

# KION GROUP AG

## Q3 2024 Update Call

### Conference Call Transcript

30.10.2024

15:00 CET

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Christian Harm (CFO)

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Rob Smith

Thank you very much, Sandra.

Good afternoon, ladies and gentlemen, and welcome to our Update Call on our Third Quarter Results in '24. And I refer you to our IR Website for the presentation that's online.

I'm going to start with a summary on the third quarter and give you a short update on our business. And then Christian will take you through our detailed Q3 financials and our outlook for the full year, which we've not only confirmed this morning, but we once again narrowed the guidance ranges following a good performance in the first 9 months and our view on this final fourth quarter of the year.

After Christian, I'll take you through our key takeaways, and then we'll go into our questions and answers.

Let's start together on page 3.

Group order intake at €2.4 billion reflected seasonal softness at ITS and the ongoing customer hesitation to sign new contracts as well as tough comps in our Dematic business.

We had another good quarter with revenues at €2.7 billion. And adjusted EBIT at €220 million remained at the high level of the prior quarter with the adjusted EBIT margin increasing sequentially to 8.1%.

This improvement was driven by the higher margin in our SCS and lower corporate expenses, which more than compensated for the mix-driven lower margin in our ITS segment.

In a year-on-year comparison, both adjusted EBIT and the corresponding adjusted EBIT margin were only slightly down compared to the strong prior-year levels.

Despite various crises worldwide, material availability continued to be good in the supply chain. And we diligently monitor and track the situation of our suppliers and their supply chains, giving us an opportunity and the ability to initiate mitigating measures early and as necessary.

Free cash flow in the quarter was a positive €229 million driven by the good EBIT and a slight improvement in net working capital.

And earnings per share were €0.55. The year-on-year decline, despite a nearly unchanged adjusted EBIT, resulted from higher net financial and tax expenses, with an adverse impact on net income.

Let's look at some business highlights and business developments on page 4.

We've recently opened our Center of Excellence for Automation in Antwerp, Belgium, which is now our primary R&D hub for automated solutions in EMEA.

The new center features the modern standards of sustainable design and brings our KION brands Linde Material Handling, STILL and Dematic all together under one roof.

The mission of our team is to deliver intelligent, driverless, and interoperable robotic products, solutions, and services that are

easy to deploy, easy to operate, easy to maintain and support throughout their lifecycle.

Automation plays a key role in our industry, and I'm very excited about this new center that allows us to respond to market needs and deliver automation projects faster, more innovatively, and cost effectively.

Following our longstanding cooperation with pallet shuttle maker Eurofork, we've entered into a strategic partnership this past quarter, which enhances our product portfolio with automated high-density cubic storage and retrieval solutions for pallets.

Automated shuttles travel independently on rail systems through the racks and transport palletized goods to the picking station, allowing high-density storage while offering a high degree of flexibility with high throughput rates and high levels of operational safety.

And finally, KION Group is funding an Endowed Professorship for Safe Autonomous Systems at the Technical University of Dortmund. The Endowed Professorship will complement KION's Group internal research and development activities in the exciting fields of artificial intelligence and machine learning. And it underlines our pioneering role in one of the most promising technological fields for the future.

I'll hand now to Christian, and he'll take you through our Q3 financials and the outlook for 2024. Christian?

Christian Harm

Thank you, Rob. So let's go now to slide 6 for the key financials for the ITS segment.

Order intake of roughly 52,000 units reflects the seasonal softness typical of the third quarter, as 2 out of 3 months are affected by the summer holidays. APAC and class 3.1 warehouse equipment continued to increase their share in the mix.

New orders in money terms increased by 2% year-on-year and showed a less pronounced seasonal decline than the unit orders, mainly driven by the continued growth in the resilient service business.

Overall, we continue to make progress in reducing lead times, leading to a normalizing of the order book which now supports approximately 5 months of new business revenue.

Margin quality of the order book reflects the ongoing shift in new orders towards APAC and smaller warehouse equipment over the past recent quarters.

Revenue at nearly €2 billion reflected a 4% decline in the new trucks business, partially offset by a 2% growth in the service business. It may be worth noting that the service share reached 50% of the revenues in the quarter, demonstrating the important contribution of the service business to the resilience of our business model.

Adjusted EBIT at €202 million reflects the seasonal softness and the higher share of APAC and warehouse equipment compared to previous quarters. At 10.1%, the adjusted EBIT margin remained in the double-digit territory.

I will now continue on page 7, which summarizes the key financials for SCS.

Overall, order intake continues to be impacted by customers' ongoing hesitation to sign new contracts due to macro and political uncertainty and expectations on further interest cuts.

