Konecranes Q1 2024

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Kiira: Good morning, everyone, and welcome to Konecranes Q1 Earnings Conference. My name is Kiira Fröberg, and I'm the head of Investor relations at Konecranes. 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 Q1 results. Anders will start by discussing our group figures, after which Teo will focus on business segments. The presentation is followed by Q&A, as always. Anders, I think it's now your turn.

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Anders: Thank you very much, Kiira, and welcome also from my side to this webcast for the first quarter of '24. Our demand, or we can start with a headline of the quarter, actually, it's record high Q1 profitability. Our demand environment remained healthy in the first quarter, despite being down versus the previous year due to very strong comparables. Our sales were 913 million, and that was up year-on-year with two and a half percent, and we posted a record high comparable EBITA margin of 11.1 percent, for a first quarter.

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Anders: I also want to mention an operational highlight here. We are releasing our new crane, the Konecranes X -series in March in LogiMat this year, and it's a new product that will then replace our CXT model cranes. It comes with a full suite of smart services, and it's upgradable over the air. We expect to see good demand for this product across different industries and also in general manufacturing. It will be a key product for Konecranes going forward. The product will be released in the EMEA, during the autumn, and then rolled out in other regions.

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Anders: In summary, we had a very good start to the year, and we believe it set us up for a good performance for the full year. I would move into the market environment, and starting with our industrial segments. Here, we look at some key macro indicators. It's the manufacturing capacity utilization rate, and you can see in EU it was down year-on-year, and also sequentially down. US is more flat, year-on-year, and also sequentially flat. If we look at the global manufacturing, PMI was above 50. That was the strongest reading since June 2022. EMEA still in contraction, but US is in expansion, just like China, India, and Brazil. If we then move into the macro environment in for our Ports segment, here, we look at the global Container Throughput Index.

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Anders: As you can see, it's up nine percent on a year-on-year comparison. The positive here was also that we could see that, the ports within the European Union is also improving, in terms of container throughput, and that's very positive for our business of course. Then, I move into the financials, and we posted an order intake of 909 million. That was in line sequentially with the previous quarter, but of course, versus the record quarter of the first quarter of last year, we were down 29 percent on comparison. We had a decrease in port solutions in industrial equipment, but service showed strength, and we had an increase year-on-year. We had a decrease in all the free regions on a year-on-year comparison. We posted a net sales of €913 million, and that was up two and a half percent, in comparable currencies versus the previous year.

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Anders: We saw an increase in both service and port solutions, but the decrease in industrial equipment versus strong comparables. We saw an increase in Americas and a decrease in the other two regions, EMEA and APAC. The group orderbook is

the next, and if you look at book to bill for the quarter. It was basically one, and we can see that our orderbook is now above 3 billion, despite being down seven percent versus the previous year. We had an increase in our service orderbook, but a decrease in industrial equipment and import solutions. Moving into the profitability. We posted €102 million in comparable EBITA, and that is equal to a margin of 11.1 percent, and that was up 50 bips versus the previous year. The comparable EBITA margin increase was in service and in port solutions, while we saw a decrease in industrial equipment. The margin increase is mainly attributable to improved productivity and pricing. The gross margin also improved on a year-on-year comparison.

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Anders: Next, we will look a bit about our performance towards our financial targets, starting with the group. The group had a stronger first quarter than we did in previous years. You can see the rolling 12 has an uptick to 11.5, so we are inching towards our profitability corridor. On the service side, we had a strong first quarter, and here we are now within our corridor at 20.1 on rolling 12 basis. In industrial equipment, as I said, we had a tougher volume comparison. The volume was down, due to a strong comparison last year, but also due to some delivery challenges in this year, due to strikes in the Finnish ports. Here, we post a lower margin for the first quarter, and then the rolling 12 went down to 6.8. In Port Solutions, we had a good volume development, and also posted a strong result, so here we went up to 7.6. All in all, we had good progress, and we are still confident about our communicated financial targets.

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Anders Svensson: Now we're moving to the demand outlook, and starting with the industrial customer segments. Our demand environment within industrial customer segments has remained good and continues on a healthy level. Here, we have seen some slight improvement, and that continues, also in this quarter. Our sales funnel is good and healthy, and also in terms of number of cases, but also in terms of monetary value. Moving into our port segment. Global container throughput continues on a high level, and long term prospects related to global container handling remains good overall.

