Konecranes Q3 2024

00:00:01
Kiira: Hello, everyone, and welcome to the Konecranes Q3 earnings conference. My name is Kiira Fröberg and I'm the head of Investor Relations at Konecranes. Here with me, I have today our usual people our CEO Anders Svensson and CFO Teo Ottola. Before we go into more details, just a kind reminder that the presentation includes forward-looking statements. The agenda is, as usual, first Anders will talk you through the group results, after which Teo will focus more on the business segment data. I guess now... Oh, we have the Q&A of course too. I guess now Anders, it's your turn to take over. Please go ahead.

00:00:51
Anders: Thank you, Kiira, and warm welcome from my side as well to this webcast for the third quarter results. The headline of the quarter is continued strong performance and our demand environment held up really well in the third quarter. The orders were up 12.5 percent year on year in comparable currencies, sales were strong in the execution and we delivered almost 1.1 billion. That was up 6.8 percent in comparable currencies versus the previous year. That gave us an all-time high margin for the third quarter with an EBITA of 13.4 percent. The year-on-year profitability improvement was driven by pricing versus inflation, which was driven by higher volumes and strong strategy execution. Profitability improved in all of our segments, and we had an excellent cash flow of 187 million for the quarter. Looking at our market environment, I start with our industrial segments. The operating environment was challenged by, as you can see, the macro indicators not only when it comes to manufacturing capacity utilization, but also manufacturing PMIs, they were challenged in Europe, the US, and also in China.

00:02:20
Anders: Despite that, we managed to hold up a strong order intake for the quarter. Moving then into our port solutions. Here we follow the container throughput index, which has remained strong at up eight percent on a year-on-year comparison. We can also see that in our order or sales funnel on the port side, it becomes very strong. Moving then into the group order intake. We delivered €956 million order intake for the quarter and that is up 12.5 percent versus the previous year in comparable currencies. The increase was driven by Service and Port Solutions, while we saw a decrease in Industrial Equipment. Which was then driven by the process crane lower order intake. While standard cranes and components were above the previous year, we saw an increase in EMEA and a decrease in Americas and APAC. In net sales, as I said, strong sales execution we delivered one billion and 70 million Euros which was an increase of 6.8 percent versus the previous year in comparable currencies. Here we saw an increase in all our segments and also in all our geographies.

00:03:49
Anders: The strong sales execution gave us an order for an orderbook or a book to bill in the quarter below one, and the orderbook was at the end of the quarter, 2,850 million, roughly. That is then 12 percent down versus the previous year in comparable currencies. If we then move into our profitability we saw here a sequential decline in profitability, just like we discussed in the quarterly webcast after the second earnings report. Still, we deliver a strong performance, €143 million and that's equivalent then to 13.4 percent. As I mentioned, it's an all-time high for any third quarter. We had an increase in all of the segments and the increase was mainly driven by price versus inflation, increased volume, and a strong strategy execution. Also, the gross margin improved on a year-on-year comparison. If we then look at our progress towards Konecranes financial targets that we communicated in the capital markets days of 2023. We can see that given the strong performance in both the first and second and now third quarter of this year, we can see that both group and Service in Industrial Equipment are performing within the target profitability range.

00:05:25
Anders: We can also see that Port Solutions are getting closer to the target range as well at 8.8 rolling 12 months. If we then instead look at this a bit year-to-date performance, so year to date we start with the volume. Then for the group, we are up 7.4 percent in comparable currencies. That's clearly faster than the estimated nominal world GDP development for 2024, which I think is around four and a half percent. Good performance in sales. If we look at the profitability, then for the group year to date is 13.0 percent. Moving into service. Here we have a growth of seven percent also, clearly faster than the defined market and then the profitability is 21.2 percent year to date. Industrial Equipment where we targeted to focus on profitability and not focusing on growth. Here we have a two percent growth year on year, year to date. If we look at the profitability, then it's 8.8 percent year-to-date. In Port Solutions, very strong sales execution, a growth year to date of 13 percent versus the previous year.