Accordingly, Business Solutions orders were down 49% compared to the prior-year quarter, which you may recall was boosted by a €300 million big-ticket order. Adjusted for this, Business Solutions orders remained stable. The service business grew at 16% and, like in ITS, continues to demonstrate the resilience in our business model.

Activity from the pureplay e-commerce vertical was comparable to the first quarter with a share of 30% in the quarter.

The decline in the order book reflects further progress in completing the legacy projects as well as the subdued order intake over the past quarters.

Overall, revenue remained close to prior-year level and prior-quarter level. The service business continued to grow strongly at 23% year over year, while the project business declined as expected by 15%, reflecting the lower order intake and the high share of orders with long lead times throughout last year.

We continued to make further progress in working through the legacy projects. The adjusted EBIT at €28 million and the adjusted EBIT margin at 4% reflect this and the higher share of services as well as initial benefits from the measures to streamline our cost base in the SCS segment.

Now on page 8, let me quickly run through the key financials for the group.

Order intake reflects the seasonal softness in ITS and the continuous customer hesitation to sign new contracts in SCS. Additionally, SCS had tough comps due to the big-ticket order that I referred to in the prior-year quarter.

The order book reflects the normalization in ITS and subdued demand in past quarters in SCS.

Revenue benefited from the growth in the resilient service businesses in both segments, thus mitigating the softer ITS new truck business and the lower SCS Business Solutions revenue.

Adjusted EBIT at €220 million and the adjusted EBIT margin at 8.1% remained very close to the strong prior-year levels. This was supported by the low corporate services and consolidation line, which was impacted by costs shifting into the fourth quarter of this year. Overall, the services and consolidation line remains within our implied guidance range.

Page 9 shows the reconciliation from the adjusted EBITDA to group net income.

Depreciation and amortization followed the usual quarterly pattern.

Nonrecurring items amounted to minus €4 million. Due to the postponement of a sale of a building in ITS, we have increased our full-year indication for nonrecurring items to minus €20 million

to minus €25 million from minus €10 million to minus €20 million before.

PPA items are back to the usual quarterly levels, as indicated.

The sequential increase in the net financial expenses was almost entirely attributable to the fair value of interest derivatives which reacted to the recent changes in interest rates and is not cash effective. This effect has led us to increase our full-year indication for net financial expenses to minus €180 million to minus €200 million from before minus €170 million to minus €190 million.

This resulted in pretax earnings of €131 million in the quarter.

The tax rate in the quarter was negatively affected by tax expenses relating to former years. Excluding this, the tax rate would have been comparable to the level seen in the prior quarter. We have therefore increased our full-year 2024 effective tax rate indication to 32% to 36% from before 30% to 35%.

As always, you will find the slide on the housekeeping items in the appendix of this presentation.

The net income attributable to shareholders amounted to €72 million in the quarter, corresponding to earnings per share of €0.55.

Let's now continue with the free cash flow on page 10.

Free cash flow in the quarter reached positive €229 million due to the strong EBIT and some improvement in net working capital, which was mainly driven by the favorable development in trade



receivables and the increase in contract liabilities and partially offset by a decrease in trade payables.

The positive free cash flow led to a €163 million decrease in net debt, as shown on the next page.

The next slide, slide 11, shows now the development of net financial debt and our leverage ratios.

As mentioned on the previous slide, the positive free cash flow led to a €163 million decrease in net debt. Accordingly, the leverage ratio across all debt definitions improved by 0.1x. This also holds true for the leverage ratio on industrial net debt, despite the sequential increase in net pension liabilities resulting from a lower discount rate.

Our leverage ratios peaked in late 2022 and are now back to the level last seen post our December 2020 capital increase. We achieved this entirely through self-help measures.

We continue to remain committed to improving leverage metrics further to defend our two investment grade ratings as we believe they are supportive to our business model.

Slide 13 lays out our guidance. The good performance in the first 9 months of 2024 and our recent order intake development and our view on the remaining quarter of this year lead us to once again narrow our guidance range for the full year.

For ITS, we have lowered the upper end of the revenue guidance range by €100 million, as the recent order intake has a minor impact on our revenue expectations for this year.

For adjusted EBIT, we have also lowered the upper end of the guidance range by €10 million, taking into account the continued increase in the APAC and small warehouse equipment share in the order intake in recent quarters. This has marginally reduced the midpoint of our revenue and adjusted EBIT guidance range for ITS.

We still see some uncertainties in the mix in the order intake and the revenue in the fourth quarter as well as possible impacts from current wage negotiations in the German metalworking union.

We expect to remain at a double-digit adjusted EBIT margin across the second half of the year at the midpoint of our guidance range.