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Anders: In here, our funnel contains both short cycle products, but also projects of all different sizes. As you know by nature, this business is lumpy in terms of order intake. We should also remember here that, in the fourth quarter, we mentioned some early order intake for the fourth quarter. That was of course helpful for the fourth quarter, but is then negative for the first quarter order intake in ports. Moving then into our financial guidance for the year. Net sales are expected to remain approximately on the same level or to increase in 2024 compared to 2023. The comparable EBITA margin is expected to remain approximately on the same level or to improve in 2024 compared to 2023. We continue to remain positive regarding the 2024 outlook, and we think that it was a good start to the year with our first quarter. Now I invite our CFO, Teo Ottola, to go more into the financial details.

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Teo: Thank you, Anders. Actually, before going into the segment financials. Let's take a brief look at the Q1 comparable EBITA bridge, as we usually have done. When we take a look at the Q1 profits, and compare that to the situation one year ago, we actually have an EBITA improvement of slightly more than €6 million. This is clearly less than what we have had, the monetary improvement, for example, during most of the quarters in '23. There is one particular reason behind that one, and it is coming from the two first columns, volume price mix and variable cost combination. Because the net in this quarter in comparison to the previous is 23 million positive. Whereas when we take a look at the year '23, so basically we were 35, 40 million positive with this balance in the previous quarters. There are, of course, a couple of reasons behind that one.

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Teo: The first one is the underlying volume, as Anders mentioned, our sales increased by 2.5 percent. The pricing impact was more than three, so actually the underlying volume development in a year-on-year comparison has been negative. Unlike during '23, when basically all during all of the quarters we had about 10 percent underlying volume improvement. This is one reason. The other reason is pricing. We do have, and we continue to have positive net impact of pricing, net of inflation pricing, but it is less than what it was on average during '23. Partially, as a result of catch up, and of course, also the inflation slowing down. On the positive side, when we take a look at this part, variable cost, we actually had a good productivity development during the quarter.

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Teo: Our operational efficiency/productivity was on a better level than a year ago. This created a positive impact into this comparison table. Mix was also slightly positive, but this productivity impact was clearly more than the mix impact. When we take a look at the fixed costs in this slide, the fixed cost increase in a year-on-year comparison, is in line, with what it was also during the third quarter, as well as the fourth quarter. If we jump to the segments and, as usual, start with the service business. Service order intake €388 million, that is up 3.7 percent in on year-on-year comparison. We had an increase in field service and parts. In both of those, we had increased in the America's performance was very strong, actually. In APAC also, a small decrease in EMEA.

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Teo: When we then take a look at the agreement base, we had growth there as well, more than five percent. Americas was very strong on the agreement base growth area as well. Sales number €367 million, that is up a little more than five percent with comparable currencies. We had an increase in field services, a slight decrease in parts. Normally, we would be saying that this would mean a negative mix in a year-on-year comparison. Now, this time modernizations actually compensated for that. We believe that the mix was more or less unchanged in a year-on-year comparison, when we then talk about margin later on.

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Teo: When we take a look at the sales; increase in Americas and EMEA, but a decrease in Asia Pacific. Order book, like Andres mentioned slightly up, and book to bill, for example now for the first quarter continues to be positive. EBITA €73 million, 19.9 percent, a very good margin. It's more than one percentage point up in a year-on-year comparison, coming both from productivity and pricing. We had a smooth quarter from the operational excellence, operational performance point of view. Partially, this is also helped by the fact that the first quarter of last year was not particularly good, so the comparables from that point of view are maybe a little bit easier than usual.

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Teo: Net of inflation, pricing helped us. Gross margins increased as a result of those things, and then of course also consequently the EBITA. Jumping onto the industrial equipment, our order intake was €313 million. It's a clear decline, almost 30 percent, year-on-year, but against very tough comparables, as we can also see from the picture, so Q1 '23 orders were on an exceptionally high level. In a year-on-year

comparison, we had a decrease in basically all the major business units, as well as in all the regions. If we take a look at the Q and Q comparison, we are actually compared to say Q3 and Q4, we are on the same level or higher now in our order intake in the first quarter.