00:06:45
Anders: Here if we look at the profitability we can see that ports are actually at 9.2 percent year to date. Also here the ports would be within the target profitability range. We go then to our demand outlook. We start with the industrial and 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 throughout 2023 and also the first three quarters, now 2024, despite the weakening macro indicators, we are managing to deliver a strong order intake. We believe that the situation as it is will continue within the industrial segments. I mentioned last time that the interest rates are impacting customers' decision-making process, especially here on the process cranes, which is then delaying orders. We don't see any cancellations in the order orderbook, and we have an influx of new cases into the orderbook, to order funnel as well, but it's delaying the decision-making.

00:07:55
Anders: We don't see that effect when it comes to standard cranes and components. If we move into our port customer segment, here we say that global container throughput continues on a high level, and long-term prospects related to global container handling remain good overall. We have seen here that our order pipeline is strong, when it comes to short cyclic products there's activity, but the funnel is strong when it comes to projects of all different sizes. As you know, and as we have discussed many times, this is a lumpy business, it's a project business. We get the order intake when a customer has matured the project into a decision-making time and that's when we can get the order intake if we are the provider. That will continue to fluctuate also going forward and that's the nature of a project business. We still believe that Q3 of last year was the trough when it comes to order intake regarding ports. This quarter actually was the strongest order intake in the last five quarters for the ports.

00:09:05
Anders: If we look at our funnel we have interesting discussions on several projects also going forward. However, you never know in what month or even quarter these projects will then materialize into the decision-making stage, where we can get the order intake. But the funnel looks strong as I said. I then move into the financial guidance for the rest of the year or for the full year. Net sales are expected to increase in 2024 compared to 2023, and the comparable EBITA margin is expected to improve in 2024 compared to 2023. In summary, we had then a quarter with a very healthy order intake and strong sales execution that enabled us to deliver an all-time high profit margin for a third quarter. Complemented with that was the free cash flow which was on an excellent level. We, of course, aim going forward also to continue our journey of improving our profitability and keeping our streak of now seven quarters in a row with year-on-year EBITA margin improvement. With that, I will welcome our CFO Teo Ottola, to go more into the segment's financial details. Please, Teo.

00:10:40
Teo: [silence 00:10:32-00:10:39] Thank you Anders. Before going more into the segment-level data we could take a look at the comparable EBITA bridge on a quarterly basis, so Q3 24 versus Q3 23. When we take a look at the EBITA between those two quarters, we made 20 million more EBITA now in the third quarter of 24 than one year ago if we unpack this one a little bit. First, we can comment that the pricing impact in a year-on-year comparison was roughly five percent. Now, as Anders mentioned, our sales grew a little bit less than seven percent with comparable currencies. This does give us an underlying volume improvement but the volume improvement is quite modest. Somewhat, a little bit less than two percent. These two percent underlying volume improvement gives us an operating leverage, positive operating leverage into the result, but not as much as in the second quarter.

00:11:46
Teo: We did not have a meaningful mixed impact in the quarter, but we did have efficiency improvements as a result of the optimization program as was already mentioned. When we combine all of this and take a look at the profitability improvement of 20 million, the vast majority of this comes from the net of inflation pricing, so the price increases, or five percent have been more than the corresponding inflation when we take the weighted inflation between material as well as labor. Fixed costs are increasing in a year-on-year comparison, broadly in line with what we had, for example, in the second quarter as well. Overall, there was nothing very specific or extraordinary in a way in the third quarter of 2024 in comparison to the situation a year ago. Then if we take a look at the segments and start with Service as, usual. Service order intake €372 million, that is an increase of 4.5 percent with comparable currencies year on year.

00:12:57
Teo: We actually had an increase in field service and parts, and we had an increase in all of the regions. We have a small decline sequentially but as we already commented regarding the Q2 earlier; that was actually a very good quarter also from the volume point of view when it comes to the service business. Our agreement base actually continues to grow more or less in line with the order intake growth. Our agreement base grew 4.7 percent year on year with comparable currencies. When we take a look at sales €392 million, that is a 7.2 percent year-on-year improvement with comparable currencies and also their increase in all regions, as well as

in both field service as well as parts. Orderbook came down a little bit by some seven percent to €444 million. If we take a look at the EBITA, good performance continues. The €85 million or 21.6 percent there is a 0.7 percentage point improvement in year-on-year comparison, which comes from higher volumes as well as from pricing and gross margin naturally improved as well.

