no major changes. I think that when we discussed those short-cycle products regarding Ports, for example, one of them was going up year-on-year the other one Q&Q. You cannot really find a very clear direction one way or the other. From that point of view, expected stability is maybe the word to be used.

00:52:57
Mikael Doepel: That's that's fair. Thank you very much.

00:52:59
Kiira: Thank you, Mikael. We have also received some questions through the chat function. Maybe this would be a good time to take those. We could start with one question regarding the newly announced US Tariffs on STS Cranes. What will be the impact of the newly announced 25 percent US Tariffs on STS Cranes on your business and the STS Cranes industry as a whole?

00:53:29
Anders: The tariff is being implemented on the 1st of August this year, and it's applicable for deliveries from the 1st of August into the US. This means that all orders being delivered after that, we'll have to pay the tariff.

00:53:52
Kiira: All Chinese.

00:53:54
Anders: All Chinese. That is important. Also, Konecranes Chinese manufactured are facing the same tariff. We have some order backlog that will be delivered at the beginning of the first half of 2025. The cost related to that is 100 percent taken by the customer according to our contracts. It's not having an impact on Konecranes in terms of our deliveries being affected by this. We have an outsourcing network in different regions; we can then produce similar products in other regions to avoid the tariff. It puts us from that perspective, in a competitive position. However, we should also know that the cost level in China is very competitive with other regions. We offer our customers different alternatives. They can buy Chinese-produced and pay the tariff. They can also buy European. We are also setting up so that we can supply BABA-qualified equipment going forward.

00:55:25
Kiira: Maybe overall, how these tariffs will impact the industry as a whole, so that's maybe a little bit too early for us to comment on that kind of generic commentary. The next question from the chat is whether the improved balance sheet and outlook are likely to result in any change in capital allocation, for example, in share buybacks or M&A, especially given your new board chairman. Any insight?

00:55:49
Anders: No, it's the same comment as we have said previously. We have activated ourselves in M&A, focused on bolt-on acquisitions, and then we can widen our geographical reach and widen our product portfolio. We are also looking into other sorts of solutions for customers in the material handling industry. However, with that said, we're not going on a rampage to spend everything we can on acquisitions. It's important that we make the right acquisitions at the right time. We still have a whole range of things we can do with the money. All the way from paying back loans to buying own shares to increasing dividends, et cetera, nothing is basically excluded. However, it's a better position to be in than not having that position.

00:56:53
Kiira: A third question from the chat. How about pricing on new equipment now when some raw material prices are coming down? [silence 00:57:02-00:57:06] Teo, Anders?

00:57:08
Anders: The effect normally for us on raw material changes is not significant because we don't buy a lot of raw material. We buy a lot of processed material with a lot of value-added inside it. It's not a significant effect. Should it be sustainable that steel prices go down? We would, over time, then adjust ourselves. Of course. We tend to compensate for inflation with pricing towards our customers and make sure that we are not on the negative receiving side there. However, our intention is not to make a lot of extra money on pricing. We are there for the long term with our customers. However, if we should adjust every time the steel raw material goes up or down, we would have to do that all the time. This will sometimes be a bit positive for us, and at other times it will be a bit negative for us. Like Teo said in the second quarter, it was a bit positive. Then, if you look at the larger product, like steel structures for Ports products, et cetera, that is adjusted when we quote new projects with new materials.

00:58:31
Anders: There is natural hedging when we get the order from the customer and place the order with the supplier. There's a natural hedging there for us to eliminate the project risks from that perspective.

00:58:44
Kiira: Good. Thank you. I think we still have a couple of minutes time so we can take one last question from the line, please. Operator go ahead. [silence 00:58:52-00:58:]

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00:58:59
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:59:08
Panu Laitinmäki: Thanks for taking my question. I just wanted to ask about this efficiency improvement program in the Industrial business. How much of the targeted earnings improvement have you now achieved, and how much is still left of the total number that you are aiming at?

00:59:26
Anders: We said that this program will yield 40 to 50 million profit and loss improvements at a run rate at the end of 2025, and it will come with a 40 to 50 million cost to achieve that. In 2022, we had one and a half million, in 2023, roughly 11 million. We have also said that we estimate that we will deliver roughly 11 million this year, and then the rest will be after that.

01:00:05
Kiira: This is on the Industrial Equipment side.

01:00:08
Anders: This is on the Industrial Equipment, and then you have the Service side, which we haven't actually talked about exactly.

01:00:13
Kiira: Yes, but it's a few million.

01:00:14
Anders: It's a few million, but we haven't said the number. This is on the Industrial Equipment side.

01:00:23
Panu Laitinmäki: Thanks. However, out of the 11 million this year, did you get half in the first half, or was it more loaded in the first half?

01:00:33
Teo: No, we have been getting half in the first half. It is not back-end loaded.

01:00:40
Panu Laitinmäki: Great. Thank you.

01:00:42
Kiira: Thank you, Panu. I think that we have now run out of time. It's time to conclude this conference. Thank you for all the questions and active participation. As a reminder, we will report our Q3 interim report on October 25th. We'll be back here in the studio then at the latest. I would like to wish you all a very good summer. Thank you.

01:01:09
Anders: Thank you.

01:01:10
Teo: Thank you.

01:01:10
Anders: Bye-bye.

01:01:11
Teo: Bye-bye.