For SCS, we have increased the lower end of the revenue guidance range by €100 million due to the year-to-date revenue development.

Based on the achieved results in the first 3 quarters, we have again increased the bottom end of the adjusted EBIT guidance range by €20 million. This increases the midpoint of the SCS revenue guidance by €50 million and the SCS adjusted EBIT guidance by €10 million.

For KION Group, this results in a narrowed guidance range for revenue between €11.4 billion and €11.6 billion and for adjusted EBIT between €850 million and €910 million.

The correspondent narrowed guidance range for free cash flow is now between €570 million and €650 million and the narrowed ROCE guidance range between 8.1% and 8.7%.

With that, I hand it back to Rob for our key takeaways.

Rob Smith

Thank you, Christian. Let's now go to page 14 for our key takeaways.

KION delivered a solid third quarter in 2024, with stable adjusted EBIT and adjusted EBIT margins on tough comparisons.

We've confirmed our outlook, and again, we've narrowed the guidance ranges based on our solid performance in the first 3 quarters this year and our view on the final quarter.

We've successfully brought our lead times in our ITS segment back to a more normal level of 4 months plus or minus a month. Going forward, this means that we will have less tailwind from the order backlog, which supported revenues this year, and our revenue will more closely correlate with our order intake.

We'd also like to remind you that our order book in Supply Chain Solutions has a high share of orders that execute over several years. This means that the near-term revenue development is both a function of working off the order backlog as well as winning new orders in a challenging environment.

This concludes our presentation. Thanks for your interest so far. Let's now move to questions and answers, please. Sandra, if you'd please open up the line.

Operator Thank you. We will now begin with the question-and-answer session.

Sven Weier Good afternoon. Thanks for taking my questions. The first one is actually on the truck side. Rob, you just mentioned that now order intake and revenue correlate more closely. Backlog has kind of normalized. Now obviously, we can all do the maths, right? Take Q3 order intake times 4 would lend us almost €1.5 billion below the revenue guidance you have.

So I was just wondering, what measures can you put in place for next year to mitigate that potential revenue decline, as you can't really borrow from the backlog anymore? That's the first one.

Rob Smith Hey, Sven, good to hear from you. Thanks for that. Look, we'll be talking about next year as we get into next year. Let me just reinforce. We remain very committed to achieving and maintaining more than 10% in both our segments and in the KION Group by the end of our planning period in 2027.

Lower revenues next year would be a temporary challenge and would require cost adjustments to return the margin back above 10%. But we've explained before we have flexibility in our cost base, and we're prepared to go further as required.

So we'll share our further information on expectations for 2025, revenues and margins wise, when we come back with our full-year 2024 financials and our outlook for next year at the back end of February, Sven.

Sven Weier That's fair, Rob. Thank you. And the second question I had is more on the warehouse automation business, right? Obviously,

we still have the situation that, on the big projects, especially I guess your US clients are waiting for next week, and rates to come down further. But when we look at the early cycle names in warehouse automation, some of them are saying that the small and mid-sized projects are indeed coming back, getting more positive, which sounds quite encouraging.

Are you also observing a different momentum when you think about different ticket sizes in warehouse automation?

Rob Smith

That's a good question, Sven. I think maybe we go back to some of these drivers. Back in the last month, it was quite a positive thing when the Fed took the interest rates down. I think that's a first step, and it was the first necessary step, but there need to be more to come.

Shortly thereafter, the Middle East tightened up even further. And so it is a geopolitical and macroeconomic uncertainty. I think next week's results, as you point out, will be one help in resolving some of the uncertainty in the market, but there needs to be some more.

I think that your question, however, gives me an opportunity to talk about how our Supply Chain Solutions business is working very hard and building a very appropriate portfolio that's got a good balance between service business and small and medium projects and also larger projects, which is an appropriate and good way of building the order backlog and the order book for good execution and good profitable execution in that business.

Sven Weier

Thank you, Rob.

Akash Gupta

Yes, hi, good afternoon. Thanks for your time. My first one is on SCS. So I see your service revenue increased by 23% year-on-year, and share of service reached to an all-time high of 46%. Was there any one-off in the quarter driving this higher growth, or is this reflecting growth in your installed base and potentially your action to monetize installed base?

Also, can you talk about how does this service business revenue flow through the order intake, and is it possible to split your backlog of €2.5 billion between new equipment and service? That's the first one. Thank you.

Rob Smith

That's the first two, isn't it, Akash? Good to hear from you. Hey, there weren't any particular one-offs in that. And it's a -- as you point out, as we put more and more installed base into the field and a good focus on the service business, we're growing those service revenues and the share of our service business. And that's all on a good trajectory. And there weren't any particular one-offs.

