Transcription

Konecranes Q2 2022 Interim report

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PRESENTATION

Kiira Fröberg

Good morning everyone and welcome to Konecranes Q2 earnings conference. My name is Kiira Fröberg, and I'm the Head of Investor Relations at Konecranes. Here with me, I have our interim CEO and CFO, Teo Ottola.

Before we start, I would kindly remind you that our presentation includes forward-looking statements. Soon, Teo will present you our Q2 results. The presentation is followed by Q&A, as always.

Please, Teo, the stage is yours.

Teo Ottola

Thank you, Kiira, and welcome on my behalf as well. The structure of the presentation is very similar to what it usually has been, so we will start with the Q2 Group highlights and then we will discuss a little bit more in detail the business segments and then a couple of comments on the balance sheet, before we go into the Q&A.

And let's start with the Q2 highlights. Actually, the second quarter of 22 was quite similar to the first quarter, both from the operating environment point of view, as well as from the performance point of view. We continued to have very good, very high order intake in the second quarter, but at the same time, our profitability declined year on year. Our adjusted EBITDA margin declined to 7.7% from 8.6% one year ago. This was mainly due to low sales volumes, which was again caused by component and material availability issues as well as COVID-related challenges. Profitability declined in all segments.

When we take a look at the overall market environment, it actually remained good in Q2 despite the war, despite the pandemic, macroeconomic concerns, including inflation. Our order intake grew by almost 20% in comparable currencies year on year and surpassed the 1 billion level again now for the second consecutive quarter; we were very close to the record levels of the first quarter in the second quarter order intake. Also, these so-called short cycle products, notably components in industrial equipment and lift trucks in imports, continued to do very well, and actually also now in the second quarter, slightly better than what we expected ourselves.

From the sales point of view, like already said, we were suffering as a result of the component and material shortages and other supply chain constraints, and our sales on a year-on-year comparison decreased slightly in comparable currencies. And then when you take into consideration the price increases that we have done in a year-on-year comparison in a way as a result of the inflation - so actually, our underlying volumes are quite a bit lower than what they were one year ago. And this is of course also creating the profitability challenge and the decline that we are seeing in the numbers.

When we take a look at the order book. So, of course the continued very high order intake as well as some of the delivery challenges that we have been having meant that the order book had another record at the end of Q2; more than €2.8 billion at the end of June.

We are expecting the market volatility caused by the ongoing war, the pandemic, and other macroeconomic concerns to continue. The demand environment has remained good. However, uncertainty has increased, and we have updated our demand outlook for the third quarter to be in line with the with the current understanding of the market sentiment.

Also, as we do not expect the situation with the supply chain constraints to normalise in the near term, we have lowered our full year guidance ahead of the half year financial report a couple of weeks ago. And even if the material issues and constraints are by no means over, they will continue. The situation will continue to be tight. However, we feel that in the second half of the year we expect our delivery capability to improve in comparison to the first half and also some of the price increases that we have earlier done are starting to impact our profitability positively during the second half of the year.

Looking ahead, we will continue to drive efficiency improvements throughout the company. Since the beginning of June, our service and industrial equipment businesses or segments have been focused under one leadership, and following this change, we have started to identify opportunities for efficiency improvements and simplification of our industrial business model.

In June, we announced that Anders Svensson has been appointed as Konecranes' new President and CEO; he will assume his role on October 19. And as he will be starting in his new role as late as in October, so we have also decided to postpone our planned Capital Markets Day to the first half of next year instead of the second half of this year, as we were discussing earlier. And of course, on behalf of the Konecranes leadership team and employees, I want to wish Anders very warmly welcomed to Konecranes, and I look forward to our future cooperation.

And when we take a look at this slide. So here, we have here actually more of the numbers. I think that we went quite many of them through already. Maybe worth noting is the cash flow from this slide. Our free cash flow is negative by approximately €31 million. This is primarily driven by the net working capital development as a result of the inventories being on a higher level than at the end of Q1. At the same time, maybe a comment regarding the net debt. It rose to €700 million. At the end of Q1, it was about €545 million. The increase is, of course, as a result of the cash flow, but also as a result of the dividends that were paid during the second quarter.

Then, a couple of words on the macro environment, market environment. First, starting with industrial businesses and familiar pictures here. Utilisation rates for EU, if we start with that one. Actually the manufacturing capacity utilisation has been quite steady during the first half of 2022, and it is slightly above the pre-pandemic levels when it comes to the EU.

