Konecranes Q3 2022 Interim report – Webcast transcript

Information:

[?] = Word was not understood completely but meaning is almost correct. Recording point is written to the text e.g. [word? 00:15:44]

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[text] = Sounds or not transcribed parts are written with square brackets e.g. [laughs] or [interview paused due to a phone call]

[recording starts]

Kiira [00:00:01]: Good morning everyone, and welcome to Konecranes Q3 earnings conference. My name is Kiira Fröberg, and I'm the head of Investor relations at Konecranes. Here with me today I have our new president and CEO, Anders Svensson, and our CFO, Teo Ottola. Before we start a kind reminder, this presentation contains forward looking statements. Next, Teo will present you our Q3 earnings. And in the end of the presentation, Anders we'll say a couple of words, the presentation is followed by Q&A, as usual. Please Teo, the stage is yours.

Teo [00:00:45]: Thank you, Kiira. And as you already saw the agenda for today's call was very familiar. We have a group highlights first and then we will talk about the business segments in a little bit more in detail. And let's start with the Q3 highlights on a group perspective. So it was actually a solid third quarter overall, our order intake continued high and our delivery capability improved from the previous quarters. As a result of the improved delivery capability as well as from better sales mix, in comparison to the previous year, our adjusted EBITA margin improved to 10.8% from 10.0 a year ago. Profitability improved in Service, as well as in Port Solutions, but declined in Industrial equipment.

The overall market sentiment remained good even though geopolitical tensions and growing macro economic concerns have increased [?? 00:01:45]. Our order intake grew by more than 34% year-on-year in comparable currencies. And we were again about 1 billion in order intake just like we were in Q1 and Q2 as well. Sales grew by 8.8% again in comparable currencies year-on-year. And when we take a look at this sales growth, so, actually and compare that to the pricing impact that we have been having in comparison to the previous year, so pricing impact is somewhere between eight and 9%. So actually, the underlying volumes did not really significantly grow from the situation a year ago. But anyway, it was enough to give a positive impact to the EBITA margin. So actually component availability issues and other supply chain constraints continued to impact our performance in the third quarter as well. Now as a result of the very good order intake, and as a result of these delivery challenges, our order book broke again, a new record, and we are about 3 billion order book at the end of the third quarter. We have updated our Q4 demand outlook. And we are [?? 00:03:05] our '22 financial guidance. We are also planning to take care of our long term competitiveness in the marketplace. And regarding industrial service and equipment operations, we are optimising those globally. And we have now also given a little bit financial targets for that program. So the topics that we are talking about here regarding the optimisation are very familiar, we are talking about go to market strategies, we are talking about product platform harmonisations etc. We are estimating that these activities that we are now planning to do would be having a positive EBITA impact between 30 and 35 million by the year 2025, so relatively long period from now onwards. And at the same time, we will be booking 30 to 35 million one time restructuring costs as a result of these activities or this program. Then on our next slide, we have the key figures, I think that we covered many of them already maybe focus on the free cash flow, we actually had a negative free cash flow now in the third quarter as we had in the second quarter as well. The negative cash flow mainly comes from higher net working capital level. And that again, mainly comes from inventories and particularly work in progress. Consequently, our net debt has increased to the level of 750 million now at the end of September.