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Teo: When we take a look at the business unit there, particularly components did very well. We have a very high sequential increase in the order intake for components, whereas standard and process cranes were a little bit lower in a sequential comparison. Taking a look at the sales, €283 million. This is down in a year-on-year comparison by seven percent with comparable currencies. Decrease in process cranes as well as standard cranes, increase in components, and decrease in basically all the regions. A couple of reasons.

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Teo: One of them was that the first quarter of '23 was pretty good from the sales execution point of view as well. We were still delivering, so-called, late backlog during the beginning of '23. This impact we did not have this year now in '24. The strikes in Finland impacted our sales on group level 15 to 20 million, most of that actually in the industrial equipment. These are then visible in the comparison when it comes to sales. Order book slightly down, but also here book to bill on a quarterly level better than or higher than one. EBITA €18 million, 6.5 percent, this is down year-on-year. The reason is lower volume, as discussed regarding the sales, gross margin actually increased thanks to the pricing, but also thanks to our optimization program. Mix was also slightly positive as a result of the high share of components. Those actually supported the margin. The volume was the thing that then meant, that the margin declined slightly. Port solutions order intake there are to €148 million, also here, a significant decline year-on-year, and as in industrial equipment against very, very tough comparables, Q1 23 was excellent.

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Teo: Of the business units, we had basically year-on-year order intake decline in most business units, except for mobile harbor cranes, which is mentioned here on the slide as well. If we then take a look at the order intake in a sequential context. We were between Q3 and Q4 of last year from the order intake point of view in ports. If we then take a look at the business units that one could consider being maybe more early cyclical lift trucks, did decline year-on-year, but sequentially went up. Port service was also sequentially quite flat or on the same level. Sales 300 million. We had a good sales quarter, 10 percent increase. Most of the business units performed well from the deliveries point of view.

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Teo: Then, order book, still on a good level even though down here, unlike in the industrial businesses, so, here the book the bill is below one. Comparable EBITA 21 million, 7.1 percent, this is an improvement in on year-on-year comparison coming primarily from the volume. We have had an R&D support subsidy, in the amount of slightly more than 2 million, which is then impacting the numbers in the first quarter, also positively. Before going into the Q&A, a couple of comments on the net working capital, cash flow and balance sheet in general, our net working capital was €374 million, that is 9.4 percent of rolling 12-month sales.

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Teo: We had an increase in comparison to the end of the year in inventories. Net working capital development from that point of view was a little bit in the wrong direction. However, we are still clearly within our target range of being below 12 percent of rolling 12-month sales. Free cash flow, consequently, went down also in

comparison to the previous period and to the end of the year, €49 million free cash flow, its cash conversion of approximately 80 percent. Given that, we had an extremely good cash conversion during the whole of '23, still this achievement taking a little bit longer view is very good. On the next slide we have the gearing net debt as well, net debt €335 million, 22 percent gearing.

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Teo: This is obviously now excluding the dividend payment, that took place in April, so that has to be taken into consideration, of course. Finally, return on capital employed on the right-hand side of the slide. A comparable return on capital employed 18.9 percent, and good development there as well. This was the last slide of the presentation, and now we can move into the Q&A.

00:19:03
Kiira: Thank you, Teo. Let's start our Q&A now, and operator, I would kindly ask you to open the line, please.

00:19:16
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.

00:19:35
Operator: The next question comes from Johan Eliason, from Kepler. Please go ahead.

00:19:44
Johan: Hi, this is Johan. Thank you for taking my questions. I'm just starting with industrial equipment, you mentioned that sales were impacted by the strikes, primarily industrial equipment of 15 to 20 million. Will this imply this loss in sales you will get now in Q2 instead? Then we should see sort of a sequential boost from this.

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Anders: To some extent that will be coming back to us in catching up with sales, where you might not see the same full catch up might be on the service side. We lost some operations in some parts, but the majority of that should be caught up during the second quarter.

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Johan: Okay, good. On pricing, you mentioned in sales it was above three percent, if I got the details right here, how does it look like in orders? Are you still hiking prices? Where, if that is the case.

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Anders: A pricing effect we say now is three to four percent in the first quarter. When we look at the audiobook, it should be on a similar level as we have now.

