



**Transcription**

# **Konecranes Q1 Interim Report 2022**

{EV00133633} - {59:27}

27 April 2022



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

# PRESENTATION

## Kiira Fröberg

Good morning, everyone, and welcome to Konecranes' Q1 earnings conference. My name is Kiira Fröberg, and I am head of Investor Relations. Here with me, I have our interim CEO and CFO, Teo Ottola. Before we start, I would kindly note that this presentation contains forward-looking statements. Next, Teo will present to you our Q1 results and the presentation is followed by a Q&A as always.

Teo, please, the stage is yours.

## Teo Ottola

Thank you, Kiira. And let's go right into the Q1 2022 highlights. So the first quarter was a mixed one. We had excellent orders – a record-high order intake. Order intake was good, actually, across the business areas. At the same time, we had low sales volumes and declining profitability in a year-on-year comparison.

If we take a look at the profitability part first, adjusted EBIT 6.6% decline from 8% last year. When we take a look at this from the [inaudible 00:01:15] number point of view 6.6% compared to 8%, actually the reason is primarily volume. So, I said already that we had low sales. Then when you take into consideration the comparable currencies because we had tailwind as a result of the currency changes now in the first quarter, as well as the inflation impact from the previous year, actually our production volumes and deliveries were quite a lot lower than what they were a year ago.

At the same time, when we take a look at the profitability picture within different BAs, the story is quite different depending on the BA. We have a specific comment here on service. The profitability actually improved year-on-year, reaching 17.4%, which is an excellent result, particularly taking into consideration that we are in Q1.

Then when we take a look at the Port Solutions, there the profitability actually declined, but that is completely explained by the volume. But then as a third one, when we look at the Industrial Equipment, there we had a decline in the profitability as well, and this one is then more explained by gross margin decline in a year-on-year comparison as a result of cost inflation. So a bit of a mixed bag from that point of view as well. We can come back to those comments when we take a look at the business areas.

The overall market situation continued to be good in the first quarter. It is clear that the war in Ukraine has increased volatility, which has increased unpredictability. But despite that, our first quarter orders grew 32% on year-on-year comparison with comparable currencies. And actually the order intake was more than a billion in the first quarter. Also, short-cycle product order intake, referring to mostly components within Industrial Equipment and [inaudible 00:03:34] actually turn to growth after a little bit of a slower fourth quarter.

Then about sales. Sales actually decreased 6.7% with comparable currencies with a year-on-year comparison. Sales weakness or volume weakness was as a result of timing of customer deliveries, of course driven not only by timing but



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

also delivery delays, component shortages; as we have been commenting, those continued during the first quarter and also other supply-chain constraints. And we can take a look at those as well in more detail when we take a look at the business areas.

As a result of the very good order intake and somewhat sluggish sales, our order book obviously grew and reached the level of the nearly 2.5 billion at the end of March. We have updated our Q2 demand outlook. We have reiterated the 22 guidance, so no change to the financial guidance. You remember that we actually decided to reschedule the annual general meeting as a result of the merger being cancelled in late March. And now we have a new date for the annual general meeting that is in mid-June. And we also have a dividend proposal from the Board to the AGM. The proposal is €1.25 per share.

We are also making organisational changes, so we are taking service and Industrial Equipment business areas under one leadership, starting 1 June 2022. Fabio Fiorino, the current leader of our service business area, will be the leader for both of these business areas from 1 June onwards. This is now, as a result of the assessment that we actually already started in October of last year, the idea of the assessment was to figure it whether a closer collaboration between these two business areas would bring benefits from the customer point of view or from the internal efficiency point of view.

As we have been doing this evaluation, we can now conclude that we believe that there will be benefits, both from the customer intimacy point of view, giving growth opportunities in the future, and then also from the internal efficiency point of view, for example, business model simplification. Now we are going to progress with those. And we start by bringing these two business areas under one leadership. We will be talking more about the operating model going forward and actually we do not intend to combine reporting to have only one industrial business area; we will actually continue to have three business areas reporting externally, even though we are now bringing these business areas closer to each other.

Then a couple of words on the war in Ukraine and its impacts. As a company, we condemn Russia's aggression towards Ukraine. We condemn the war. We are upset by the war. We are deeply concerned for our Ukrainian employees and their families. We have more than 400 employees in Ukraine and their well-being and that of their family members continues to be our number-one priority. If we then take a look at the business impact, our crane and component factory in Zaporizhzhia in Ukraine actually stopped production immediately when the war started. We have redirected the work from that factory to other Konecranes sites.