If we take a look at the picture in the middle. So there is the utilisation rate for the US. It has actually continued to improve during the first half of 2022, and despite there is a small dip at the very end of the second quarter. So, still we actually are on a higher level than the recent peaks in the middle of 2018.

If we take a look at the PMIs for these same markets - EU and USA - so they are suggesting expansion. We are above 50 points limit. However, maybe a little bit slower pace of growth than what we have been having previously. And then taking a look at the emerging markets - Brazil, India, and China. So, there the PMIs also are above 50.

Demand environment for Port Solutions we can see it here. Actually, the container throughput has been quite stable during 2022, first half of 2022. There has been some fluctuation, but overall quite steady. And at the end of May, we are approximately at the same level as we were one year ago, which level is actually very high in historical comparison.

This is our take then from the macro data to the demand outlook. Of course, it goes without saying that the demand picture remains subject to volatility due to the topics that we have discussed. When we take a look at our industrial customer segments and Europe and North America, we are seeing that the demand environment is on a healthy level, even though there are some early signs of weaker demand. In Asia-Pacific, the demand environment has started to show signs of improvement and of course this is COVID-related to the extent that that COVID restrictions were there quite strong still in the beginning of the second quarter and now things look a little bit better from that point of view.

When we take a look at the container throughput, that continues on a high level and long-term prospects related to the global container handling remain good overall.

Financial guidance, which we actually have mentioned, issued already ahead of the actual report, we are expecting net sales to remain on the same level or to increase in full year in comparison to 2021. And then regarding adjusted EBITDA margin, we are expecting it to remain on the same level or to decrease in full year 2022 in comparison to 2021.

Then a couple of Group level numbers very briefly. 20% order intake - almost 20% order intake increase with comparable currencies like discussed. We had growth in all regions. We had growth in in all reporting segments. When we take a look at sales; €787 million with comparable currencies; almost exactly the same number as a year ago. We had an increase in industrial equipment and service. But then we had a decrease in a year-on-year comparison in Port Solutions in the second quarter.

By chart by businesses and by regions, there are no major changes here. Obviously, the board solution share has maybe, from the sales point of view, declined slightly. However, now that when we take a look at the order intake, which has been very good for Port Solutions, so of course there will be catch-up coming a little bit later.

From the regional point of view, EMEA continues to be by far the biggest. It has been around 50%, a little bit lower or higher now; 49% at the end of the second quarter.

Order book has been increasing quite a lot – dramatically, actually - both at the end of Q1 and Q2, the inner sequential comparison. Now we have inner sequential comparison, more than 300 million, clearly more than 300 million/340 million, increase in in the order book. And in a year-on year-comparison, actually more than 800 million improvement in the order book. And as we can see from the percentages there, so it it's actually increasing in all of the businesses.

And the adjusted EBITDA; that was €60.9 million, 7.7% as discussed. And as already mentioned, so the decline, which is both in euros as well as percentages, was as a result of the low sales volumes caused primarily by component and material shortages and other supply chain issues - labour availability to some extent. And then cost inflation in certain places, like in industrial equipment, where we still had a cross margin decrease in a year-on-year comparison as a result of cost inflation. On a Group level, however, gross margin remained on the same level as it was one year ago. So on Group level, there was no gross margin deterioration really in a year-on-year comparison.

Then, let's move into the reporting segments and start with Service, as we usually do. Service order intake, €297 million. That is growth of more than 15%, actually, with reported currencies. Now, of course, the currency impact is quite big, particularly in Service. So, with comparable currencies, the growth was almost 9%. We had growth in both Field Service as well as Spare Parts, and we had order intake increase in all of the regions, but particularly in Americas, in a year-on year-comparison. And then when we take a look at the Q-on-Q comparison. So there, Asia-Pacific was particularly strong, like already indicated in the in the demand outlook as well.

Then when we take a look at the service agreement base, €310 million; a little bit less than 10% growth with reported currencies a bit more than 3% growth with comparable currencies, and there is also sequential growth in the agreement base in the second quarter in comparison with the first quarter.

Sales and order book sales was €319 million with good growth of 6.8% with reported currencies. However, with comparable currencies, only 0.8%, suggesting that also in Service the underlying volume actually was lower than what it was a year ago because we had price increases included in the Service business as well. Sales increased in in Americas but decreased in EMEA and APAC. And service order book, of course on a very high level; €457 million euros. This is including some of the big modernisation deals that we have been getting earlier. But nevertheless, from a historical perspective, a very high order book for the Service business.