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Teo: We have continued to do price increases also this year, so that the inflation is on a lower level. Material inflation in particular, of course, but it hasn't meant that the overall price levels would have started to go down. Price increases are still being done. Of course, they are much more modest than what they were some time ago.

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Anders: More driven by labor, than material.

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Teo: More driven by labor, obviously.

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Johan: Good. Then, finally on port solutions, and your visibility here, now you have a backlog that is almost 120 percent of last 12 months sales here. You had a very strong revenue development in port solutions last year. Do you think you're looking at your backlog in port that you can match this sales, or is it more long lead times into 2025 here that we should expect for port solutions?

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Anders: We normally don't comment on segment level, but we have actually commented on ports due to our long visibility here. The outlook is the same here. We expect the same level or improving versus 2023 in terms of sales for ports.

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Johan: Excellent, many thanks. Thank you.

00:22:35
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:22:43
Panu: Thank you. I have a few questions. Firstly, starting from the outlook for demand. Basically, how should we read these statements, both in industrial equipment and in ports that industrial. You say that demand is healthy, and you no longer reflect the sign of weakening that you had last year. Does this kind of imply sequentially stable orders or increasing? Basically, same question for ports. Any kind of comments, what do your statements mean in terms of order for the coming quarters. Thanks.

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Anders: We don't give any order forecast, but when we talk about improving demand, that is, of course, a positive underlying driver for future order intake. That is the way it should be read.

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Panu: For the both divisions.

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Anders: Yes, we haven't really changed the comments on the port side. There, you can see it as continuing on a good and healthy level as this has been during the previous year. It's a similar sort of, funnel that we see in short cyclic products. It's coming back. It was weaker a bit, and now we can see it bottom out and coming back. For project side, which is not driven in the same way by upturn or downturn in economy or interest rates to the same extent as maybe other order intake, a more driven by long term timings of these projects. There you can see that we have similar amounts of projects of all different sizes also in our order funnel going forward for ports.

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Panu: Thanks. Then on margins, basically two questions. Firstly, can you talk about what are the main margin drivers for the rest of this year, for the coming quarters? What are the main positives? What are the main negatives and any kind of changes to what we saw in Q1?

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Teo: Now, if we take a look at the rest of the year, as you pointed out. I guess that, of course, volume development continues to be important. We have to some extent more order book now for the rest of the year, than what we had a year ago at the

same time. This is kind of a positive. Of course, we also need, in and out orders, significant amount. The order book situation is slightly supportive. Now, we had very little, or we had actually declining volume underlining when we take a look at the Q1. This in a way, from the order book point of view, should be in a better situation.

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Teo: What we want to continue with is the operational improvements that we have been doing already now in Q1. The optimization program that we are doing in the industrial equipment, will continue to give us benefits towards the end of the year as well. It has had benefits in Q1, but we are expecting that to continue in the coming quarters. Product mix is maybe something that we are now a little bit more positive than we were three months ago. We said three months ago that it would be flat to weaker, and now we are actually saying that it would be maybe flat to positive. The product mix improvement can to some extent be there in comparison to what we are seeing, what we have seen, in the previous year. Of course, in a way we are also increasing prices, so the idea that we would be at least capable of compensating the cost inflation with price increases.

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Panu: Okay. Thank you. Then the second question on margins was on port solutions and maybe on a bigger picture. If I take out the R&D subsidy that you mentioned, the Q1 margin was pretty flat, compared to last year and quite a bit below your target level, even though you had the highest Q1 sales in that business, ever. Basically, what will it take to get to your target level? Could you also touch on kind of product mix because, maybe there are some investors are anticipating that you might benefit from demand to larger cranes in the US market especially? How would that kind of impact your market margin Target achieved, and given that those products might have a lower margin.

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Teo: If we take a look at the situation currently and reflect to the rest of the year. We are expecting product mix impact to be slightly positive. Of course, then at the same time, one has to comment that this is primarily dependent on what is the share of port services of the total ports. There are other aspects as well, but there is a clear difference in gross margin and EBITA margin between the port service and, let's say, the average of the rest of the business units within Port Solutions.