Let me ask Christian to help you with the other part of your question here, Akash.

Christian Harm

So basically, you have a correlation where the -- so again, you were asking sort of how is the service business actually reflected in the order intake. So basically, that's equal to sales. And so the mods and upgrades are part of that, which is a more project-like kind of business, but it's regarded as a service business. And so service equal sales, also on the SCS side with the change that we have done in the upgrade this year.

And I cannot split down the order book by the constituents in terms of service element, but that actually logically flows when you equal service to sales. You basically can deconstruct sort of what's the share of the service in the order book.

Akash Gupta

Thank you. And my second one is on ITS and particularly focusing on Germany. So a few years ago, you disclosed in one of your presentations that Germany was about a quarter of ITS revenues. I'm wondering if you can comment on where the share of Germany today, and is the mix of revenues between new business and service is similar to group, or is this different?

And finally, on Germany, we are seeing an environment of industrial recession where industrial production in Germany is still below pre-pandemic levels, and then we get the news flow that auto companies are looking to reduce their production footprint. Can you tell us, what are you seeing in Germany, and what are your expectations for the coming period, and do you see any need for cost-base optimization in the country? Thank you.

Christian Harm

Just on your very specific question on the share of Germany or so, I would say, in tendency, the mix has not changed, but I would actually ask you to come back to IR to have a follow-up and a more precise number.

In the context of the reference that you make to the auto industry and what's going on right now in Germany in the public debate, I think that's actually an element of the overall uncertainty that we have been talking about in terms of macro and political, and that particular is relevant for Germany, because I think that's the backdrop of your question.

As we are supplier of any industry that is actually moving goods, we also obviously are a supplier to the automotive industry. And so that is a key element in Germany.

But our footprint that we are having here, right, in particular our operations footprint, right, is not a footprint for the country, right? Our footprint is footprint for the region and to some extent for the world, but more for the region, right? So it's not just depending on what's actually happening in Germany, and it's by far not depending on what's happening in a particular industry in the country of Germany.

Rob Smith

I think I'd point out too, Akash, in many calls and in some of our conversations, I pointed out the very element of KION's business model to be operating in the heart of the factories and warehouses and distribution centers of every single vertical out there.

And the automotive industry is very exclusively focused on the automotive vertical. If you take that one step further, the original industrial truck at KION was an electric truck -- 91% of our order intake is electric trucks. And we don't have the same kind of tremendous adjustment on the powertrain that the automotive industry is going through.

Akash Gupta

Thank you.

Martin Wilkie

Thank you. The first question I had was just to come back to the normalization of the backlog in industrial trucks. Is that also suggesting that lead times have normalized as well? So if a customer places a truck today, it's sort of back to where it was in 2018, 2019, just in terms of lead times, so we can think about



how the backlog converts. So that was the first question. Thank you.

Rob Smith

Yeah, you're bang on, Martin. You can read it one to one. That's exactly right.

Martin Wilkie

Well, that was easy. Thank you. And the second question I had was just coming back to Supply Chain Solutions. So obviously, we're seeing different comments that suggest that the market is not obviously quite started recovering yet, but there are some green shoots. At the same time, obviously, the interest rate environment is moving hopefully in the right direction, albeit slowly.

When you talk to your customers, has that incrementally got better in the last couple of quarters, or are we still at a sort of an unchanged state when we think about converting pipeline into order intake?

Rob Smith

Yeah, also a good question there, Martin. Look, the initial drop in interest rates has been a good first step, but I think all the customers out there in the world is actually expecting more to come. And they're still working on an expectation of further interest rates to drop and a little less macro and geopolitical uncertainty.

So it's appreciate the green shoots, and the conversation really needs to get to further reduction of uncertainties and further reductions of interest rates.

Martin Wilkie

Great. Thank you very much.

Gael de-Bray

Yes, good afternoon, everybody. Thanks for the time. The first question I have is related to the free cash flow dynamics. I can see the guidance for the full year now implies that the free cash flow should be rated down in Q4 versus Q3, despite the usual positive seasonality. So why is that?

And then with orders and sales trending down, why have we not yet seen a bigger release of inventories?

Christian Harm

So I hope you can hear us. But, Gael, we lost you or actually in the second question. So if you could rephrase your second question, please?

Gael de-Bray

Yes, the second question was about the level of inventories and the fact that we haven't yet seen any meaningful release of inventories, despite the fact that orders and sales have started to trend down already.