And then to the adjusted EBITDA. So, €49.6 million, or 15.5%. There's a decrease both in euros and in margin in EBITDA for Service. This decrease is basically as a result of two or three actually different reasons. One of them, of course, is the underlying volume that was already discussed, so we are effectively lower than a year ago, which was in a way as a result of the component shortages and labour availability. At the same time, our productivity was a bit lower than usual, and this is also kind of driven by material shortages. So when the spare parts, for example, or other material is not at the right place at the right time – so, planning service jobs becomes very difficult, and it creates a little bit of inefficiency in the system, and this is something that that we can see in Service in Q2.

Maybe as a third item, the product mix maybe from the field service parts point of view was slightly weaker now than in Q2 last year or in Q1 this year for that matter. I guess that the productivity topic in a way is the decisive one here, so that is something that has been affecting maybe most of these items. And of course, margin decreased as a result of the productivity, like already discussed.

Then moving on to the Industrial Equipment and Industrial Equipment order intake; €385 million, 16% growth basically. However, when we take a look at the external orders with comparable currencies, growth is about 6%. We had an order intake increase in all major business units, standard claims, process claims, and components. However, if we take a look at the same with comparable currencies year on year, so actually components is the only one that that the clearly grew in a year-on-year comparison, whereas standard cranes and process cranes were quite a bit on the same level. Regionally, orders received increased in all of the regions.

Sales, €275 million. Again, 7% growth, but when taking a look at the sales increase, external sales with comparable currencies, 1.3% only. And there, sales increased in standard cranes and components, but there was a decrease in process cranes.

From the profitability point of view, adjusted EBITDA was €2.7 million. Margin of 1%. The decrease in the adjusted EBITDA margin was, of course, as a result of the low volume. The underlying volume was lower than a year ago here as well. But also, at least partially, in relation or definitely partially related to the pricing topic. So we have not been covering inflation in all of the business units fully. And as you may remember, we communicated that we have increased prices already earlier, but that it takes a little bit of time before that will be visible in our P&L, and it was not really visible that much in the second quarter yet. So, gross margin decreased on a year-on-year basis.

Order book looks good here as well. So, it has been increasing in Q1 and Q2 sequentially both of those quite a bit, reaching €962 million at the end of Q2.

Then, Port Solutions. And a very good order intake; €403 million. That's a growth of 47% with comparable currencies. When we take a look at the situation year on year by business unit. So basically it was a strong quarter across the board. Also when we take a look at the sequential comparison where the actual order intake came down but still particularly these shorter cycle product groups like lift trucks and port [? 00:19:35] and lift trucks in particular continue to do very well from the order intake point of view in the second quarter as well.

Orders increased in Americas and EMEA but decreased in Asia-Pacific. Sales €237 million. That is a lower number than a year ago by 2% on a comparable currency basis. There was not necessarily a major amount of, let's say, delivery issues from the project business point of view, so this is partially at least an order book timing topic. However, then, when we take a look at some of the other businesses, like the lift trucks that was already mentioned, so of course the China lockdowns that we had in April and May impacted our factory as well. So there is, of course, this kind of a pandemic impact in the Port Solution sales to some extent as well visible in the second quarter.

Adjusted EBITDA €16 million, 6.7%. Again, lower both in euros as well as margin and lower sales due to timing of customer deliveries is the main reason, but here gross margin actually improved in a year-on-year comparison in comparison to the second quarter of last year.

Order book This picture looks very similar to the industrial equipment order book improvement. Q1 and Q2 have been increasing quite a lot in a sequential comparison: €1.4 billion or more than €1.4 billion being in the order book at the end of June.

Then still a couple of comments on cash flow and balance sheet before we go into the Q&A. Net working capital and free cash flow. We can see that here net working capital was €474 million. That is 14.9% of rolling 12 month sales. There is an increase, like mentioned already, mostly as a result of inventories or work in progress actually. In this case, advanced payments have continued to come in pretty nicely, but it hasn't been enough to compensate for the increase in inventories. We have been communicating that we basically should be under 15% threshold for us to be in a way satisfied with this one. We are very close to that level now, but of course this is quite a lot driven by the late backlog and the delivery challenges that we that we have across actually the businesses that we have. Free cash flow, 31 negative as already discussed, driven by the same topic as just mentioned.