Now in connection to the Q1 report, we have actually impaired all of the assets in Ukraine, [inaudible 00:08:06] and fixed assets, inventories and receivables actually to zero value. And this is now the solution that we had done in midst of the uncertainty that we have within Ukraine. When we take a look at the business impact regarding Russian business, quite some time ago, very soon after the war started, we already made the decision that we do not take any new order or business from Russia. In connection to the first quarter report, we have now written off almost 80 million of orders. And in relation to these orders, we have also reversed more than 32 million POC (percentage-of-completion) sales that had been booked before the year 2022. This is due to the fact that the projects in question have been discontinued. Both of these topics, impairing assets in Ukraine as well as the sales reversals, obviously have costs, and these are 47 million in the first quarter and all of that has now been booked into the adjustments in our report.

So having reversed sales and booking the corresponding result impact to the adjustment, obviously technically improves the adjusted EBITDA margin a little bit in Q1.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Key figures. We actually discussed most of these already. Order intake, sales, adjusted EBITDA, also the adjustments that actually then impact our operating profit, maybe a comment on net debt, €545 million, which is pretty much in line with the situation at the end of the year 2021 as well as in line with the first quarter of 2021 [sic].

Market environment. The PMIs continue to suggest growth in EU, USA, [inaudible 00:10:28] and India, China being maybe a little bit of an exception a result of the COVID restrictions there. But otherwise, even though the growth is maybe slowing down, we are still within the growth territory. When we take a look at the utilisation rates, the EU is quite stable. In the USA, the utilisation rates have continued to improve, and we are actually on the level, or even slightly above, the recent peak of 2018 from the utilisation rate point of view within the US.

When we look at the market environmental for Port Solutions, the Container Throughput Index continues to be on a high level. It has been fluctuating a little bit during the year 2021. The fluctuation has continued now in the beginning of 2022, but in a historical perspective, this continues to be on a high level. Of course, the COVID restrictions, for example, in China, may have an impact on these later on as well. Our take from these ones to the demand outlook is here. It is true that the pandemic is still continuing.

At the same time, the war in Ukraine is increasing concerns regarding inflation and material availability. However, when we take a look at our demand picture regarding industrial customers and Europe and North America, we actually see that the demand is on a healthy level. In Asia Pacific, the demand environment remains below Europe and of course partially is being impacted by, for example, in China. Global container throughput remains high and long-term prospects remain good overall regarding the Port Solutions business.

Financial guidance. We haven't really changed this. Net sales are expected to increase in full year 2022 in comparison to 2021. Adjusted EBITDA margin expected to improve from 21 as well.

There maybe a couple of words on these ones or maybe just to take a look at the overall Group level numbers. The big picture is [inaudible 00:12:53] here. The order intake was very good – more than 1 billion, 32% growth – whereas then the sales were on a lower level. Even if you were to add back sales reversals, we will be roughly on par with the Q1 2021 number. However, we have tailwind from the currencies as discussed and then of course the inflation impact is inflating the sales in Q1 2022. So the overall volume actually is lower than what it was one year ago.

The pie chart hasn't really changed much. The relative share of service was now bigger in Q1. So there is maybe a little change from that point of view, but from the regional point of view there is movement on a rolling 12-month basis [inaudible 00:13:44]. And while there is no movement in the pie chart, there is definitely movement in the order book slide. This is as a result of good order intake and sluggish sales, as discussed, shows a very high number of 2.485 billion. Then still on the level, the adjusted EBITDA in euros is €44 million, lower than a year ago by 12 million, and also the margin 6.6 versus 8% a year ago. As already discussed, there is a volume impact and then, regarding Industrial Equipment in particular, there is also a cost inflation impact.

When we take a look at the gross margin, this slide is saying that it improved and that is true. It improved in a year-on-year comparison, but if we add back the reverse sales in a way into the numbers, gross margin was actually flat in comparison to the situation one year ago, which also underlines the impact of the volume on the overall profitability.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Then let's move into the business areas and, as usual, start with Service. Service order intake and agreement base value. Order intake was good: €283 million. That is a 6.9% increase with comparable currencies now that the tailwind with the currencies has been quite good. Therefore, it's best to take a look at the comparable currency numbers. Orders increased both in fuel service as well as parts and order intake increased in the Americas and EMEA, and again, we come back to China situation regarding the Asia-Pacific order intake. In a sequential comparison it is maybe good to remember that the fourth quarter of 2021 includes a very big nuclear modernisation deal and therefore the sequential decline is as a result of that one. Excluding that one, we would be having sequential growth in order intake as well.