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Teo: Otherwise, what is needed and required for the margins to improve within the ports solutions overall is, of course, pricing. We have talked about that. It is then project execution, project excellence, project management excellence, that will be then driving the margins up, or let's say longer term perspective when it comes to our project businesses within ports, and that's, of course, a significant part of the ports businesses. Obviously, in those product categories, which are more like product, rather than project type of activities the underlying volume development, of course, continues to be important because we have a fixed cost that we will need to cover for.

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Panu: Okay. Any timeline? When do you think you could reach the margin in ports? Given, you are quite good orderbook in that business.

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Anders: We have communicated the same timeline for all targets that we should be the latest by the end of 2027 or so. That is also applicable here, but of course our internal targets are to reach there much quicker. What should be considered in ports is also, as you mentioned, some of these are quite long lead times. Things will

change in the way we offer, in the way we manage the project, et cetera. It takes time until it filters through to the actual result. There are a lot of improvement initiatives, ongoing in ports that have not yet yielded the result that we believe it will yield going forward. We are still confident regarding the financial targets we have communicated in regard to ports.

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Kiira: Thank you Panu.

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Panu: Thanks a lot.

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

00:30:17
Operator: The next question comes from Mikhail Topol from Nordea. Please go ahead.

00:30:25
Mikhail: Hi there. Good morning, and thanks for taking my questions. I'm not sure if you said this there, but you want to come back to your comments around the mix that you now see overall product mix, a bit more positive than three months ago, but I was wondering, what drove the change in the view here?

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Teo: The biggest underlying reason is that, we have a little bit, changed view on how big a share would service represent of the total. This mix, this change in the commentary, is more in relation to the mix between the segments, rather than the mix changes within the segments. Even though, of course, now that we commented the order intake regarding industrial equipment as well, so that the component order intake that was very strong now in the first quarter. Of course, drives also the mix within the industrial equipment to a better position.

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Mikhail: Right. That's very clear. Then coming back to the pricing, both your comment and your answer previously, I think you just said that the inflation is still there, and the overall pricing has not gone down. Is it fair to assume that in some segments you have some price gains, in some you might have some price declines, but on average pricing is stable, and underlying costs are stable? Is that the way to read it, or am I wrong?

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Teo: There is fairly high inflation on wages and salaries. We are not expecting that to go away. From that point of view, the inflation is there. There is also inflation, if we take a look at, for example, Q1 and compared to the Q1 last year. There is inflation, but the percentage is much, much lower than what it used to be. It does mean that we will continue to increase prices to be able to cover the inflation. Then in the big picture, like said, the idea is that we would be at least able to compensate for the cost inflation, the combined cost inflation that we have. Yes, sure, it may be that in some product categories we would be gaining a little bit extra. In some product categories we might be, in a way, losing a little bit. But the overall target is that on average at least cost inflation, hopefully a little bit more would be coming through into the P&L.

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Mikhail: What you're saying is that overall you see some constant inflation underlying, and your pricing will on average be off a bit. Is that basically what you're saying?

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Teo: Can you please repeat that? I'm not sure that I understood that.

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Mikhail: No, just, what you're saying is basically that you see overall inflation, which means that you associate overall pricing up a bit for the full year, and perhaps a bit more than the costs are going to move up.

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Teo: Yes, we are seeing overall inflation, at least currently. Of course, then the situation can change. Like I said, we do not expect that the situation will change, regarding the labor, so that there will most likely be inflation throughout the year. Material inflation is on a lower level, but currently there is inflation. If these circumstances continue, we will obviously need to, and we want to increase the prices so that we are at least matching the cost inflation.

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Mikhail: Okay. Then just a final follow up on this. If I can think about the process cranes which are very heavy on steel content, for example, and steel prices are down. You're not changing pricing there, you're also hiking pricing there. Is that the case?

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Kiira: Could you repeat your question? We can hear you quite bad, unfortunately.

00:34:34
Mikhail: Okay. Sorry about that. Basically, I was asking about process cranes side, for example, the heavy cranes where you have a big steel content, and steel pricing is down. Are you saying that also there you see pricing stable up not down? Just to be clear on the pricing point. Thank you.