00:14:17
Teo: In a sequential comparison, we have a small decline in comparison to the second quarter. The main reason being that the second quarter was good from the volume point of view, which was also very good from the execution point of view and just was a very good quarter from the service business point of view. Nothing more extraordinary in that small decline either. Then if we go into the Industrial E,quipment and again start with orders €289 million. When we take a look at it from the external orders point of view and comparable currencies, we have a decline of 2.7 percent here. In the business units, we had an increase in standard cranes as well as components, but we did have a decrease in process cranes. As Anders already mentioned, there's been slowness in the decision-making within that subcategory of products that has continued now also during the third quarter. Again, if we take a look at the sequential comparison within the Industrial Equipment. Component orders were more or less on the same level as they were in the second quarter. Standard crane orders came down a little bit from the second quarter.

00:15:37
Teo: Sales €317 million, 6.1 percent external sales with comparable currencies improved there, increase in standard cranes and process cranes but a decrease in components in a year on year comparison. Order book down here as well by about 11 percent to approximately €870 million. Then EBITA, a very good result €31 million or 9.8 percent, more than two percentage point improvement year on year driven again by volume growth pricing. Also, the optimization program has been mentioned. This is also a very good result in a sequential comparison because as you may remember, we had some one-time gains in the second quarter that did not now repeat themselves in the third quarter, and yet we have the margin on the same level as we had in the previous quarter. Moving on to the Port Solutions order intake €334 million. That is as much as 43 percent higher than what we had in the previous year. Q3 had actually good order intake in mobile harbor cranes, straddle carriers, AGVs as well as port service.

00:16:57
Teo: The order intake now includes one bigger deal, particularly in AGVs and a bigger deal means we have been using a let's say definition of more than €80 million. That is now included in to the order intake numbers in the third quarter. When we take a look at the sales number, so €401 million, that is 6.6 percent higher than what we had a year ago. Also here, orderbook down by 16 percent to approximately 1.5 billion. Finally EBITA good result here as well, €39 million this is a margin of 9.6 percent and an improvement of more than one percentage point in a year-on-year comparison. The improvement primarily comes from pricing and gross margin increases in Port Solutions as well. Then a couple of comments on the balance sheet and cash flow, Net working capital was about 400 million at the end of the third quarter so it's 9.6 percent of rolling 12-month sales. There is a decline in a sequential comparison from the second quarter. It primarily comes from inventories, which is good. Then this is also visible in our free cash flow.

00:18:25
Teo: We had an extremely good free cash flow as already mentioned, driven by the good result, but also by the release in the net working capital, and our cash conversion on a year-to-date basis is again close to 100 percent where it has then typically also been. As the final slide regarding the presentation gearing and return on capital employed. The good cash flow is visible on this slide as well. Our net debt is now €267 million which is a gearing as low as 15.4 percent. Our overall capital employed has continued to be quite high. We also have a lot of cash at hand, but still, the return on capital employed is improving or let's say flat to improving in comparison to the previous quarter and we are reaching 20.4 percent. This one basically concludes the presentation, and before we go into the Q&A Kiira probably has a small announcement to make.

00:19:36
Kiira: Thank you, Teo. I will take the opportunity here to do some marketing. We are excited to announce that we are planning to host our next Capital Markets Day in London on May 20th next year to discuss our future ambitions as well as then what's next for Konecranes. Please save the date in your calendars. We also have an investor and analyst newsletter that you can subscribe to from our investor website. Then you get to hear the news about site visits and other events in advance so please go and subscribe it from there. Now I think it's time for the Q&A, which I believe that the analysts are at least eagerly waiting. As a reminder, you can also send us questions through the chat function. Thank you. Operator, let's please open the line for the questions.

00:20:36

Konecranes Q3 2024

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. [silence 00:20:50-00:20:55] The next question comes from Daniela Costa from Goldman Sachs. Please go ahead.

00:21:04
Daniela: Hi. Good morning. Thanks for taking our questions. I have two questions if possible. The first one is whether can you give us a little bit more color obviously price format was a very strong component still this quarter, especially in the equipment divisions. As we move forward are you continuing to increase prices at the moment? What are the raw material trends or will you expect these impacts to fade through 2025? I will ask the second question after.

00:21:36
Anders: If I start, I think our main ambition with pricing is of course to compensate for inflation levels. We don't adjust our prices continuously throughout the year unless we have to. We saw a somewhat raw material benefit in the second and third quarters especially I would say within maybe Ports and the Industrial Equipment side, but we believe that we are in a price-leading position within our industries, and we will continue to compensate for inflation with pricing also going forward.