Agreement base value more than €300 million, growth of 2.6% on a year-on-year comparison with comparable currencies and also sequential growth by a little bit less than 2%. The sales and order book slide here. Sales €301 million. This is a growth of 4.5% with comparable currencies. We have sales increase in all of the regions: Americas, EMEA and APAC and also fuel service and port sales both increased on a year-on-year comparison. The service order book has continued to grow. So we have a similar story here as we have on a Group level as well. As a whole, the order intake was good, whereas we were lacking a little bit in sales and as a result of that, the order book increase continues. Of course, the order book increase from Q3 to Q4 was mainly because of that modernisation deal, but now of course in the first quarter we did not have a similar one-time impact.

Adjusted EBITDA. A very good number, €52.4 million, 17.4% improvement, both in euros as well as in margin. This is, of course, a result of the 74% sales growth, but also successful cost management and actually the continuous improvement that we have been able to continue within the Service business. Gross margin approximately on the same level as a year ago.

Industrial equipment. If we go there into the order intake and sales, we see a very good order intake: €364 million, which is a growth of 32% roughly with comparable currencies. Order intake actually increased in basically all of the business units: standard cranes, process cranes, components. It also increased in all geographical regions: Americas, EMEA and APAC. And also sequentially, we had growth in basically all of the business units. We had one big process crane order within the first quarter. Component order intake was actually very good within the first quarter, even though it was a little bit on the lower side during the fourth quarter. Actually, it was from a historical perspective on a good level there as well, but in comparison to the previous quarters or Q1, Q4 was lower.

Then when we take a look at the sales, €243 million, there was actually a decrease when you take a look at the external sales with comparable currencies. However, if you add back the sales reversal, we would have been having growth in comparable currencies on a year-on-year comparison. Sales increased in America but decreased in EMEA and APAC even though of course now Russia is impacting the number.

Then the adjusted EBITDA, that was a negative number: -5.2 million, -2.1%. As discussed, this is maybe more as a result of cost inflation than delayed sales, even though delayed sales play a role here as well. But also the fact that the gross margin decreased on a year-on-year basis, means that we have been having some pricing challenges, passing cost inflation to the customers. We know where the challenge is: it is mostly in component pricing. We intend to fix it. We have started fixing it already. We have increased prices already in March. We will be making a relatively big price increase in the beginning of June to be able to catch up and to have it on a good level once again. Now that we are increasing prices regarding the order intake going forward, obviously it will then take, say one quarter, two quarters, before we will be able to see the full impact on the gross margin, again, regarding, for example, the component business.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Industrial equipment order book. That looks good as well. So €855 million, a 24% increase in comparable currencies on a year-on-year comparison.

Port Solutions and Port Solutions order intake and sales. Excellent order intake: €427 million. That is an increase of 55% on a year-on-year comparison. We already yesterday informed about the big deal in the USA. That is, of course, included in the order intake, so this, of course, helps the order intake. At the same time, one can say that the order intake has been good across the business units within the Ports business. Basically all of the business units have been improving their order intake on a year-on-year comparison; not all product categories but within all of the business units as a whole. So Port Cranes of course, with the deal announced yesterday, belongs to Mobile Harbor Cranes Lift Trucks [ph 00:22:09] as well as Port Services have been doing well from the order intake point of view. And also, Lift Trucks [ph 00:22:17] being the short-cycle product, has been doing very well in sequential comparison as well.

Sales, on the other hand, are low: €176 million. And here, even if you add back the cancelled sales, which were about 20 million, regarding the Port Solutions. So we are still in a number that is below 200 million and we are, say, 40 million or so behind the previous year's numbers as a result of the customer delivery timings, as a result of the transportation challenges, some of those have been there and also as a result of component shortages. So we have been seeing some component shortages also regarding the approach of deliveries. Previously, we have been talking about lift trucks, but now we have seen some regarding project deliveries as well.