From the balance sheet point of view, or equity and net debt. Equity, of course, shows the impact of the dividend payment, as does net debt partially, as well. €700 million net debt at the end of Q2 and gearing 55%. A good level, as such. No issue there. Adjusted return on capital employed, 13% at the end of Q2. And I think that this concludes the presentation and then we can go into the Q&A.

Q&A

Kiira Fröberg

Thank you, Teo, Before we open the line for the questions. So, we already have at least one questions in the chat. So, we could start with that one.

You flagged a softening of macroeconomic indicators from high levels. Is this just contextual and to show awareness of a changing macro environment, or are you already seeing reductions or delays in customers in their activity within your pipeline in Q3?

Teo Ottola

The overall sales pipeline. So when we take a look at sales funnels, including offers and hot offers and the whole categorisation that we have there. So they continue to be strong. So, there is not that kind of reduction in the sales funnel number as such. However, in addition to general macro cautiousness, this comment is driven by the discussions that we have been having with the customers, and I think that this uncertainty that we have been referring to is reflected in the customers' comments.

So, customers are clearly requiring more decision-making time, particularly if the case is a relatively large project, so it takes more time to make a decision. Some of the customers have also come in and said that they do not want to proceed with the plans that we already have in the offer base, in a way. Not necessarily a cancellation of an order, even though some small ones may have been there as well, but very small ones. It's mostly a funnel question, and this kind of, let's say, hesitation is taking place more than what the situation was before. Now, of course, the demand level with what we have been having has been excellent. So, more than 1 billion orders for Q1 and Q2. So, a small deterioration would not be a big thing as such, but this is in a way - the comment conveys some of the considerations that customers are having, so there is maybe a little bit of nervousness on the inflation, on the rate hikes, on the raw material prices going down, and these kinds of things that people are thinking and they are reflected, to some extent at least, in our discussions with our customers.

This is of course mostly now regarding the industrial side. When we take a look at the port side. So maybe this kind of discussion has been maybe less there, and the funnel is as strong there as it has been.

Kiira Fröberg

Thank you. I think we can now open the line for questions. Please, Operator, go ahead.

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Magnus Kruber at UBS. Please go ahead, your line is open.

Magnus Kruber

Teo, Kiira, Magnus Kruber here at UBS. A couple of questions from me. I'd say this is probably the first quarter in a long time where margins have come in a bit below expectations on the Service side, and you already called out the lower volumes as being the main reason behind that. But you also talk about potentially improving situation for deliveries into the second half and, assuming that the volumes remain low or slightly down year over year, as in this quarter, should we expect the same margin drag to carry over into the second half? That's my first question.

Teo Ottola

Of course, the margin development is to a large extent volume-driven, so there is no doubt about that, and I think that the situation what we have now is that when we take a look at the underlying service volume, so it is below the level that we had in previous years, based on the demand that we have in the marketplace and the order book that we have, that shouldn't be the case. So, this is primarily a delivery issue. We will need to be able to deliver more.

And now the productivity issue that I flagged and mentioned. So this is mostly in relation to the component availability, but from the point of view that when it is uncertain, or, let's say, the supply chain works in a way that it's very difficult to forecast when we have certain parts, at which time, at which place, for example. So this creates, in a way, an inefficiency in in the overall business. So, provided that we can eliminate that one, gross margin, as such, should still be developing in the right direction.

If volume is very low in comparison to previous years, for example, so, then of course eventually it will create a fixed cost issue which is in a way below gross margin, but we do not see a systematic issue in the margin development of service. So, provided that we can deliver, and we can plan our own activities efficiently, we should be able to be on the track where we were before.

Magnus Kruber

Okay. And secondly, your comment related to the supply chain again. Is there any way you can help quantify that, add some colour around the improved capacity delivering into the second half? What does that mean, and ideally, per business area if it's possible?

Teo Ottola

Yeah, the quantification is, of course, difficult, but maybe what I can try to describe a little bit is how we see the situation. So, now when we take a look at the second quarter, and particularly after the lockdowns have been removed in China. So, we have seen fewer and fewer categories of material that has been in short supply, so that the number of escalations that we have from the material availability has become smaller. So it’s, in a way, a sign that the material availability will be improving gradually.