Christian Harm

Okay. So let me start with the first question then. So the first question was on the cash flow in the fourth quarter. So in the fourth quarter, we will have a pension financing of €50 million. That is a singular fourth quarter piece which is built into our guidance, and we have an expected closing of a smaller ITS acquisition and a low double-digit million-euro amount that will also be effective in the first quarter and was not in the prior quarters but is built into our guidance.

The inventory level actually is more a function of revenue development than it is a function of order intake and development. Nevertheless, we would expect going forward that we see the stock to decrease for the yearend.

Gael de-Bray                      And do you have a specific target in mind in terms of the level of inventory to sales, for example?

Christian Harm                    No, not in the level of inventory or sales, but we actually follow up on the speed of -- we are turning over all our net working capital, not just the inventory, but the inventory, the receivables, and the corresponding payables target. And the result of all that what we are targeting for you see incorporated in our cash flow guidance.

Gael de-Bray                      Okay. Understood. Yes, thanks.

Sebastian Growe                 Hello, can you hear me to start with?

Rob Smith                         We're good, Sebastian. Hello.

Sebastian Growe                 Incredible. That's cool. Yes, hi, Rob. Hi, Christian. I would like to start then with a follow-up to Sven's question and making specific reference to the update that you provided then on the NRI. So you apparently are guiding for around €10 million, €15 million in quarter four. So there must be specific, I think, items that you have in mind. I guess it's very, very understandable that, at this point, with your order trajectory, people are asking those questions around what you're doing actively to just sort of put pressure away from the business.

And talking about pressure, maybe you can also comment around what you're seeing in the competitive environment, specifically from sort of the more established peers but also probably from what you see with regards to peers from Asia. And that is not necessarily only making then reference to the class 3 category but also outside, so what you would see in class 1 and

4 and 5. So that would be the questions I have on IT&S, and then have a quick one on SCS, please.

Christian Harm

So just quickly on the NRIs for the fourth quarter, that will incorporate the number of smaller stuff, but we will also incorporate further smaller restructuring measures that we are incorporating in the fourth quarter to prepare for our business for the coming times.

Rob Smith

Yes, and Sebastian, some color on the competitive environment, it's strong competition out there, as always. I think maybe the development I would say is the larger item in terms of is the -- I think there's a strong correlation between the internal -- the growth in the China market or the slower growth in the China market turning into a stronger focus on export by most all industries in China, which just increases the competitive environment and in all the other markets.

I think, whether you're -- whichever competitors you're talking about and in any market as well as our behavior, our observations are everybody continues to act rationally in this in terms of pricing and commercial decisions in an intense competitive environment.

Sebastian Growe

And if I may just ask, you made this comment as then around how this has changed in the more recent past. So has there been really any tangible change in the overall competitive landscapes then, say, about last 4 quarters, last 12 months, or is this really a new phenomenon in a way that then would also affect those classes 1, 4, and 5?

Rob Smith

No, I don't consider it a new phenomenon, and I'm not pointing out any brand new dynamics. I'm just -- maybe the verb tense

was considering earlier this year. I think everybody had a higher expectation of a growth in the China domestic market. I think that's come down a bit over the course of the year. And therefore, as that's marginally come down, the marginal uptick and focus on export is the development, but it's not any sea change at all. It's just an ongoing element of the dynamics in our market.

Sebastian Growe

Okay. Understood. And thanks for the color. And then the next one just quickly on SCS, so apparently, gross profit margin has rebounded. It's up like 100 basis points quarter-on-quarter, and that is despite revenues being down sequentially. So I'd be interested in better understanding what has been driving this development.

So how should we could think about the better mix vis-à-vis the lower legacy project contribution, and maybe also if you could comment on the tailwinds from cost savings that you have brought home as we speak, and if you could against that backdrop also give us a bit more insight into how we should think about the savings based on the measure that you have implemented so far in the SCS business.

So I recall you had a charge of €15 million in the quarter 2. So just the related savings impact would be interesting to understand.

Christian Harm

Yes, thanks for the questions, Sebastian. I may almost leave no room to answer because, basically, you have already outlined most of the factors that are important for this one, right, because basically, yes, it's a combination of all this, right?

It's a combination of working through the legacy project. It's a result of the project management structures and processes that we have put in place that is supporting this. And it's a function that we had in the call earlier, right, in terms of the increasing service share. That is also true for SCS. And the combination of all that supports the positive development of the gross profit margin and, as such, supports then the margin progression overall that we have been seeing now over the past few quarters.

Sebastian Growe

That I do understand. So the question, however, is then more specific apparently. And the overall, I think, headcount is down by around 700 people year-to-date, and my question is simply on the measures that you have taken. How quickly do you get people off the payroll? So how much of a sort of follow-up savings effect should we still anticipate? So if you could help us here, that would be much appreciated.