And all of this means that the sales volume is on quite a low level. Then when we take a look at the profitability, adjusted EBITDA €5.2 million, margin 2.9%. This slide also says that the decrease is mainly attributable to lower sales. That is true. We also need to remember that the comparison period included a provision release of €5 million. Gross margin improved on a year-on-year basis. But again, if we make it like-for-like, add back the cancelled sales or reversed sales and take this 5 million provision reversal into consideration, gross margin in a year-on-year comparison, actually, is quite close to what it was in the first quarter of 2021.

And the order book actually follows the same pattern as the other BAs as well: excellent order intake, lower sales. And as a result of that, quite a jump in the order book value. Of course, order book value has been impacted by currency changes as well, particularly regarding service and Industrial Equipment [ph 00:24:31] for ports. Typically, the currency impact is lower.

And then before we go into the Q&A, a couple of comments on the cash flow and balance sheet. Net working capital and free cash flow is the slide with which we have typically started. No major change in net working capital, neither from the rotation point of view, nor from the total euros point of view. We are at 13.4% of rolling [inaudible 00:25:05] sales, which is in a way, in line with where it should be. Of course, our inventories, particularly our work in progress, is on a very high level as a result of the delivery challenges that we have been talking about doing this call as well. But, all in all, net working capital has remained roughly unchanged. Free cash flow, of course, is very low as a result of the profitability not being where we would like it to be regarding Q1.

Then as a final slide before going into the Q&A, [inaudible 00:25:45] Gearing and return on capital employed. Gearing no major change there either, so we are around 40% net debt as already mentioned earlier, €545 million, and then the return on capital employed has been quite stable over the past five quarters that we have in the [inaudible 00:26:07].



## **Konecranes Q1 Interim report 2022**

{EV00133633} - {59:27}

And now I think that this would be a good time to move into the Q&A.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

## Q&A

### Kiira Fröberg

Thank you, Teo. We have received some questions through the chat function, and we will soon also open the line for questions. Before that, I think we could take a couple of questions from the chat.

Regarding the cancelled Russian sales, we have a couple of questions on whether they can be redirected or utilised elsewhere.

### Teo Ottola

Okay, yes. Probably meaning the equipment that is behind.

### Kiira Fröberg

Yes, exactly. Ports and Industrial Equipment.

### Teo Ottola

Now, this approach that we have taken is that the sales have been cancelled as a result of the project being discontinued. And the idea in that kind of a cancellation is that we would keep the equipment and the money would flow its own way. This approach assumes that there would be zero value for that equipment. That may not be the case in reality. And if we redirect and sell those somewhere else, we will then obviously book the result or revenue from that against the adjustment that we have now done. The sales value would again be reported in sales, but the profitability impact would be visible in the adjustment. So it would be a reversal of the adjustment.

### Kiira Fröberg

Good, I think we could now open the line for questions and then we will take some questions from the chat function later. Please, operator. You can now open the line.

### Operator

Thank you. If you do wish to ask a question, please press "01" on your telephone keypads. If you wish to withdraw your question, you may do so by pressing "02" to cancel. Please limit your questions two.

And our first question comes from the line of Anishi Shah with Goldman Sachs. Please go ahead.





## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### Anishi Shah

Hi. Thanks for taking my question. I wanted to ask regarding yesterday's Georgia Ports Authority order. Is that something that you see as a signal of reinvestment in the ports or is it just a one off?

And my second question is regarding the pricing contribution this quarter. How do you look at it going forward to the second half of this year? Thank you.

### Teo Ottola

Okay. I'm not sure if I got the second question.

### Kiira Fröberg

I have it in the chat as well.

### Teo Ottola

We can maybe take that soon. Regarding the first question, if I understand correctly, the question is regarding how we see the big GPA order in terms of overall trading trends within the Ports business. We have already been saying earlier that our sales funnel includes bigger deals, this one being one of those. This is not a little bit of a bigger deal; it is a big deal. It's a big deal for us also from a historical perspective. These kind of big megadeals are, of course, part of the business, but they are typically ones that have been prepared for quite some time. Every now and then we have those in the funnel and we every now and then also receive those orders.

So based on one deal, we cannot really conclude much on the overall trends. However, what we would like to say is that the Ports business on a mid- and long-term basis has good prospects. The container traffic has continued to increase globally. The port congestions that we have seen lately impacting the logistics chain, even though they are not always port-equipment related, but sometimes they are. So it actually may be an additional engagement for our customers to consider additional CapEx. So on a mid- and long-term basis, we actually continue to see a lot of opportunity within the Port Solutions business. And also the sales funnel that we have at this point in time continues to be good.