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Anders: Yes. Those are more on a project basis, if you talk about really big installations where there is more steel. Of course, we price those on a project basis to the customer. Here we share the eventual gain of material prices, because otherwise we wouldn't get the order, so that's how it works. We need to stay competitive in the market still, but on the main components, there is still inflation, so on those they will also be inflation in the process cranes area. We're not reducing prices in generally in the process crane area.

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Mikhail: Okay, that's very clear. Thank you very much.

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

00:35:47
Antti: Hi, guys. It's Antti from SEB. A couple of questions, both on the sales mix. If I start from the services, you mentioned that it is the primary driver for improved sales mix outlook, and I imagine that means that you see higher growth for services, not lower for other equipment businesses. What is driving this view? Is it the market driven demand? Is it something that you have won yourself? Or what's the view change due?

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Anders: In regard to service growth, and you are right. We are looking at, hopefully,

planning for quite good growth going forward in this year within the service as we have communicated earlier as well. We have a lot of initiatives that we are doing. We have updated our offering, we are recruiting more service technicians to be able to service better our customers and to deliver better. We have also improved our systems on how we support our technicians to be more productive. A lot of this combined, of course, together with making some acquisitions that we have done, the Whiting acquisition, the monk acquisition, and now, as I said, activating ourselves in further acquisitions. We see this as a growth engine for us going forward as well. Here, when we grow, we are not increasing the overhead at the same pace as we are increasing our top line. That is a positive leverage that we talked about, also in the Capital Markets Day, that we have in service growth. That's a key focus area for us.

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Antti: All right, but nothing has kind of dramatically or less dramatically changed quarter on quarter on how you see the service demand, if you now see kind of a higher share of service sales for this year?

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Anders: Nothing dramatically has changed, but as we also commented, we see a slightly more positive outlook within the industrial segments than we did a couple of quarters ago. Of course, that's also contributing to our overall picture and how we see the year for service.

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Antti: Okay, and then on the same theme, kind of the improved demand sequentially for the early cyclical businesses on both markets. Can you provide a bit more color on that? Is this a very much a U.S. phenomenon? Is this broad based? If you look at the demand in those businesses of components, and lift trucks where we are now? Is it an early recovery where your volumes are still clearly below, let's say, a mid-cycle level, or where do we stand right now?

00:38:33
Anders: Like Teo mentioned, very good order intake on components. In general, components are performing very well, and that is an early cyclical product. That is normally the first one that goes upwards, difficult to comment of course if that's sustainable or not. We don't know, and we don't give those forecasts anyhow. It looks good going forward within the earlier cyclical product within the industrial segment. It also coincides, very well, with what we see in macro indicators that they are turning upwards. Then, when it comes to lift trucks, as I said also in my presentation, we see that lift trucks and early cyclical product has also turned positively in demand on the port side. That is an indicator in the same way. We also saw on the macro indicators for ports that the container throughput index is improving, and that is of course helping us at the same time as lift trucks are also used on the industrial side improving. Would also help lift trucks. I would say it's in line with what you say, basically.

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Antti: Okay. Is it the broad based regionally, or is it a very much, a US driven increase in demand?

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Anders: The US has been strong basically throughout. I would say it's more an uptick of what we see in EMEA, if you compare to a quarter ago or so. We can see an uptick in EMEA, and then APAC is still for us, more struggling and more competitive markets.

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Antti: Okay, and the last one for me is that is there a kind of inventory cycle also involved, especially on the lift truck side, but also the components? That restocking or destocking?

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Teo: There can be to some extent, because these are distributor businesses. I think that when we talk about the components in industrial equipment in particular, so there is this, price increase cycle. Like I mentioned, we have increased prices and the price increase is usually come in force, for example, during the first quarter. It means that the order intake before the price increases is high.

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Teo: Now, lately we have been having this kind of phenomena that, the order intake for components is very good during the first half of the year and not as good during the second half of the year. Of course, that remains to be seen. I guess that from the recovery, or decline point of view, from the economic overall economic point of view, of course, these are the kind of things that we will need to follow up. There is, of course, distributor impact in lift trucks as well. It is possible that part of the demand is, managing the reservations that they have for their own customers and hence from their suppliers. Even though typically, we do not have re and destocking. In these two product categories, to some extent it can exist.