Christian Harm

Yes, I will say the better part of what we have put in place in our restructuring program has taken place by now. And obviously, as processes are different in different jurisdictions, there is the one or the other run up to this. But basically, we have put it in place. We have been able to execute that very stringently. And for the most part, that has taken place by now.

Sebastian Growe

Okay. And the very last, if I may, on the order backlog, on the €2.5 billion in SCS, so I think you had in the past the chart indicating at least how much of the order backlog is due for execution in the following year. So could you help us how we should think of the timing of the €2.5 billion backlog at this point?

Christian Harm

That again, Sebastian, I would ask you to actually line that up with IR and to get an answer to that in more detail.

Sebastian Growe

All right. Will do.

Tore Fangmann

Hello, good afternoon. Thank you for taking my question. I got two questions from my side. The first one would be on your reconciliation line that is €20 million roundabout below the quarterly average. Can we expect this to catch up with you in Q4? And basically, could we expect you to then be €20 million above the quarterly average or is this something structurally that is lowering the cost for this year? Thank you.

Christian Harm

No, actually, you can expect that to be caught up, and then sort of the second half of the year would be corresponding to the first half of the year.

Tore Fangmann

Okay. Good. Well understood. And then just my second question would be maybe an overall picture of the different regions when it comes to IT&S. I know that the latest we knew was in IT&S, in the US, destocking was still going on. In Europe, destocking was over, but the demand did not inflect, and Asia is going quite well. Is there any change to this situation?

Rob Smith

Yes, good question, Tore, and I appreciate the opportunity to put some color on that. Basically, let's go region by region, and let's go in the order that you just talked about. APAC is indeed -- and actually, let's have a conversation about units and value. Our observation is APAC has been expected to be up this year and is indeed up this year in units. It's also up in value terms.

The United States market is under some very significant pressure this year based on dealer stock. And the destocking dynamic that you just described is still underway and still has a way to go. And

so it's down in unit terms. It's also down in value terms, and the destocking continues. I think I'll come back to the North American market in a second just for some further color on that.

And the European market, it is up in unit terms this year. A very significant amount of that is in the small and inexpensive entry-level warehouse trucks. So in value terms, actually, the European market is flat this year.

If you come back to America, I think that that destocking is going to work -- it's like the rabbit going through the snake, and it will work itself through the system. It's affecting everybody in the North American market right now.

I think the important dynamic from a medium- and longer-term perspective is we took a very good decision 2.5 years back to invest in increasing our capacity in the North American market. And our ability to design and engineer and source and manufacture and assemble and sell in region for region as well as in between regions worldwide gives us a robust and resilient business model.

I think, in the North American market, having already built the capacity over the last 2, 2.5 years and increased our capacity in the market and our manufacturing in the market, we'll be very well positioned as that destocking comes down to be successful in any of the different geopolitical and tariff pictures going forward.

Tore Fangmann

Okay. Thank you for the color, Rob. Maybe one follow-up here, do you have any feeling for how long you would expect the destocking in the US to continue?





So there is additional element in the service business as well as those equipment typically are run for a very, very long time and used for a very long time. So there is repeated opportunities during the life cycle to actually do not just maintenance work but also do regular updates as we go.

Christoph Dolleschal

Okay. Clear. Thanks for that. The next one would be on ITS, where you obviously already elaborated on a couple of things, thankfully also on how you see the regions. And now thinking a bit broader again, the trends that we've seen this year, I would assume they would likely continue, i.e., APAC obviously is outgrowing the other regions, and the warehouse equipment side is outgrowing other regions, i.e., going forward, the mix should continue to develop as it has done this year simply because of the different growth rates. Would you agree?

Christian Harm

In tendency, yes, but I think the dynamics and the specifics in the markets that Rob was describing before need to be taken into consideration. We have a very specific situation in the American market. And the destocking will end when the destocking ends. But then it becomes part of the overall game again also with the dynamics of the American economy overall. So that will become a part of that.

But in generally, we would agree that you probably have a higher dynamic in APAC than you have in EMEA, and that's probably on the ITS side. That is probably a picture that we would subscribe to.

Christoph Dolleschal

Thanks for that as well. And Americas, as you've just been elaborating on sort of the previous question on when is the destocking going to end, interesting, at least from what I can see

is we are now at levels where we were like pre-COVID. So theoretically, we should see an end to the destocking sooner than later, but do you also think that, as in other markets, retailers or the resellers are getting very cautious and say, "Okay, well, rather than just going back to normal level, I would go below normal levels because I just don't know how the economy is going to pan out"? So are we actually seeing, say, lower inventory levels than normal, or are we at normal levels, I'd say?