### Kiira Fröberg

And the second question was, what is the pricing contribution this quarter and how do you look at it in the second half 2022?

### Teo Ottola



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Yes. When we take a look at the pricing within Service, the margins have been improving. So that is that is quite OK. We have been doing well there. When we take a look at the Port Solutions, we have some categories there where we have some challenges with pricing overall, as we just discussed, the gross margin for the Ports business has not really moved much. So all in all, that area is roughly OK.

When we take a look at the Industrial Equipment, there we haven't wanted to quantify the [inaudible 00:31:42] that we are having now in the first quarter, but we are saying that the gross margin for the whole Industrial Equipment is lower than what it was one year ago. And now that we are fixing it, we have increased prices and we will increase prices and a lead time for the price increase to it being visible, for example, in the Component business, is probably closer to six months in the current circumstances.

So what we will be probably seeing is a little bit lower gross margin in the second quarter in comparison to the situation a year ago. And then after that, things will get better from the gross margin perspective. Volume will obviously be crucial from the Industrial Equipment profitability point of view. So the higher output and the higher volume we will be able to get, the more profits we will be able to generate because as we remember, Industrial Equipment is more vertically integrated than the Ports business, for instance.

## Kiira Fröberg

Second question from the line, please.

## Operator

Our next question comes from the line of Massimiliano Severi of Credit Suisse. Please go ahead.

## Massimiliano Severi

Yes. This is Massimiliano from CS. Thanks for taking my question. The first one would be on the guidance that you reiterated, and I was wondering what gives you the confidence on this improvement? Is it more visibility on sales picking up in the next quarters or is it more of the expectations of supply chains improving throughout the year?

## Teo Ottola

Yes. And, of course, the key driver is the sales volume. That is clear. And now as we have been discussing, the first quarter from the sales point of view was low, which is also visible in the profitability. So first of all, these timings regarding customer deliveries. We are expecting that situation to be a little bit more favourable going forward. For example, regarding Ports, we had quite [inaudible 00:33:58] those topics now in the first quarter.

So it will be supporting our sales volume there. When we take a look at Service, we have been having a little bit [inaudible 00:34:09] and that has partially been driven by, for example, COVID quarantines, so both our people as well as customers'



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

personnel have been quarantined due to COVID cases. This has limited the number of hours that we have been having available. And then when we take a look at the component availability, which is probably at the end of the day, the most important topic of all of those, when we discussed this earlier, we were saying that Q1 and maybe even Q2 will be difficult from that point of view. Basically, without the COVID restrictions that China is now having, we would basically be saying that the second quarter availability would be better than what it was in the first quarter.

Now, of course, the only big question mark, or at least one of the big question marks, is then how the COVID restrictions in China will be impacting the availability of components going forward. This would mainly be microchips, PCBs maybe, electrical components of all kinds. So this is, of course, a little bit unknown, but it is the timing of deliveries, capacity when it comes to our own personnel, for example, and thirdly the component availability situation going forward. where we are basing our guidance. I don't know if you were referring particularly to the sales or sales and profits, but the profitability guidance would then be following the volume picture quite a lot.

### Massimiliano Severi

To follow up on this point. If I look at the margins year on year, would you expect an improvement already in Q2 or would it be mainly H2 at this point in time?

### Teo Ottola

We would rather not go into the margin [inaudible 00:36:16] between different quarters. But what I already said was that, regarding the Industrial Equipment business in particular and, of course, the pricing challenge that we have there, Q2 most likely will still be having a lower gross margin within the component business than what we would have had, let's say, during the corresponding period a year ago. We are not talking about the big collapse in the gross margin, but the component business obviously is an important profitability driver for the whole Industrial Equipment business.

Maybe one more topic that I will say here so that I don't forget, in relation to the Ukraine situation and is also primarily impacting Industrial Equipment and it is that now that we have booked the financial losses as a result of the sales reversals in adjustments, we are going to have certain extra costs when it comes to redirecting the production to other sites within the Group. Now I'm talking about the Zaporizhzhia factory. So we were originally planning to manufacture there. We cannot do it there now. We will be doing it elsewhere.

We will be delivering that to the customer, but it will be costing a little bit more. I would say that maybe in Q1 numbers, within Industrial Equipment, we have maybe 1 million of this kind of extra cost. We will probably be seeing a similar amount per quarter going forward as well throughout 2022, as a result of the need to redirect production to other places. This is not an adjustment, as the project will be delivered, but it will be costing us a little bit more than what we had originally calculated and, of course, than what we had last year because last year we were producing from Ukraine in a normal way.