00:22:18
Daniela: Thank you. Regarding the second question, we're just trying to understand a little bit about the Service that you are seeing at the moment. Can you talk a little bit through the utilization of your installed base across the regions? What indications is that telling you at the moment? Thank you.

00:22:39
Anders: Thanks. So what we can see is that we have a true connect, where we have connected equipment around the world which we measure utilization. Here we can see the trends that are also visible in the macro indicators. Within the industrial side, we can see that we have less moves with the same equipment versus what we had in the previous year. Within ports, we can see that it's actually more moves just like the increased container throughput index is indicated. I believe that is quite a similar trend to what we see but despite that, we have managed to keep up our service order intake and sales in a good way. Just like we've managed to keep up with the standard equipment sales of standard crane sales and also the components. It's difficult to know any in-the-market data, but to me that indicates we are taking market share in those areas.

00:23:40
Daniela: All right, thank you.

00:23:42
Anders: Thank you.

00:23:50
Operator: [silence 00:23:43-00:23:50] The next question comes from Antti Kansanen from SEB. Please go ahead.

00:23:58
Antti: Hi guys. It's Antti from SEB. A couple of questions from me. The first is on the port side. I wanted to maybe better understand the revenue outlook going into 25 in the sense that your book, the bill has been below one now this year and the backlog is down year over year. Could you maybe talk about what you expect for deliveries, let's say the next 12 months, the composition and length of the backlog? Also maybe it would help to have some visibility on the size of the more short cyclical business like lift trucks and so on.

00:24:37
Anders: If we start with the order book to be delivered in 2025, we don't reveal that more than once a year and that's after the Q4 report. Then we go through how much we have for each year going forward. If we look at what has happened, we are, as we can see, 400 million, roughly below one year ago at the same point in time, in the order book, what has shifted is primarily, I would say, the longer projects. When you get large orders within the Port Solution, they are rarely to be delivered within the next 12 months or so. They are normally with a longer delivery time. I would say we haven't maybe built as much on the longer perspective. While it might not have as big impact as you maybe would assume for the next year, then it's also what kind of mix we have. We have some products which are maybe performing better than previously and there we need to increase capacity.

00:25:44
Anders: There can be other product lines that are doing worse than the previous year and then we might need to reduce our production capacity. I would say that's business as usual in a company like ours. The second part of

that was regarding lift trucks. A lift truck is a bit on the softer level if you compare it to where it was at its height. However, if you look at it on a year-on-year comparison order intake in this quarter was similar to the previous year, and also sequentially. It was similar to the order intake versus the second quarter.

00:26:21
Antti: Do you feel that the lift truck business is pretty much in line with the underlying demand or is there still some type of distributor or inventory reductions being done?

00:26:36
Anders: Inventory reductions is continuing to be done at our distributors. When you have short lead times, then distributors are less prone to invest in floor plans, for example, there is an effect here and that's the bulwark effect. You get both going up and going down with that type of go-to-market model, of course. I would say the issue is not at all like it was previously. I would say it's more in balance now than it used to be, and we can also see that since we are now flat year and year and flat sequentially also in lift tracks.

00:27:16
Antti: All right. The second topic was on capital allocation and-- I mean the balance sheet is very strong right now. I'm not going to ask you about any extra dividends or such. Maybe on the M&A front, could you remind us what you are doing in the sense of what type of organization you have? What's your process for scoping targets, and where do you see the most attractive opportunities, whether it's expanding offerings or geographies or what's the logic?

00:27:46
Anders: We have an M&A strategy, which is that we expand our presence where we already are. It could be a sort of bolt-on service acquisition both within industrial and within ports and I think we have seen that in both areas. It could be a geographical expansion to cover white spots. We could also expand our product offering, which means going into neighboring product offerings that are sold to the same customers to diversify our offering a bit. We’re working within all of those avenues and we have a funnel which we started with, I think it was 1100 companies. We have a prioritized funnel, which we work with and keep track of continuously. Some of those move forward and some of those don't move forward but our ambition is to continue with the bolt-on acquisitions. If we find the right for diversifying acquisition, we will also continue to pursue that if we can be successful within that. I think we are working quite systematically, with M&A it's very difficult because you can't speak about it until it happens. We can only talk about the directional wise, what we are doing as a company.