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Antti: It had been a major headwind last year on lift trucks, exactly the distributor, destocking or do I remember it wrongly.

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Anders: Sorry, I didn't catch the question.

00:42:05
Antti: No, I was just talking about the lift trucks that, if I remember correctly, there was a kind of major destocking, headwind last year. Is that correct?

00:42:16
Anders: To some extent, there was the destocking, definitely. We also, maybe, we're not as competitive as we should have been due to our longer lead times than, we would have wished to have had. I think it was a combination of several things. Now we see ourselves being more competitive in terms of output of our factories, and we also see that the general market seems to be picking up for lift trucks as well.

00:42:42
Kiira: Thank you, Antti.

00:42:43
Antti: All right. Thank you.

00:42:44
Kiira: Let's now take the next question from the line, please.

00:42:52
Operator: As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:43:12
Tom: Good morning, Anders, Teo, and Kiira. I can see from your slides that fixed

costs are up to €16 million. I just wonder within this what is happening to SG&A costs? Given the changes you have done to the Demag distribution model? Are SG&A costs up or down?

00:43:36
Anders: You want to take it?

00:43:39
Teo: When we take a look at the change that we are doing, particularly in the distribution network, of course, we are tightening the network, and from that point of view, the fixed cost for SG&A that is, has been decreasing as part of the optimization program. If we take a look at the savings from that program, obviously part of those, are in relation to the SG&A. Then there is another part of fixed cost that is actually linked to the activities that take place above gross margin, because those would be then factory related. There are actually both from the cost saving point of view, both above gross margin and then, also below. If we take a look at the whole set in a way, of course the efficiency improvements and activities. They are impacting more gross margin than activities below it.

00:44:46
Tom: So SG&A costs, are they up or down now, year-on-year?

00:44:51
Teo: These fixed costs that we are giving in the slide, the 16 million so that is the fixed cost below gross margin. That is the delta.

00:45:02
Tom: Okay. Sorry, but it's a bit strange that it grows if you have this program to do big changes to the Demag setup. I would kind of expect that you could realize there is a general cost inflation, but it would still be nice to see at least a flat number there.

00:45:21
Teo: It is correct that there is cost inflation, and of course, it is also correct that there is in addition to that, there is some underlying growth in the fixed cost. We feel that the growth, as such, is completely under control. One also needs to remember and take into consideration that, when the volume started to improve in 2023. We had very small fixed cost increases, despite significant, ramp up in the production. What typically happens in this, is that the operating leverage from that point of view in the beginning is very, very strong. Then later on, when the organization catches up to the level where it actually should be, the operating leverage reduces. This is of course what you can see in the bridge as well now. Even if the underlying volume is not growing. The underlying fixed cost is still growing in on this quarter, at least because of the heritage from the '23, where the overall volume output increased significantly in comparison to the previous year.

00:46:27
Anders: If I should just make some other comments there as well. If you look at our total headcount, it is not really increasing year-on-year. We are at 30 people, I think year-on-year, or 19, actually. We are increasing our ratio of service technicians, as we have talked about in the year. Other resources are actually down, year-on-year comparison. Where you see the increase, it's in cybersecurity investments, it's in IT system supporting that, it's in sustainability investments et cetera. Those we need to do, to be able to continue to be in the forefront of our business, basically. We're not investing in a lot of admin central resources, rather the opposite.

00:47:21

Tom: These are fixed cost savings that are guided for, it's still €11 million for this year. Is that right or?

00:47:29
Teo: It's right.

00:47:29
Anders: Yes.

00:47:34
Tom: Antti discussed this already, but, you know really to push service, I understand you need more technicians, and you need acquisitions, but then you have these big installed base of Denag cranes as well. Do you have any kind of new thoughts or ideas how to sign, service agreements with the owners of those cranes? Or something that could make us believe that you could, start to grow service by five rather more than five percent and then less than five percent.

00:48:08
Anders: We, of course, look into our installed base, and then we prioritize to see if we have big cranes that we serve, that require a lot of service. That and those are of course prioritized. In general, we don't go to a customer to service one Demag Crane. We go to a customer to service all cranes at the customer site's be it Demag cone cranes or other brands. We never take only one crane at the site, so we rather target customers that have a large installed base of cranes that we can contribute with our knowledge and competence.