## **Konecranes Q1 Interim report 2022**

{EV00133633} - {59:27}

### **Massimiliano Severi**

Thank you. Very, very comprehensive answer. And my second question would be, again, on the Port Solutions sales and the visibility that you have into Q2. So should we expect the sales to go up, even if component availability remains at the current level linked to the phasing of the projects? And should we expect it to be up year on year in Q2?

### **Teo Ottola**

I would rather not go into the year-on-year comparison now, but taking into consideration the challenges with certain deliveries now in Q1, so in comparison to Q1, the sales are expected to grow, because Q1 was on a low level. We do have component shortages in that area. We have had them also before. Maybe we have a little bit more now, but we do not expect that the problem would materialise in a very big manner during the second quarter.

### **Massimiliano Severi**

And finally on Port Solutions sales. The pricing should go up in Q2 as a function of the price increases that you put in 2021, am I right?

### **Teo Ottola**

Regarding Port Solutions and, of course, also Industrial Equipment. The steel cost has been going up, so that has been passed on to the customer prices and it will basically inflate the volume numbers as we go. And that will be then visible in the numbers as well. What kind of an impact that then has on our adjusted EBITDA margin then, of course, depends on how we have been managing the margin that we have within the sales margin or contribution margin, whatever one wants to call it.

### **Kiira Fröberg**

Thank you, Massimiliano. We have also some questions online, so I will now take one from there. It's regarding Fabio's nomination as the new head of the Industrial business area. Can you confirm that the decision to operate services and Industrial Equipment under the same leadership and closer to each other is not at all related to the inflationary challenges observed in Q1 for Industrial Equipment edition?

Separately, under the previous CEO, Industrial Equipment profitability was one of the key attention points and improvement was observed, especially on some more complex Industrial Equipment projects. Have some of these old issues come back?

### **Teo Ottola**



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Regarding the organisational changes and the change within the leadership, bringing those two business areas under one leadership, like I said, this evaluation or assessment has been going on since October of last year. Q1 performance does not have anything to do with the end result, so this is done because we see that by bringing those business areas closer together, we can actually serve our customers better.

We can strategically figure out our offering to those customers in a more efficient, comprehensive way. And we also have a need to simplify our operating model and business model within the industrial businesses. And now that we are bringing those closer to each other, we will be able to do that better rather than in a situation where we would be having them separately. So this is the background for bringing those closer together. And how we intend to do that in practice is then something that we will be discussing a little bit later on. But, of course, decisions will need to be taken before 1 June because that is the due date for the management change.

I already forgot the second question.

### Kiira Fröberg

The second question was about the strategic initiatives that we have had in place in Industrial Equipment and those issues that we have previously. I guess related especially to Process Crane projects. Have they come back?

### Teo Ottola

The strategic initiatives that we have been having continue to be valid. And we are actually working on all of them, including Industrial Equipment profitability. Process Cranes topic was a particular topic within that one. Looking at the gross margin challenge that we have, it is not actually primarily coming from Process Cranes.

I should say that the Process Cranes gross margins are also lower than what they were a year ago, but that's mostly because of volume, not because of pricing. And it is true that we will need to manage very carefully the so-called open steel risk, for instance, between the offer and procurement of the steel plates or coils or prefabricated goods, whatever we do, within the Process Cranes business. But so far we have been able to do that pretty well. So we are not giving up on the Industrial Equipment profitability improvement plan and the Process Cranes business will continue to be part of that.

Now, the question actually comes at a good time because of the Ukrainian Zaporizhzhia situation that I just mentioned. These additional costs as a result of redirecting products to be manufactured at other sites are actually mostly the Process Cranes business. So this additional cost burden, 4–5 million on an annual basis, will mostly be impacting Process Cranes and hence the idea of having [inaudible 00:45:06] figures regarding Process Cranes for this year is, let's say, 4–5 million more difficult to achieve now than what we thought before the war.

### Kiira Fröberg

Thank you. Let's now take that question from the line, please.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### Operator

Our next question comes from the line of Magnus Kruber of UBS. Please go ahead.