And why I say gradually is that we cannot, unfortunately, say that we would be out of the woods as of now, and the reason is that that there can still be surprises and then many of the components that we need are actually configured, so a subcontractor has raw material which he, in a way, fabricated according to dimensions that we require, and then we utilise that. And for this to improve for the actual improvement of the component availability, it can still take time. So, we are saying that things are going in the right direction. We will not be out of the woods in near term by the end of the third quarter. So, this will still continue to be challenging, but we are going in the right direction.

And then of course, I understand that quantifying in euros would be nice, but we would prefer not to do that because there is still the risk for additional surprises, and let's, say escalations that we are not maybe aware of today regarding various components. This is of course not only a material topic; it's also our internal processes, and of course it's labour availability. And then labour availability has largely been driven and impacted by, of course, our capability of hiring new service technicians, for example, but also sickness leaves as a result of the COVID pandemic and guessing how that will be going in various parts of the world is also to some extent challenging.

Magnus Kruber

Absolutely. And I appreciate it. Thank you. And just a final one. With respect to the revenue seasonality to the third quarter, following on to my second question, should we expect that to be relatively normal?

Teo Ottola

Seasonality model definitely would be there this year as well, so that is definitely our expectation. So, the second half from that point of view obviously would need to be better than the first half. Maybe if you take a look at it from the so-called financial guidance point of view, we are now saying that net sales would be on the same level or higher than what they were in previous year for the full year.

And then when we take a look at the first half of this year, so we are actually slightly behind. We are not much behind in reported currencies, but we are slightly behind, so this maybe gives you some kind of a view also as to how the guidance has been constructed.

Magnus Kruber

Perfect. Thank you so much.

Operator

Thank you. And just as a note, if you can try to limit yourselves to two questions per person just in the interest of time and fairness so we get to everyone.

The next question comes from the line of Antti Kansanen of SEB. Please go ahead, your line is open.

Antti Kansanen

Hi there, and thanks for taking my question. Firstly a question on the backlog. If you look at the product groups that you are kind of seeing, the longest lead times or extension of lead times, and kind of the biggest backlog build because of the supply chain issues, what would you kind of highlight there? And how much of kind of a price is impacting to the discrepancy between your backlog and order growth and the modest sales growth? I mean, how much more kind of a price increases do you have in the orders compared to what you are delivering today? That would be the first one.

Teo Ottola

Yeah and maybe we can start with the with the latter part of the question and how much we have, in a way, price increases now in the second quarter numbers in comparison to the situation one year ago. So, it may be something like 7% or so. So, if we take a look at the inflationary impact of price increases into Q2 numbers, so it's maybe 7% in comparison to the previous year. We cannot of course, calculate that exactly, scientifically, but that's the ballpark. It is lower in ports because of the longer lead time and somewhat higher in Service but this is roughly the Group level number.

When we take a look at the order intake now. So there are product categories where of course the prices that we are quoting now are significantly of higher price than what we are having these - less than 10%. And it's because there is a very high steel content, for instance, so that has been impacting a lot. So there are tens of percentages of differences in some product categories and in some others it may be that it is around ten or so. So on average from there, it is very difficult to say. And the order book is of course then somewhere there in between.

So, the inflation, as it has been accelerating, so the sales inflation in a way is on a lower level than order book, which is on a lower level than the order intake that we get today. So, this is also good to remember when evaluating the order intake, so that there is underlying price increases that are impacting.

Now, I answered with such a long answer to your question that I have forgotten the first part of the question. Would you mind, Antti, repeating?

Antti Kansanen

Yeah, sure. So, I mean just the backlog build and kind of the extension of lead times. Which are kind of important industrial equipment, which are kind of the product groups that this is the most substantial issue?

Teo Ottola

We actually can maybe note so that we have basically - in all of the product categories, the delivery times are longer now than what they normally would be, and that goes for Service as well as for component business and Industrial Equipment and cranes as well. And then particularly in some product categories in the Port Solutions business, we have a very high, very big sort of prolongation in the delivery time. Maybe I do not want to go into the product groups like that, but there are delivery times or can be 50% or more longer than what they normally were. 50% to 100% longer than what they normally would be in so-called normal circumstances.

Antti Kansanen

Okay, and the last question for me would be kind of you already mentioned that the demand for the short cycle businesses components and lift trucks surprised you positively on the second quarter. And do you have any colour on what's actually driving this demand? Because I would imagine that your lead times are quite long. So, the kind of the deliveries for your customers are longer than normal. And then you are seeing these kind of increased macro uncertainties, especially in Europe. So, I was a bit surprised that the customers are still willing to order or place so many orders that you saw on Q2. So do you have kind of any indication what is kind of driving that? Is there a pricing impact or something that you could put your finger on?