00:29:12
Antti: This has been a bit of a mixed year in the sense that perhaps some of the targets haven't done as well as you. Do you kind of feel that it's getting more opportunistic when maybe all of the targets are not performing as well as you in terms of valuations and so forth? How has that been this year?

00:29:30
Anders: It increases the ability for us to acquire worse performing companies that may be even lower multiples than it would have been otherwise. Therefore, it's an opportunity for us, especially when it comes to bolt-on acquisitions. If you're doing diversification, investments, or acquisitions, then you're talking about different measures to think about and how we can leverage that in our existing structures.

00:30:02
Antti: All right. Fair enough. That's all for me. Thank you.

00:30:05
Anders: Thanks, Antti.

00:30:07
Kiira: Thank you. Let's take the next question, please.

00:30:09
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:30:18
Panu: Hi. Thank you. I have a few questions. Firstly, going back to the pricing topic you said that in sales the impact was five percent. If you think about the new orders, how much is pricing higher than, it used to be?

00:30:35
Anders: The short answer is similar level or slightly lower maybe.

00:30:43
Panu: Therefore you are taking in new orders at a lower price than a year ago.

00:30:47
Anders: No, not a lower price than a year ago. Maybe the gap is not five percent on everything that comes in, because it needs to be matching with raw material prices and labor inflation. We're not taking in orders at lower prices than we did a year ago, or than we did last quarter.

00:31:07
Teo: Maybe a little bit to fill in for that one. If you take a look at it from the segment-level point of view. We have still been also in the P&L, we have still been in the situation that basically in all of the segments, the prices are now at a higher level than what they were one year ago. As Anders mentioned, we are increasing prices still. You will need to exclude that kind of case where you have a project where you have a lot of steel content and of course, that is reflected in the price. When you take a look at more standard and, let's say list price products, what we have now seen however, particularly in the Industrial Equipment area, is that the raw material cost from the material point of view has started to go down. This is a part of the thing that Andres also mentioned, which is visible to some extent in the crude profitability of the Industrial Equipment in the third quarter, as it was a little bit also in the second quarter.

00:32:09
Anders: To be clear, we're we are not taking orders being diluted from where we are. We are rather taking orders, being accretive from where we are but the gap is narrowing.

00:32:22
Panu: That's clear. Secondly, on the margin drivers, it seems clear that pricing was a big driver. You also mentioned strategy execution, which I understand refers to all the efficiency improvements on the industrial side. Do you have a number for what the other drivers than pricing in Q3 and how much do you still have left from all the actions that you are targeting to do?

00:32:55
Anders: In Q3 after Q3 22, we talked about the optimization program that we launched, and that's within the industrial side, Industrial Equipment, and also Service side to some extent. The main benefits are within the Industrial Equipment side. Here we said by the end of 25, we will have 40 to 50 million EBITA improvement in a running 12-month perspective. We said that will come with a one time cost of 40 to €50 million as well. We had in the first year, 22, we had 1.5 million, roughly a positive effect in 2023 that figure was €11 million and we are now forecasting for this year another €11 million. Consider that this is now the Industrial Equipment side and not the full package. There are also a couple of millions within industrial Service but this is just the optimization program. Then we have a lot of other strategic initiatives that we are implementing which are not included in this initiative. For example, everything we do within Ports when it comes to product management excellence, quality, lead times, efficiency, and logistics. There are lots of other initiatives and that's important maybe to mention it's not only this program that we are doing.

00:34:25
Teo: And if the question was in the third quarter, did we particularly receive a lot of benefit as a result of the optimization program in the Industrial Equipment in comparison to the other quarters? That is not actually the case. The third quarter benefit from that—in an year-on-year manner was probably a little bit less than what the average would be for 24. That was not a bigger explaining factor than in any other quarter. Let's put it this way. Maybe a little bit smaller one as a result of the different timings. The bottom line is like Anders said, this 11 million, we still believe that we will be able to see, for the full 24.

00:35:09
Panu: Thank you. Thirdly, to the demand discussion. You talk about challenging environments and we can see the PMIs and everything, but you still say that you are able to get good orders so why do you think this is the case? You indicated that maybe taking some market share but what's overall the driver which are the segments that are supporting good orders for you in this environment? Why do you think this is good for you?