### Magnus Kruber

Hi. Magnus Kruber from UBS. A couple of questions from me. Thanks a lot for the good explanation around the margin guidance. I want to pursue a bit more questions around the pricing on Industrial Cranes. I think your comment that pricing [inaudible 00:45:48] flat gross margins into Q3, was that right? But at the same time, you also suggested you would hike more and end of June with the expectation of having that filter through maybe late this year or into next year? So could you talk a little more about that?

### Teo Ottola

When we take a look at this component pricing in particular, we increased prices in the beginning of March, and we will make a big price increase now in the beginning of June. And of course, now in this respect, you cannot actually separate what would be compensating tax [ph 00:46:27] and what would be compensating cost increases going forward. We have evaluated the situation. We are of the opinion that the increases that we are going to do now will be good for the market situation where we are at the moment, taking into consideration the inflation and, of course, the demand situation on the other hand.

Now the caveat in this, of course, is that the impact will be coming to the PNL, let's say, three to six months after making those changes. So the price increases carried out in March will be visible in the autumn. Early autumn. The price increases carried out in June will be impacting towards the end of the year in Q4.

Being on par with the gross margins of previous years. So like I said, Q2, we will most likely in Components be below. Q3, depending on the price increases, but also depending on what kind of volume we will be able to push out from the machinery during the third quarter, because that has a gross margin impact as well due to the factory resources being above the gross margin in this calculation.

### Magnus Kruber

Perfect. Thanks a lot. That's very clear.

And relating to the sales delays, could you expand a bit on how big sales delays per business area and what the impact will be on EBITDA? I think you gave a very good breakdown on that in Q4, so any colour on that would be helpful.

### Teo Ottola

Sorry, could you repeat that? I'm not sure if I follow the logic.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### Magnus Kruber

Absolutely. I was commenting about sales delays in the quarter across business areas. Could you help us quantify what that was per business area? And the corresponding impact on EBITDA? Because you gave a very good breakdown on that in Q4.

### Teo Ottola

Yes. Maybe we can at least comment on it at a Group level, to give you an idea. The so-called [inaudible 00:48:47] increase in the first quarter in comparison to the end of the year was maybe something between €30 and €35 million. In reality, it may be a little bit more because of course what we are doing is that we are all the time rescheduling the delivery times towards our customers. So this equation worked well when the component shortages started. It doesn't necessarily quite as well at this point in time. This one is maybe quite equally split between the BAs. What would you say? I think that there is no major difference between the BAs in terms of numbers. 10 million+ for each BA.

On top of that, we have then had delivery issues that are not backlog-related, and these are more within the Ports business. So we have had cases where we would be ready with a delivery, but we haven't had shipping capacity, for example. So there is not a ship available as a result of which the delivery doesn't happen. This is maybe another, let's say, 10–25 million on top of the component shortages, maybe 15–25 million on top of the component shortages, mostly, of course, in Ports business.

### Magnus Kruber

Okay. A final question if I can squeeze it in. Would you break down how the order cancellation and sales reversals are split between the business areas as well? That would be helpful.

### Teo Ottola

Yes. Of the orders, roughly 60 million is Ports, roughly 20 million is Industrial Equipment. And of the sales, 13 million, maybe slightly more, is Industrial Equipment.

### Kiira Fröberg

The numbers are actually available in the report on the chapter on the impacts of the war in Ukraine. So we are breaking down the sales and EBIT impact by business area and we also have the current order book in Russia.

### Teo Ottola



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

Yes, you are right. I think that the sales impact for Ports is around 19 million, but the exact numbers can be found in the report.

### Magnus Kruber

Thank you for that. I'll refer to the report. Thank you so much.

### Kiira Fröberg

Next question, please.

### Operator

Our next question comes from the line of Tomi Railo of DNB. Please go ahead.

### Tomi Railo

Yes. Hi, it's Tomi from DNB. Can you hear me?

### Kiira Fröberg

Yes, we can.

### Tomi Railo

Okay. Yes. Coming back to the pricing element. You mentioned in the very beginning that the volumes were down, adjusted for the currency and sales reversals. Is it fair to assume that the price increases have been at the level of 5% or am I totally wrong?

### Teo Ottola

If you take the so-called inflation impact or pricing impact, Q1 versus Q1, I would say that depending a little bit on the product category, we may have been somewhere between 5% and 10%. So the average is maybe 7% to 8%. If you take a look at the inflation impact on sales prices, Q1 versus Q1.





## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### **Tomi Railo**

Okay. Good. Thank you. And the second question, to put it frankly, do you think that you can return to sales growth in the second quarter?