Christian Harm

So I think fact is that, at this point in time, at the dealers, we don't see normal levels, or dealers don't see normal levels. So they first have to actually come down to what they would consider normal or what also in a historical context was normal. And that's the dynamic that still has to happen. And then I think we'll take it from there. I don't see an indication why then the dynamic from that base would actually be different to any extent, or that there would be any new dynamics as you described it.

Christoph Dolleschal

Yes, that was basically the question. So you don't see normal inventory levels yet. So we are still at excess inventory levels from what you see.

Rob Smith

Yes, that's the right understanding. That's the right understanding, Christoph. The stock in the dealer network is still above normal levels, and that's what we're talking about, about needing to destock before the regular demand and then supply kick back into normal growth mode again.

Christoph Dolleschal

Okay. Thanks.

Alexander Hauenstein

Yes, hello, Alex Hauenstein, DZ Bank. Thanks for taking my questions. I have a couple of follow-ups on specific things. I'm not

100% sure whether I got them really. On the consolidation line, to begin with, can you give us some idea about the nature of these costs that have been shifted? And is there a chance that these will be shifted into the next year again, or is that to come clearly in Q4, or is there even a chance that they don't appear at all?

Christian Harm                      So, Alexander, no, it's actually from various items overall. And no, I don't see that that's a piece that would shift into next year. We actually see that as a shift between the quarters in 2024.

Alexander Hauenstein              Okay. But they will come, and it's very unlikely that they will simply kind of disappear.

Christian Harm                      No, yes, no, it's unlikely that it disappear, and that's why it's in the implied guidance. We expect that to shift into the fourth quarter.

Alexander Hauenstein              Okay. And can you give us some color about your recent thinking about your US setup, especially when it comes to thinking in scenarios with regard to the election next week? In a Trump scenario, in a Harris scenario, how are your feelings here? What can happen? Is there any potential trouble and then potentially at the doorstep with regard to the Mexican activities potentially, or how do you think about this actually?

Rob Smith                              Sure, Alexander. Our job is to do good business, whoever's going to be the next President. And I think that we're very well positioned in, as I was saying before, multiple different geopolitical, geomacroeconomic scenarios.

Bottom line is we have very good -- we've established significant further capacity in the North American market in our factory in

South Carolina. We already had a good factory there, and we have significantly extended that. The project is run very smoothly. We've put very good capacity on the ground and are ready to be ramping it up as the destocking tails off and the market demand grows.

What I'm saying is, should there be enhanced tariffs, we are very well positioned in the country for the country and in the region for the region. Should there not be, it'll continue to be an important part of our worldwide supply chain and operations. And so I think we're very well positioned in any of the scenarios that you can imagine coming out of next week's election.

Alexander Hauenstein      Okay. Thanks. And lastly, on this destocking level discussion we just had, any chance to get this stocking done until the end of the year or definitely going into Q1, Q2?

Rob Smith                      We do not expect it should be -- destocking will be finished by the end of this year, Alexander. It's going to take some further time.

Alexander Hauenstein      In the light of this, how do you look at the consensus number of SCS uplift of 160 something? That's something we need to think about, or this is a 66% improvement compared to reaching potentially around €100 million in this year and next years.

Rob Smith                      Alexander, the audio quality of your question was difficult. I know it was an SCS question, and you were talking about a good year-on-year uplift, but I'm not sure which part you were discussing.

Alexander Hauenstein      Yes, well, I was just wondering how you think about the expectations here seeing 66%, let's say, lift in consensus expectations from about €100 million reaching in SCS this year

and adjusted EBIT and going up by 66% here. Does that need to be revised from our side at least a bit, or do you think this is absolutely something which is a potential scenario?

Rob Smith

Well, the guidance we put out this morning indeed reconfirms our guidance. It even further narrows the bandwidths. You see that we've increased the revenue, the bottom end of the revenue in the Supply Chain Solutions segment. You see we've increased the bottom end of the profitability as well. So the midpoint for both revenue and profit went up in the Supply Chain Solutions segment in our guidance for rest of this year. We'll be talking about next year's market expectations and business expectations in our call at the back end of February for next year timeframe.

Alexander Hauenstein

All right. Thanks a lot. Bye.

Operator

We highly recommend participants to limit themselves to two questions only.

Timothy Lee

Hi, thanks for taking my question. So the first one is on SCS. So as long as you're revising up the guidance for this segment, on the revenue side, the lower end of guidance is increased. So are you seeing your project development to be a little bit ahead of schedule? So that means, are your customers slightly increasing their progress of the project installation? Are you seeing any signs of that? That's my first question.