Teo Ottola

Yeah, that is a very good question. And I think that this probably then - at the end of the day, it’s of course again between the delivery time and the price for the customer, but I think the underlying reason, to some extent at least, may be behind the strength of the component business and lift trucks, for example, is that there is a relatively big replacement demand inbuilt into these product categories, unlike if you take a look at the standard cranes or process cranes for that matter, which are basically for new capacity expansion. So, maybe these kind of smaller ticket items that are for replacement, for instance. So, they are easier decisions for customers to make, even in an uncertain situation, than the bigger ones.

And like I think I already said that when we take a look at the uncertainty that we are now hearing from the customers. So it is quite a lot, so that the bigger the project is that the customer is - in on an industrial side - the bigger the project is, the more hesitation and discussion and decision making time there is required which would be in a way suggesting that people are maybe a little bit more cautious making long-term Capex type of things, whereas then components or lift trucks can be replacement items. This is more of a guess than a fact, but I think it would make sense from the behaviour point of view.

Antti Kansanen

Okay, sounds reasonable, thanks.

Operator

Thank you. And next question comes from the line of Massimiliano Severi of Credit Suisse. Please go ahead, your line is open.

Massimiliano Severi

Yeah, hi, thanks for taking my question.. So, my first question would be maybe on the impact of China lockdowns and if you could maybe help us quantify how much of sales were impacted by these in both Port Solutions and I think also in components given that you have a factory in China also for components as well.

Teo Ottola

Yeah, good question. We would rather not, let's say, quantify the impact in in euros. But what of course we can conclude is that we have basically three factories in China. One of them is the lift truck factory that we already discussed. The other one is in Xinjiang, which is a component/assembly factory, and the third one then towards the northern part of the country. But I think that if we take a look at the lift truck factory, for instance, it is a smaller factory than what we have in Sweden, but it was more or less closed in April and May, so it definitely had an impact. When we take a look at the Xinjiang - so I think that we were not closed for such a long time, maybe a little bit for a while –

Kiira Fröberg

And that's because of the lockdown.

Teo Ottola

And that's because of the lockdowns, but then the material availability of course was an issue as a result of the overall environment during the lockdowns being difficult so that the material flow was, in a way, impacted negatively by that and it created a slowness into that one. And then of course I mean the Service business naturally, in a way, suffers from lockdowns because you cannot visit customers. So there are all of these impacts. But throwing a euro number per BA, it probably wouldn't serve the purpose.

Massimiliano Severi

Thank you very much.

Teo Ottola

That's one part of the issue.

Massimiliano Severi

Yeah, thank you. And the second question would be maybe the Industrial Equipment side, and if you could maybe help us getting a sense of what is in the backlog in terms of industrial cranes, process cranes and components? And maybe if you do have cancellation fees on [? 00:41:21] processed cranes or projects so you cannot cancel them, but do you have cancellation fees for orders on industrial cranes and components within Industrial Equipment?

Teo Ottola

The split of the businesses within Industrial Equipment is roughly so that generally about 50% of the business is standard cranes, about 25% to 30% is components, and then the remainder, say 20% or so, is process cranes. I don't think that the order backlog significantly differentiates from that split. However, so that of course the component order intake has been quite good now, so there is maybe a little bit higher relative share of the component order book than what it normally would be. And of course the component or the book would be in a way shorter as well than for the other businesses.

Actually, both process cranes and standard cranes are projects. Standard cranes are projects, but they are much smaller projects, and the idea is to get advanced payments also in those ones. And at least in a historical perspective, in crisis situations, we have not really seen cancellations in either of those. We haven't really seen them quite many in the component business either. And when we take a look at this situation, so overall one could maybe say so that there are no big cancellations or a wave of cancellations, or anything like that. There have been individual single cancellations from the order book, but they are not in any way meaningful. And I think that that a good guidance can be gotten from the previous crisis, even though of course every situation is different, but even in financial crises or then subsequent crises, we have had a very limited number of cancellations overall in our business.

Massimiliano Severi

Clear, thank you very much.

Kiira Fröberg

Sorry, we still have people waiting for questions, so, Teo, you need to shorten your answers. We have enough time to take all the questions.

Teo Ottola

Sorry I will try.

