KION GROUP AG

Investor & Analyst Call

Conference Call Transcript

04.02.2025

15:00 CET

Speaker: Christian Harm (CFO)

Good afternoon, everyone. Thank you for making yourselves available on short notice for this call, which we felt would be helpful to provide some additional context to the adhoc notification and the press release that we published earlier today.

As you are all aware, we have a strong commitment to our adjusted EBIT margin target of more than 10% by the end of the current strategic planning period, which is the end of the fiscal year 2027. This target applies to both operating segments as well as KION Group as a whole.

We have made very good progress in both operating segments and KION Group since the difficult year 2022, which was impacted by inflation and severe supply chain disruptions. We were quickly able to return the adjusted EBIT margin of the ITS segment to 10.0% in 2023 and 10.7% after the first nine months in 2024 while the SCS margin has been continuously improving as we work through the legacy backlog and reap the benefits of the project management improvements and the growing service business. This together with the market eventually returning to growth should ensure SCS return to double-digit adjusted margins.

KION is a recognized leader in its markets, strongly valued across our customer base and by our partners. To drive our development of solutions in both segments to cover future requirements from our customers, we will develop an even more resilient and agile company. Our preliminary results of the financial year 2024 prove that in a challenging environment KION can deliver a strong performance. In order to strengthen this resilience and maintain the headroom for investments to ensure our future and strengthen our competitiveness, we must manage our cost base. This requires structural measures that are sustainable.

As you are well aware, a substantial portion of our ITS business is generated in EMEA with subdued macroeconomic prospects. Since the Q3 24 results update call, we have been pointing out that the 2024 revenue in the ITS segment was boosted by substantial tailwinds from the normalization of the order backlog reach. We started off last year with an order backlog reach of more than 6 months, which we were able to reduce to approx. 5 months at the end of September and you can expect it to have further reduced to roughly four months at the end of last year.

This means that the ITS revenue in 2025 will correlate much stronger with order intake, which has yet to recover with regards to new truck business. While we expect the service business to continue to grow, it will probably not be enough to compensate for the absence of the tailwind provided by the order backlog normalization last year. While we remain fully committed to our more than 10% adjusted EBIT margin target, there is no question that this becomes a bigger challenge on flat or even declining revenues.

We have also said that we have a number of flexibilization measures to adjust our cost base, and we are using these. And we have been saying that if these measures do not suffice to keep the business sustainably above 10%, then we are prepared to go further. That is what today’s announcement is all about.

Today, the Executive Board of KION resolved an efficiency program with the aim to achieve sustainable cost savings of around EUR 140 to 160 million per year, fully effective in the 2026 financial year.

By implementing the efficiency program, KION is addressing several developments in the macroeconomic environment and in its markets. European economies are struggling to gain momentum and this affects key customer industries in the ITS segment, where Chinese competitors have been improving their market position in the aftermaths of the recent pandemics.

Programs to continuously improve product costs were already up and running throughout 2024 and will continue. Further structural changes will address a more efficient setup in Europe. These measures are expected to have an impact on personnel requirements. The process will be subject to consultations with the respective employee representative bodies as required by local law.

As we are in early stage of this process, we are unable to share further details at this time. You can expect to receive further updates as the year progresses.

As outlined in today's publications, the implementation of the cost saving measures is expected to lead to one-off expenses in the amount of approximately EUR 240 to 260 million in the financial year 2025. Most of that amount is also expected to be cash-effective in the financial year 2025. As a result, free cash flow and net income for 2025 will fall short of market expectations.

In addition, there are several headwinds that are expected to impact the adjusted EBIT margin in ITS in 2025. These include the missing tailwind from order backlog normalization and its impact on expected revenue development. These also include the less favorable product and geography mix as seen in the order intake of past quarters, and these include early signs of intensifying competition, all of which are expected to drive the ITS margin down to around 9% in 2025.

The dip below the 10% threshold is expected to be temporary as the full impact of the cost savings is expected from 2026 onwards. Accordingly, 2025 could be considered a "look through year" for the ITS segment and therefore also for KION Group.

We will provide our detailed outlook on the fiscal year 2025 as planned on our Q4 and full year 2024 results publication day on February 27.

Today, we have also provided preliminary results for the financial year 2024 for the KION Group. I would now like to give you some color on how the operating segments have performed and also some indication on the housekeeping items. All statements are based on preliminary and unaudited figures.

Revenue: both operating segments and KION Group finished the year strong with Q4 2024 revenues close to the prior year level.

Adjusted EBIT and margin: ITS increased adjusted EBIT by 4% in Q4 2024, resulting in a 10.6% margin in Q4 2024 and 10.7% in the full year 2024. SCS continued to benefit from self-help measures and tripled adjusted EBIT in the final quarter of 2024 compared to the same quarter of the prior year, resulting in an adjusted EBIT margin of 5.4% in Q4 2024 and 3.8% in the full year 2024. KION Group increased adjusted EBIT by 15% YoY in Q4 2024, resulting in an 8.2% margin in Q4 and 8.0% in the full year 2024.

Free cash flow: Q4 2024 proved to be yet again the strongest free cash flow quarter of the year and reached approx. 271 million euro, despite a high level of **operating capex** at approximately 174 million euro in Q4 2024. This cash flow reduced **net financial debt** to below 1 billion euro. With a net financial debt of approximately 913 million euro, the **leverage** dropped to 0.6x at year-end 2024.

Order Intake: At 70 thousand units, ITS order intake showed a decent seasonally driven sequential uptick in Q4 2024 and even a mid single-digit growth compared to Q4 2023. In money terms, order intake in ITS was on a comparable level as in Q4 2023. In SCS, order intake continued to reflect continued customer hesitancy to sign new contracts and showed a slight decline compared to prior quarters. For KION Group, this resulted in a mid-single digit YoY decline in order intake in Q4 2024.

NRI slightly exceeded our indication and amounted to minus 28 million euros in FY2024. **PPA** and **net financial expenses** came in right in the middle of our indicated ranges.

Tax rate at 37% slightly exceeded the indicated range.

With these additional details, we believe we have covered pretty much all relevant pre-close call topics therefore we will not host the pre-close call scheduled for February 6th. I ask for your understanding.

We will post the entire transcript of this call on the website, in case you or a colleague want to review it at your leisure.

I ask for your understanding that at this point in time we have no further comments and are therefore not offering a Q&A session. We are looking forward to discussing your questions as usual with our Q4 and full year 2024 results update call on February 27.

Thank you again for your time and availability on short notice today.