00:48:44
Anders: To improve productivity at the customer and help the customer to then renew their equipment to increase their productivity and their manufacturing. We don't by default target singular installed Demag cranes. That's not how we operate. We rather target all cranes, or rather look at customer sites where there are many interesting cranes that we can service. Over time, if we do have the service contract at that site, of course we are in a good position when they need to expand or when they need to reinvest it in new crane or upgrade.

00:49:27
Tom: Okay. You have said many times that you think that short cycle products demand outlook has improved, but, is that kind of based on your feeling? Or talking to your salespeople? Or data in your sales system? Or what is it based on, as it was not seen in orders really this quarter? What is the real reason for it?

00:49:52
Anders: It's based on order intake. We look, of course, both sequentially and, year-on-year. It's then based on our monthly review calls, where we talk to the people who actually are in the front line, how they see and interpret the market conditions.

00:50:10
Kiira: Thank you, Tom. Let's now take the next question from the line, please.

00:50:18
Operator: The next question comes from Erkki Vesola from Inderes. Please go ahead.

00:50:36
Kiira: He's not asking any questions this time around. Maybe we could take a couple of questions from the chat now. First, there is a question on the port's order intake. Could you take us through the reasons of your extremely deep dive on port's order intake? I assume this is now the year-on-year decline?

00:51:00
Anders: What was the question?

00:51:01
Kiira: Could you take us through the reasons of your extremely deep dive on port's order intake? Why did the orders decline so much?

00:51:10
Anders: A review on why it did decline?

00:51:13
Kiira: Yes.

00:51:13
Anders: Okay. I'm sorry I didn't get the question.

00:51:16
Kiira: No problem.

00:51:17
Anders: In the comparison period, we had several really, really big orders and strong orders. Not only the one that we talked about at €150 million, that was by far the biggest one, but there were also other really significant order intakes that we had in the first quarter. Hence, it's the all-time high quarter for ports order intake, of course. Then, if we look at the current year, we had, as mentioned in the previous quarterly call, that we got early order intake into Q4. Something that we were expecting to come in Q1 actually came in the last day of Q4 last year. Which of course boosted our Q4 numbers in ports, but had a then a negative effect for our Q1 numbers in this year.

00:52:14
Anders: What we see is that the funnel is equally strong, both in short, cyclical product and projects of all sizes. But in this quarter, we didn't have any orders that we sort of would define as medium or large project order intake. What you see is an underlying good performance, which is clearly ahead still of the trough quarter, which was the Q3, as we stated it to be. We still believe that was the trough, so this is in between the Q3 and Q4. Maybe, since we got that late order intake, you should look at Q4 and Q1 together, because that was basically one day's margin in between. That is, I think, your review.

00:52:59
Kiira: Thank you. We have another question on the manufacturing operations in Würzburg. Could you provide us with more information on the process of finding a new owner of straddle carrier manufacturing operations in Würzburg? Has there been any progress there?

00:53:18
Anders: Yes. We always review our footprint both in terms of internal footprint and also our external supplier footprint. Here we are, and we do that under our accelerate efficiency initiative, which is also one of our strategic enablers for the group. Here we look into the operating model that we have for straddle carriers, which is a one product site, and that makes it very sensitive towards ups and downswings in order intake in that specific product. If you look at other products within ports like RTGs, where we have a completely different operating model, with outsourced manufacturing, we are much less sensitive. Also, the supplier does other things. They are also less sensitive. Hence, we have taken the decision to look into the operating model here.

00:54:12
Anders: That means then that we look into if we can find a buyer for the site. We, of course, want to progress as quickly as possible to find that buyer, and to agree with that buyer, and then transfer people and the facilities and the operations to that buyer. We can't comment on where we are in the process specifically, but that is our main initiative to identify that buyer as soon as possible. We can't exclude that other initiatives will be needed to be taken in terms of Würzburg to manage our operational excellence.

00:54:53
Kiira: Thank you. I think those were all the questions this time around. It's time to conclude the conference. As a kind reminder, we will report our half-year financial report on July 26th. That is then when we will be back here in the studio. I wish you all a great day. Thank you.

00:55:15
Teo: Thank you.

00:55:15
Anders: Thank you.