This is [?? 00:04:47] market environment slides, very familiar with these as well if we start with the utilisation rates in Europe, so actually the manufacturing utilisation rates in Europe have been declining during the third quarter. They are however still a little bit above the so called pre-COVID levels, but trending downwards. Whereas then in the USA, the utilisation rates actually continue to improve also during the third quarter. And a similar kind of separation between EU and USA we can also see in the PMIs where in Europe, the PMIs are below 50 mark signalling actually contraction in the economy, whereas in the USA, we are still about 50 signalling expansion in the economy. When we then take a look at the Brazil India and China so PMIs in China are declining or are below 50, actually, whereas, in Brazil and India, they are still above 50. Looking at the demand driver for Port Solutions container handling volumes, so, they have actually trended quite positively during the whole year of '22. There has been a little bit fluctuation along the way, but at the end of August, we are some 4% higher in container traffic in comparison to the situation a year ago. Here, we can see our take on the demand outlook and the worldwide demand picture remain subject to volatility. Of course, due to the war in Ukraine, COVID having increased inflation, consequently, interest rates have also been increased. And we continue to have material availability concerns. Having said that, within industrial customer segments in North America, the demand environment remains active. Whereas in Europe, the level of uncertainty is higher in comparison to the America and the demand environment has started to show signs of weakening. In Asia Pacific demand environment is stable. And then when we take a look at the global container throughput that continues on a high level, and the long term prospects related to global container handling remain good overall. Financial guidance unchanged from what it was, so net sales expected to remain on the same level or to increase in '22 in comparison to '21, and the adjusted EBITA margin, expected to remain on the same level or to decrease in full year '22, in comparison to '21. These financial numbers we can take a closer look in connection to the business segments. But maybe a couple of comments here when you take a look at the order intake columns, one can see that the previous four quarters actually have been very good from the order intake point of view, excellent level three previous quarters above 1 billion. When you take a look at the sales picture on the right hand side, so there one can see that that the sales have been increasing from the second quarter, whereas then last year, so in year '21, actually Q2 and Q3 were quite flattish, which then means that maybe the comparables are a little bit easier now in third quarter than they were for example, in the second quarter reporting. The pie charts have not changed significantly, Service continues to be our biggest segment. And when we take a look at the geographical split, so the share of email has decreased a little bit in an year-on-year comparison, if we take a look at the same pie chart a year ago for instance, however, of course, part of that is in relation to currency rates having changed quite a bit. Group Order book likely discussed on a very high level more than 3 billion there is an increase of 1 billion in a year-on-year comparison and almost 45% with comparable currencies growth in Order book in all of the business segments. And then the group adjusted EBITA also like already mentioned 10.8%, 95 million roughly the increase or improvement in the adjusted EBITA margin is mainly attributable to sales growth, the sales growth is primarily driven by pricing as already mentioned, and then also the sales mix being better than what it was a year ago. On a group level when we take a look at the gross margin, which talks about for example, the success of pricing, so that has remained approximately on the same level as we had a year ago. Then we can actually move into the business segment reviews. And as usual, let's start with the service business. Service Order intake was 298 million euros. And of course, the growth there is more than 15%. However, currencies like already discussed give a lot of tailwind in this quarter. And that's why it's maybe easier or wiser to take a look at the changes in comparable currencies and in comparable currencies, orders received increased by 6.8% within the service business. Both field service orders as well as per part orders increased and order intake actually in a year-on-year comparison increased in all of the region's Americas EMEA and APAC, but most in the Americas. If we take a look at the order index sequentially, and the numbers are of course, very close to each other between Q2 and Q3, so, we had sequential growth in Americas and APAC whereas the ordering deck in EMEA declined in a sequential comparison. Then the agreement base 315 million euros that is growth of 1.8% with comparable currencies in an year-on-year comparison sequentially actually the agreement base came down a little bit with comparable currency, that is primarily due to the agreement base in Russia not being in the numbers anymore at the end of the third quarter. Then when we take a look at the service sales, an order book sales 347 million euros again with comparable currencies 8.8% increase, sales increased in all of the regions and the story is the same as for orders - most in the Americas. Order book as high as 490 million euros that is more than 50% increase in comparison to the previous year corresponding time period, good to remember that there are quite many modernisation deals that we have been getting over the quarters and quite a big part of that is modernisations in service order book. Then the service adjusted EBITA, 68 million roughly margin of 19.6%. This is a very good, very high and good adjusted EBITA margin, the increase here also like on a group level was attributable to higher sales, but asset mainly driven by pricing. Gross margin remained approximately on the same level as one year ago.

Then industrial equipment and industrial equipment order intake and sales. So, orders for IE were 334 million euros. And there we have typically also wanted to take a look at external order intake and that with comparable currencies, and they are the growth number is basically only 1.1%. So, external order intake with comparable currencies, when we take a look at the order intake in general as a whole, so, the order intake increased in a year-on-year comparison in standard cranes as well as in processed cranes, but there was a decline in the components business. Orders increased in the Americas and EMEA, but declined in Asia Pacific. And then when we take a look at the sequential comparison again, where the order intake has been declining, so there is actually a decline in all of the major sort of business units, standard cranes components and process cranes, even though process cranes were actually quite good in the third quarter, but if you combine that with the nuclear crane, so there was a decline in a sequential comparison in that one as well. And then industrial equipment sales 311 million euros, that is growth of 16%. And here a very good thing, when we'll take a look at our delivery capability, so our sales, external sales with comparable currencies up 13.5% sales increased in America and APAC but actually decreased in EMEA.