### **Teo Ottola**

Now we would not like to start making comparisons in a year-on-year comparison, quarter to another one. What we have is our sales guidance for the full year where we are saying that we will be having higher sales this year than last year, but taking it down to quarters, we would rather not do.

### **Tomi Railo**

Thank you.

### **Kiira Fröberg**

Thank you. We should now then take one question from the chat. So what are your plans for refinancing the 250 million bonds maturing in June?

### **Teo Ottola**

We actually have plans to refinance. I didn't know if there are any major secrets there, but the discussions are ongoing and I maybe we won't go into the details here how we probably will be doing that. But the idea is that we will be drawing additional funding, not, for example, use revolving credit facility for that purpose. Now that things are still being discussed, maybe we won't go into more details regarding this one.

### **Kiira Fröberg**

Yes, thank you. Let's now take the next question from the line, please.

### **Operator**

Our next question comes from the line of Antti Kansanen of SEB. Please go ahead.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### Antti Kansanen

Yes, hi there. Just a question on the components pricing side. One would assume that it's a bit more dynamic than the other businesses in the Industrial Equipment, so what has caused the fact that you are lagging a bit behind? Is it that inflation is picking up. Is it more about customers not accepting the price increases?

And then perhaps separately, you are hiking prices going into Q2 and Q3. Do you think this drives demand in Q1, I mean, customers pre-buying ahead of these price hikes? Thanks.

### Teo Ottola

I do think that the price hike would have driven demand particularly Q1. The price increase that we did in the beginning of March did not have a major impact on the monthly division of order intake. It did some and it usually does some, but it was not extraordinarily big. We have now just announced the price increase for the beginning of June. And, like I said, that is quite a bit larger than the ones that we have been doing before. So it remains to be seen if the behaviour is different there. That will, of course, be within the second quarter because it is in the beginning of June.

Regarding the other questions about how the logic works. In this case, and when we take a look at the component or hoist or kick [ph 00:55:49] package that we have regarding the hoist, part of the material is inventory material that we are processing in our own facilities. Part of this is purchased goods and the purchased goods are something that come into the production directly. I guess it's more in that one that inflation in that area has been quicker and stronger than what we have been able to estimate earlier. That's why there is a gap from the timing perspective and that is the gap that we now intend to close with the price increases that we're doing.

### Antti Kansanen

Okay, thanks. And the second one is again on the EBITDA margin guidance and then we talk about the volume growth and the gross margin side. What kind of pressure is there to increase costs below gross profit? Going back to 2021, was there still an abnormally low operating cost because of COVID or something like this?

### Teo Ottola

That is that's a good question, of course, and I didn't actually mention it. Like we already discussed earlier, there is a risk that some of the costs will increase in addition to, let's say, normal salary inflation that we would be having, and we would be going back to closer to the levels that we had pre-pandemic. And I think that is probably still exists. We are managing this to the best of our understanding. And when we take a look at the Q1 cost base and compare that to the Q1 of 2020, the EBITDA margin challenge is not there. So the fixed cost overall has been very well under control actually across the BAs and regarding service – that was a specific comment on that – but also otherwise, this has not been a major issue, at least as of now.



## Konecranes Q1 Interim report 2022

{EV00133633} - {59:27}

### Antti Kansanen

All right. Thanks so much.

### Kiira Fröberg

Thank you. I still think we have time for one more question from that line, please.

### Operator

Just to remind everyone, if you would like to ask a question, please press "01" on your telephone keypads. And we have a question from the line of Tomi Railo of DNB. Please go ahead.

### Tomi Railo

Yes. Still coming into the order in Industrial Equipment, you mentioned one larger Process Crane order – any comment on the magnitude?

### Teo Ottola

Did we actually talk about the magnitude?

### Kiira Fröberg

I think it's available publicly somewhere. So it's one of the US Navy orders, quite similar to the couple of ones that we have received in previous years. Perhaps that answers your question, Tomi.

### Tomi Railo

Yes, thank you.

### Kiira Fröberg

Now time is running out, so it's time to conclude our Q1 conference. Thank you, everyone, for the good questions and active participation. As a reminder, we will issue our half-year financial reports on 27 July this summer. Have a great day, everyone. Thank you.

### Teo Ottola



**Konecranes Q1 Interim report 2022**

{EV00133633} - {59:27}

Thank you.