Operator

Thank you. The next question comes from the line of Panu Laitinmäki of Danske Bank. Please go ahead.

Panu Laitinmäki

Thank you. I just wanted to ask about FX. So, if I look at your annual report, you keep the sensitivity to the US dollar change so that every 10% weakening against the euro should improve your EBIT by about 37 million on an annual basis, which is a quite sizable number. So the question is that, is this a rule of thumb that we could use for from here forward? And then did you have much often EBIT impact from FX already in the first half of this year?

Teo Ottola

Now that you asked me to answer shortly, so there comes a very difficult question which is very difficult to answer shortly, but I try. I would be very glad to be able to say that we would be able to use that as a rule of thumb, but unfortunately, we cannot, and that is, in a way, a theoretical number, and it's including also the project business, and in reality, the project business is something that is always agreed separately with customers. The currency changes that that are happening are taken into consideration, and then the projects are typically hedged.

The rule of thumb that you can use, though, is the transaction exposure, which is 10%, 10 million. So, this is something that comes from the flow business, which is then, depending on how quickly or for how long a period we hedge the flow business, and we typically hedge one to two quarters. We haven't seen much of an impact in Q2. We will probably see some in Q3. And I think that if the euro-dollar [ph 00:45:26] stays like this, the full impact will be there somewhere between Q4 and Q1.

Panu Laitinmäki

All right, thank you.

Operator

Thank you. The next question comes from the line of Tomi Railo of DNB. Please go ahead.

Tomi Railo

Hi, Teo, Kiira. This is Tommy from DNB. Just wondering if you have had any large orders in Industrial Equipment or Port Solutions during the quarter which you haven't yet published? What I'm thinking of is, of course, the underlying levels and 1 billion orders. You are changing a little bit the market outlook, but what kind of visibility and guidance would you have for the third quarter demand levels?

Teo Ottola

There have been big deals within the Port Solutions order intake also in the second quarter. And now I will turn to Kiira to ask whether there are some things that haven't been announced.

Kiira Fröberg

We haven't really announced that many deals this quarter because of course always when we announce a deal, so it needs to be accepted by the customer and that process sometimes takes that quite a long time, but the bigger deals have not been as big as the one deal was in Q1, which was, I think, the second largest or so. But there have been bigger deals, yes.

Teo Ottola

Quite sizable deals, definitely. Yes.

Kiira Fröberg

And in Industrial Equipment there was also, I think, a couple of bigger deals but not as sizeable as the Q1 [? 00:47:07] project from the US.

Teo Ottola

And we would actually like to repeat what we said already, basically at the end of Q1, that we are not really expecting another record high quarter from the order intake point of view. Okay, Q2 was very close to Q1, so in retrospect we were maybe too pessimistic at that time. But then again, like discussed, these sizeable deals - so they happen in a quarter where the customer is willing to make the decision and the exact estimation of the timing is of course challenging.

Tomi Railo

A second question. But also maybe a follow-up to the previous. So, any comments on the on the third quarter level? But really the second question was the profitability development in the in the second half. Now, given your guidance, of course, and what we know for the for the first half, likely not up, but best case flat or most likely down. Where do you think the, let's say, easing is coming from, from business line? You mentioned that you will have better delivery capabilities and also the price increases starting to impact profitability positively in the second half, but where is your assumption most sort of based on?

Teo Ottola

And I think that I will have to say that this challenge that we have been having, so it's actually with all of the businesses. And if we take a look at the component availability, for instance, and some of our internal process topics as well, so it's impacting Service and Industrial Equipment as well, because the same factories are being used and the same subcontractors are being used, at least partially. Of course, Services impacted by labour availability maybe more than anybody else, But regardless.

And I think that also, even though ports has maybe a little bit of a different set of suppliers, of course we are using similar com same componentry as well but also different, so I think that the situation should be looking better also from the ports point of view, even though of course now we already said that in the second quarter project deliveries were not actually causing a massive issue from the availability point of view. This was more like a timing topic.

Tomi Railo

Thank you.

Operator

Thank you. Our next question comes from the line of Tom Skogman of Carnegie. Please go ahead, your line is open.

Tom Skogman

Yes hi, this is Tom from Carnegie. I wonder whether there are some kind of discussions regarding customers going for nearshoring and about the competitive position in, especially, stacking yards in Port Solutions after [? 00:50:12] walking out of this business. Will that be like a big change for you?