The adjusted EBITA in industrial equipment, so roughly on the same level as a year ago in euros, but the margin is lower. So 4% versus 4.4%. The decrease in adjusted EBITA margin is due to the same reason as we had for the second quarter as well. So it's cost inflation, we actually have been a little bit late in price increases regarding certain product categories. And as a result of that, the gross margin particularly in those product categories is lower than what it was a year ago and it is then reflected in the adjusted EBITA margin as well. So, gross margin for the whole of industrial equipment was lower than a year ago.

We are however, seeing an improvement in gross margin sequentially. So, we are going in the right direction and we are going in the direction that we have been talking about also earlier, but have not reached the previous year's level at the end of Q3.

Order book very high almost a billion also for industrial equipment.

Then Port Solutions and Port Solutions order intake and sales, orders on a very high level 454 million euros more than 100% growth with comparable or reporting currencies, we had order intake increase in Americas, EMEA and APAC. So, basically all of the regions and also very importantly across quite a large number of business units within the board solutions business. So, actually, RTGs had an excellent order intake quarter now, during the third quarter of this year. When we take a look at the sequential change in comparison to the second quarter the RTG good order intake is driving of course that sequential differences well, maybe worth noting that when we have every now and then be talking about the short cycle products, lift trucks being one in the Port Solutions. So lift trucks orders are down sequentially but still up in a year-on-year comparison.

Then sales, 273 million euros, this is higher than what we had a year ago 5.6% growth with comparable currencies. Both solutions and adjusted EBITA 21 million and 7.7%, so, there is improvement both in euros and margin, increase is due to higher sales and and positive sales mix. We also have let's say one to 2 million euros positive kind of one timers included in the Q3 numbers, which will not be repeating themselves in the quarters coming. Gross margin however improved on year-on-year basis and of course, positive sales mix and the pricing having driven that.

Order book on a very high level almost 1.6 billion euros and order book increase 64% in year-on-year comparison. And then may be a couple of comments on the cash flow as well as balance sheet, we have typically taken a look at the net working capital first and as we can see from the slide, so, net working capital has increased quite significantly from the second quarter like already mentioned, this is as a result of the inventories and work in progress in particular. So, it is project related inventory that we have within the inventory and of course partially driven by the delivery challenges that we have still continued to have during the third quarter as well. We actually had a inventory increase also in Q1 and Q2, there was a balancing factor from the point of view that the advance payments increased quite a lot in Q1 and Q2. Whereas now in the third quarter due to the timing reasons, advanced payments did not increase in comparison to the second quarter. We have not changed anything in the commercial terms. So this advance payment topic is more like like a timing question. But all in all, of course, the net working capital being clearly more than 15% of rolling 12 months sales at 17.6 is not in line with our target setting. Free cash flow like already mentioned negative, and also now the [?? 00:19:24] free cash flow is basically at zero level at the end of September. Cashflow is reflecting naturally due the gearing as well. So the net debt increased as mentioned, however, then when we take a look at the gearing so that actually has stayed quite much on the same level as it was at the end of the second quarter as well. Like also actually the return on capital employed has remained, let's say on a very sort of stable level at 13% or slightly above also now, at the end of the third quarter. And now actually, before we go into the Q&A, I would like to welcome our new president and CEO Anders Svensson to the stage, Anders has been in the company for already a week. And, Anders would like to give some comments before we go into the Q&A. So please, Anders.