00:35:47
Anders: That is an excellent question. I think there are a lot of initiatives that we have taken to improve our competitiveness and improve our lead times to customers. It becomes more attractive to customers. That is the

take in some market share. I think there are other demand drivers that work in our favor. It's digitalization and automation. We are the leaders within this field, I would say both within the industrial side and within the ports side. Another thing that might work in our favor to some extent is reshoring. When you move a factory, you are not bringing old cranes with you. You are investing in new facilities and new cranes, and you also then creating a demand for port equipment within new shipping lanes. That's above GDP growth. I think there are quite a lot of these underlying demand drivers that work in our favor. Plus, we can also see that the one market that has remained very strong, and that's the North American market, where we have a relatively high market share. That is also something that has benefited us to some extent.

00:37:09
Panu: Okay. Thank you.

00:37:11
Anders: Thank you.

Kiira: Let's now take the next question, please.

00:37:19
Operator: The next question comes from Mikael Doepel. Please go ahead.

00:37:28
Mikael: Thank you. A couple of questions. Firstly on the working capital you Teo mentioned we can see in the numbers that there was a bit of a release there in the third quarter driven by inventories, which obviously is good. What do you think about that going into the fourth quarter, should we assume some further release there, and also looking into 25 what are your thoughts around that?

00:37:58
Teo: We have typically not given this kind of a quarterly forecast for the net working capital because it is just a measurement of one balance sheet day. In this case, at the end of the year, what we can note is that currently with this 9.6 percent of rolling 12-month sales, we are nicely within the target territory, which is to be able to be below 12 percent of rolling 12-month sales. We want to continuously improve the situation and the turns of the net working capital. However, I think that this being below 12 percent on, let's say, over the cycle basis continues to be a good target for us, so we are aiming at being below that and the lower we can be on a continuous basis the better it is. This time, I think that you are right in your comment. This was not primarily driven by advanced payments as it usually is, the big shifts come from advanced payments. In this case, it was more from the inventories, which is actually even better.

00:39:09
Mikael: Now that makes sense. Then a question on still coming back to the earlier question about the lift trucks. Just wondering if you could give a bit more color to what you see there. Maybe comments on how big of a share of your totality that is, roughly speaking, are the trucks moving at the distributor's currently? Where are the distributor inventories now compared to normal levels, and when can we assume that to normalize any additional color would be appreciated?

00:39:47
Anders: What we can say is that the business is back to normalized lead times, which is roughly one quarter, maybe we have two quarters still on some of our products, our own operations have normalized. We can also see then that our distributor's inventories are going down, and we are not going into where those are and how much they are. However, it's going down to a much more normalized level. Also given the weakening macro indicators and shorter and quicker lead times and even some products are stock items nowadays, which they weren't 18 months ago. When ordering for floor plans, distributors try to hold back on them because they don't need to they can get equipment quicker. I would say it's much more normalized in the whole chain now than it was. That doesn't mean that we believe that we will have a large upswing in the next couple of months, or the next couple of months and quarters maybe. We believe that it has definitely stabilized and we also think that is shown in our year-on-year and sequential order intake figures so we're quite confident with that. Regarding the size of the business, we are not going out with the size of the different business units.

00:41:20
Mikael: Now that's fair. Then the final one, I think you mentioned that there was a big order booked in the Port Solutions order intake in the quarter. If you just could repeat what it was, and what the size was because I kind of missed that. As a follow-up to that question, I think you have previously said that you do see better activity in

the pipeline for this bigger project. Do you see opportunities to book some more of these into Q4 as well, or what does the backlog or the pipeline look like?

00:41:58
Anders: If we start with the order, it was an order for automated guided vehicles. This is one of our automated products within Ports, which we target to increase the share of. Very positive. Like Teo said, we categorize large orders, sort of 70, 80 million plus, and this qualifies in that range. We can also see that the other products in Ports are doing quite okay as well. As Teo mentioned, year on year, mobile harbor cranes are up, straddle carriers are up, service are up, and other products are also doing well, and lift trucks are flat. Where we see that we had a little bit lower, was on other projects within Ports that materialized into order intake in the third quarter. As I said, we have a very strong sales funnel within Ports, and several of those projects are under discussion. As I mentioned, it's very difficult to forecast or to estimate when those projects then materialize at the customers into the decision-making. The kind of situation in the sales funnel is strong if you compare it to one year ago. The business is doing well and you can see that the global container throughput index is up eight percent year on year. It's a well-performing business segment.