Teo Ottola

Well, if we take a look at the, let's say, nearshoring as a whole, and I'm not 100% sure what you are specifically referring to, but I think that the overall supply chain constraints that everybody has now seen is maybe causing discussions within companies that maybe it's not good to have all the eggs in the same basket, but having nearshoring as a concept would probably make sense. And these kind of changes and discussions - we are of course having those discussions within our company as well. And they are definitely interesting from our point of view because they can of course create additional demand for our cranes, because cranes are typically not moved, even if production is moved from one place to another one. And then of course, the competitive dynamics within the ports business we will [? 00:51:18] over time.

Tom Skogman

Okay, yeah. But you have not seen any kind of real discussions with customers starting nearshoring products or so. It's more kind of a speculative kind of level at the moment.

Teo Ottola

Well, I think it's maybe speculative from the point of view, but I think that quite many companies are discussing these topics internally. So, there are plans and contingency plans, and those kind of things being done on where your supply network would need to be going forward. So these kinds of discussions are ongoing. Where it will then lead, in practice, is probably more speculative.

Tom Skogman

Okay, and then given the price situation in Germany with gas, I wonder how large a share of industrial crane sales come from Germany.

Teo Ottola

The [? 00:52:20] facility that we have is a significant part of the supply chain and it's the core of [? 00:52:27] production platform obviously. So, it has an impact, or it is a significant site for us. We are using gas, of course, for heating. We are using gas also for certain production processes, and I think that if we have time to manage we can probably manage the production processes in another way as well, but in case something happens very suddenly, so of course it will be causing disruptions.

So a lot of spare parts and Denmark [ph 00:53:07] componentry in general is coming from Germany. Of course, if there is a massive issue with gas in Germany, I think there is also the topic that that what is then the sub-suppliers capability of [inaudible 00:53:24]. So, that is maybe another topic, very important one as well.

Kiira Fröberg

Sorry, Tom. We have five production facilities in Germany and three of them use natural gas in a way or another, so mainly for heating, but then then also for some production.

Tom Skogman

Fine. But out of sales then, how large is Germany out of industrial crane sales if people just turn cautious [ph 00:53:51] in Germany just overall?

Teo Ottola

Okay, Germany, we haven't given the actual sales per country, but Germany is a very important country. The US is bigger, but Germany is basically the second biggest country for us in the industrial area. So it is of course important. I think that when we started about the macro environment, and obviously we have been studying this internally, so that are the customers more pessimistic in Germany than what they would be elsewhere in Europe, say Nordic countries or South European? So maybe there is more this kind of uncertainty discussion with the German customers, which may come partially from the reason that you are asking as well. So the gas topic et cetera is on top of the people's minds.

Tom Skogman

Okay, thank you.

Operator

Thank you. And our next question comes from the line of Erkki Vesola of Inderes. Please go ahead, your line is open.

Erkki Vesola

Hi Kiira and the rest. The component availability impact on the deliveries and sales in Q2. Could you give us any kind of ballpark figure, how big that was? Tens of millions maybe?

Teo Ottola

Okay. So the - you mean the late backlog increase in the Q2? We didn't write that in the report. The reason, of course, is that now that we have had these supply issues, so we are of course changing the delivery times towards the customers. And as we do that, so in a way it not any more visible in the overall late backlog, but yes, it is tens of millions that the additional impact has been during the quarter. Probably something between 40 million and 50 million, and it brings the cumulative late backlog number somewhere 160 million to 180 million or something like that.

This is not in a way, again, factually, completely 100% correct, because there are these transitions, but it gives you an indication on how it has been developing during the second quarter in comparison to the previous quarters.

Erkki Vesola

Okay, thank you. And then the second is for personnel costs, how big cost increases as you remodel for 2022? And regarding personnel availability, do you have to recruit by just offering higher wages? Or how do you solve this problem?

Teo Ottola

We need to pay competitive wages, of course, as everybody else, but of course, at the same time we try to make sure that we would be able to attract people also with other means. Training and career opportunities also for the service technicians. So these are the kinds of things. We are seeing the inflation currently somewhere between 4% and 5% for wages.

Erkki Vesola

Thank you so much.

Kiira Fröberg

Thank you. I think that we start to run out of time. So, it's time to conclude the conference. Thank you everyone for the participation and good questions. And, as a reminder, we will issue our Q3 interim report on October 26 this year. I wish you all a great day and a great summer. Thank you.

Teo Ottola

Thank you very much.