Christian Harm

No, so if I got it right, so our lifting the lower end of the guideline is not a matter of a sort of acceleration of the realization of the projects from the customer perspective. It's actually a realization that we see less risk in the implementation of those projects. And

therefore, we feel confident with reaching the revenue and thus the EBIT, as outlined in the updated guideline.

Timothy Lee

Understood. Thank you so much. And my next question would be on IT&S. So we are now entering the fourth quarter. So how do you see about the overall order (inaudible) into the quarter and especially in terms of pricing? Are you having any discussion with the customers in sort of pricing? Are we seeing any signs of price adjustment?

Christian Harm

So sort of pricing overall, that continues to be rational as we speak, and we expect that to be rational going forward. And pricing measures, as a consequence of our activities, recent activities, right, we have put in place our methods to be agile in the response time when it comes to updating our overall pricing. And we do that whenever we feel that is appropriate and required.

The fourth quarter in itself will also have a reflection of the product mix development that we have seen over the years. Over the year, sorry, not the years, the year that we were talking about over the last quarters. And the reflection of that you will see also in the fourth quarter.

Timothy Lee

So for the fourth quarter last year, we had some of the support from the order intake ahead of the price hikes that we made in January this year. So without any signs of concrete prices hike plan for this year, does that mean we will probably see high comps in the fourth quarter, and so there could be some pressure in the order intake development into the fourth quarter?

Christian Harm

I appreciate the thoughts, Timothy, but I would also want you to appreciate the fact that we do not guide on order intake.

Timothy Lee All right. Understood. Thank you very much.

Jorge Gonzalez Sadornil Hello, thank you for taking my questions. Well, in fact, one question I have, taking into account of the time. So regarding the order intake for SCS, the e-commerce lag looks like half a step back again to levels of 30% of the total order intake.

And I'm wondering if this is some seasonal development or if the vertical, the e-commerce vertical, is more affected maybe by the clouded outlook? Is this a vertical that you see investors are more careful or more impacted by the current uncertainty and if this can also work the other way, if you expect e-commerce to be the first vertical to return to the demand?

And maybe if you have a target or, in your budget, which percentage you assign to this vertical of e-commerce, that would be very interesting. Thank you very much.

Rob Smith Given all that, good questions, I think the dynamic that I would call out for you is the dynamic we've talked about over the past 10 quarters or so, which was, coming out of COVID, after we built so much significant rapidly capacity for the pureplay e-commerce players, it took them a while to grow into that capacity.

And I think the substantial thing you should take away from the fact that it was 30% of order intake in the third quarter and 38% and 60% before that, the fact is they're back at the table. They have grown into that capacity, and that continues to be a dynamic and growing vertical and shall be. And they're back in the market and asking for more capacity in the years to come.



And so I think that's the important development to be looking at as you're taking a look at the e-commerce line and the share of order intake there.

Jorge Gonzalez Sadornil Thank you, Rob. Thank you, Christian. I'll go back to the line.

Philippe Lorrain Yes, thanks for taking my question. Good afternoon, everybody. So actually so two related things, and I'll be focusing on solely the order intake in units in ITS. So my first question was, is there any special trend in rental fleet ordering patterns, either in Q3 or also across the quarter so far this year? Because to me, it looks a little bit like ordering from the rental fleet might have slowed down sequentially in Q3.

And then I had a question as well around the unit trends, but maybe we can just address that one like as a second.

Christian Harm Okay. So then just on the rental fleet, there is no particular trend, no specific dynamics to call out on the ITS.

Philippe Lorrain Okay. And so maybe a comment from you on the very soft unit order intake in Q3, if I compare that to Q3 last year, that's even weaker than that and, versus like the typical pattern, maybe a little as well weaker as usual. So was there anything particular explaining that or only the market trends that you've been speaking about?

Christian Harm That is the market, right? That followed the usual seasonal pattern, right? And as such, it's basically following the market.

Philippe Lorain Okay. So we should expect a pick up again in activity in Q4?

Christian Harm

Well, if the market follows the usual pattern. But again, we don't guide on order intake.

Philippe Lorain

Okay. Thank you very much.

Operator

Ladies and gentlemen, that was the last question. Back over to Rob Smith for any closing remarks.

Rob Smith

Sandra, thank you very much, and thank you to all on the line for your interest in our company and following us as closely as you do and the good Q&A we just had.

We're looking forward to continuing this good dialog during the new or the forthcoming investment conferences and roadshows over the next weeks. And we're looking forward to bringing you our full-year results at the end of February. So thanks very much, everyone. Goodbye.