00:43:37
Mikael: Okay. That's clear. Thank you very much.

00:43:39
Anders: Thank you.

00:43:40
Kiira: Thank you. Michael. Let's now take a couple of questions from the chat here in between. The first one is related to our financial guidance, in 2022, your guidance was that sales would stay the same or grow, and the sales grew five percent. Is the right interpretation that your sales will grow over five percent because you gave a positive profit warning?

00:44:09
Anders: Good question. Teo.

00:44:14
Teo: We are not specifying the percentage as such. We have our internal guidelines on how we are doing this, but we are not unfortunately specifying these externally. There is not a given in the individual percentage that I can give as a threshold for improvement or let's say flat to improve.

00:44:36
Kiira: The next question would be related to ship-to-shore crane production in the US. Could you update us on the progress of setting up STS production in the US?

00:44:50
Anders: We have in the recent history, manufactured large port cranes already in the US. We haven't done ship-to-shore cranes though. Now it was announced, I think it was in the third quarter, right, that we are setting up this network of partners to be able to build ship-to-shore cranes within the US. We are continuing on that, we haven't built any yet and we haven't got any orders yet for these BABA-qualified cranes, which would then be built in the US. One should understand that even if we set this up, it's much more expensive to build a ship-to-shore crane in the US than it is in other parts of the world, where labor and steel are much cheaper. We don't have any orders yet. There are projects where we discussed this with customers, but it has not come to any decision-making when it comes to funding ship-to-shore cranes. However, we are continuing to enable us to be able to qualify so that our customers qualify for BABA funding as needed in the future. It's our duty to adapt to demands in different parts of the world so that we can enable to do business with our customers there. We are continuing to progress on setting up that network.

00:46:19
Kiira: Thank you. I think that we can now continue to take the questions from the line, please. As we start to run out of time, bit by bit. I kindly ask you to restrict your questions only to two, please. Let's open the line again, please.

00:46:37
Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

00:46:49
Tomi: Hi, it's Tomi from DNB. Follow up to the Ports order discussion - if the third quarter included large, let's

say 80 million, you were not too far off from the trough third quarter and also the first quarter, 24 order levels. You mentioned that decision-making is getting closer in the second quarter in connection to the second-quarter numbers. Can you repeat the commentary that decision-making is getting closer, or was this the only one that you had in mind?

00:47:29
Anders: As I mentioned, I think a lot of our products actually had a positive order intake in the third quarter. We mentioned mobile harbor cranes, service, straddle carriers, automated guided vehicles, even software had positive order intakes year on year. Where we were lacking order intake was on the larger project cranes or larger port cranes like RTG, RMG, ASC, and STS. We didn't get any. We had some projects, but not as many projects materialized in the third quarter as we might have hoped or planned. However, still the underlying performance of the more day-to-day business, the bread and butter business is performing very well. Then these projects materialize when they materialize with customers' processes.

00:48:30
Anders: It's very difficult to deem one quarter when it comes to any port order intake. That's what we have said previously as well because this project impacts so much whether they come or not. When we talk about the sales funnel, like I said, we have several projects for which we are in close communication with customers. However, when those materialize into actual decision-making, a potential order intake is very difficult to say. What we say now is that we don't see any material difference in the demand within the next couple of months for us. That's what we say.

00:49:20
Kiira: Maybe one comment here to add is that the Ports business is overall mainly project business. Even if we look at the Q3 last year, we booked projects then too – They are of different sizes, but one can't really-- I mean, it's the normal nature of the business that sometimes you have larger projects, sometimes you have only small ones and a lot of them. That's the nature and dynamics of the business.

00:49:48
Tomi: Service annual agreement base 4.7 percent growth on comparable currency basis. Can you talk about whether that is mainly driven by price or was the actual base growing as well?

00:50:09
Anders: No, that's also volume growth in that. The service agreement within the industrial side had both price growth and volume growth. When you see it--

00:50:24
Tomi: Thank you very much.

00:50:24
Anders: Thank you.

00:50:26
Kiira: Let's now then take the next question from the line, please.

00:50:35
Operator: [silence 00:50:30-00:50:34] The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:50:42
Tom: Yes. Hi, Anders, Teo, and Kiira. When you had the capital market day, you said that you don't believe it would be sustainable to have a margin above 15 percent. You were pretty young to the Konecranes then, and the performance has been impressive. I'm not trying to ask for new financial targets, but just this kind of general consideration. I mean, what kind of margins are attainable in these different businesses where you operate?

00:51:13
Kiira: Tom, I hope you have now saved the date for the London Capital Markets Day. I think we will take this discussion there then. Maybe if the gentleman wants to give a quick comment. No?.

00:51:24
Anders: We said in the CMD that our first target is to achieve this latest in 2027 with the ambition to do it much quicker than so. Hopefully, we are on a good path to be able to complete that. We would then evaluate and see if

we should come back with updated targets. One of those occasions would be in the CMD next year to discuss that further.

00:51:56
Tom: You said that you don't believe it would be sustainable to have higher margins. What was the reason for that comment then?

00:52:03
Anders: No, I said like this. I said, if we are above the target, it would probably not be sustainable over the cycle. If we are below 12 percent, we need to take measures to make sure that we are within the range again. It was a comment that is sustainable over the cycle.

00:52:25
Tom: Okay. Thank you, and then can you help us understand the situation with the unions in the US when it comes to port automation and its potential impact on your orders? Given that you have postponed some discussions with unions to January has that already impacted your orders? The customers are not allowed to automate as they hoped?

00:52:49
Anders: First, I think the strike of... Was it three days, had very limited effect on our business. Many of our port customers in the US are waiting for this agreement to be finalized and I think it is planned for the 15th of January. After that, they will know how the future will look within the next couple of years. However, the trend going forward will be to continue to automate. The only question is in what areas is the union holding specifically to the mobile, transportation, or is it also in the larger port cranes? Those discussions are being hopefully cleared out before the 15th of January between the unions and the employers but going towards digitalization and automation over time is a given. That will happen everywhere, basically.

00:54:00
Tom: At least postponed orders for you were not decided this round.

00:54:05
Anders: I don't think it postpones orders in any significant matter. There might be delays then--It would be one quarter for decision-making until everything is cleared but in general, that is not a big impact of postponements. I wouldn't say that.

00:54:25
Kiira: Thank you, Tom.

00:54:25
Tom: Thank you.

00:54:26
Kiira: Let's now take the last question from the line, please.

00:54:35
Operator: [silence 00:54:29-00:54:34] The next question comes from Erkki Vesola, from Inderes. Please go ahead.

00:54:43
Erkki: Hi, Kiira, Anders, Teo. I'm Erkki from Inderes. Talking about the salaries. Where do you stand in terms of salary negotiations in the most important regions? I mean, what should we be modeling as wage inflation in 25? It looks to have been close to seven percent in the last 12 months, if my calculations are in the ballpark and added to that, how would the sales per person versus cost per person delta look going forward.

00:55:12
Teo: When we take a look at the current situation and take, let's say year to date, 24 for example. In the wage and salary inflation, we are somewhere around five percent and this level is not materially different from what it was a year ago. The wage and salary inflation has continued on this say four to five percent level. Now we are probably closer to five percent on a global level. The inflation rates are going down and the negotiations are starting or ongoing. As you probably know, there are all kinds of different approaches in different countries regarding this one. I guess that it would be fair to assume that when we take a look at next year as a whole, we would be maybe a little bit on the lower level as a result of the lower inflation. That is something time will show

over time. If the next question is now which percentage are we using in our annual plan for next year so that much in detail we would not necessarily want to go.

00:56:23
Erkki: If you say a little bit lower something between three and four percent for 25 would be kind of--

00:56:30
Teo: Let's say that it is maybe wiser to wait until we know the end result of the negotiations. In many countries, these are happening towards the very end of the year or early next year.

00:56:46
Erkki: Okay. Thank you so much.

00:56:48
Kiira: Thank you. Hey, I think that we have now run out of time so let's conclude our Q3 earnings conference. I thank you all for your active participation and wish you a nice Friday and a great weekend. Thank you.

00:57:06
Anders: Thank you.

00:57:06
Teo: Thank you.

00:57:07
Anders: Bye.