Anders [00:20:35]: Thank you, Teo. And good morning, everyone. I'm really excited to be here with you today, finally, you can add. So like you said, I started with the company one week ago, actually, exactly today. So everything is still very new to me, of course. And I'm really excited Konecranes, is a great company with a strong history, and also excellent products and services for our customers, and fantastic people in the organisation. So I really look forward to the coming weeks and months to get to know the company, understand the business, understand our customers, understand our operations and meet our people. And that would be my sort of key focus for the fourth quarter. I didn't have any major induction before actually started a week ago. As I was fully committed to my previous employer up until last week, actually. In Q1, or quarter one, in this year, the we announced or Konecranes and Cargotec announced that the merger plans are cancelled. And after that, in the second quarter Konecranes initiated a strategy review process. And we're in the middle of that currently. And from now on, I will take a lead in this process going forward. And together with the Konecranes leadership team, I'm happy to welcome everyone to the hosted capital market's day that we will have in Helsinki on May 10, next year, where we will present the outcome of our strategic review and update the strategic direction and also update the targets. But before that, we have a lot to do, we have just presented a solid third quarter. And we will work continuously going forward, with continuous improvements to ensure that we can deliver a strong performance in all areas going forward. And with that, I think it's time for the Q&A section, so Kiira, welcome back on the stage. And thank you everyone.

Kiira [00:22:53]: Thank you Anders. So next we have the Q&A. And before we start that, I can already tell you that we have received some questions through the chat function. So, please keep them coming, we will also take those and when we open the line for the questions, so I would kindly ask you to limit the questions to maximum two now in the beginning. So we ensure that everyone gets to ask their question. So please, operator let's open the line now. Thank you

Operator [00:23:28]: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. If you are using speakerphone, make sure your mute function is turned off. Voice prompt on phone line will indicate when line is open. Please state your name before your question. The next question comes from Magnus Kruber from UBS, please go ahead.

Speaker 1 [00:24:13]: Hi, I am Magnus Kruber from UBS. Congratulations first on the solid quarters and welcome Anders on board, great to have you. First on industrial service of course, very solid performance again. So how should we think about seasonality into Q4 and can we expect through the unusual margin weakness we had in Q2, sorry to be further behind us or is there something we could return in coming quarters?

Teo [00:24:41]: Yeah, if we take a look at the industrial service performance, so you're quite right. So that we had a little bit of a dip in the in the second quarter in the margin. And the explanation for that dip was that because of the the supply chain disturbances because of the missing materials componentry, etc, we have been having a little bit difficulties in, let's say planning, for example our service technician visits to the customers in the most efficient way. So there has been in a way a little bit this kind of a hassle cost as a result of that one. And when we take a look at the third quarter now, so these problems were not over. So they continue to some extent, but not in the same way as in the second quarter. And even though I would like to say that we do not have that kind of a risk for hassle cost in the fourth quarter, I'm afraid that that would not be completely correct. So the risk, of course, is there as well, because we have been saying that the supply constraints can continue. And planning will probably be a little bit of a challenge as well. Having said that, we are not aware of any specific those kinds of hassles now, but the risk for those actually is within the environment where we are leaving as of today as well. So we cannot really guarantee that there wouldn't be those. But we are doing of course, our utmost to make sure that the delivery will be as smooth as possible in the fourth quarter. Generally, we can say that that not necessarily referring to service only, but for the for the overall group performance, that the so called normal seasonality pattern should be visible in in in this year as well. So that the fourth quarter is expected to be good in comparison to the other quarters.

Speaker 1 [00:26:42]: Perfect. Thank you so much, that was super helpful. On the follow up there, could you potentially quantify the hassle costs in Q3 If that's possible, and on the supply chain constraints, you mentioned in Q2 that they are expected to improve through the second half of the year. Has it sort of followed the path that you expected? And is there any follow up comments you can make on what you're seeing now?

Teo [00:27:07]: Yeah, that is a good question, of course, and I think that in the third quarter, when we take a look at the so called hassle cost, so that was not in any way significant than one one would probably not see that in the gross margin. Like said gross margin is on the level that it was a year ago, which is probably quite a lot in line with how it should be, we would have expected it to be, etc. The key of course, is that we have been able to deliver and push out more deliveries to our customers. So that is the key and that will be the key regarding the fourth quarter as well. So, we will need to be able to secure seamless delivery, [?? 00:27:47] and service offering and products or equipment products. The overall material shortages and supply chain constraints situation has improved roughly in line with how we have been thinking about it. So it hasn't gone away, the risks are still there, but when we take a look at these escalation matters, that we will need to handle within the group, so they are maybe fewer of those than there used to be. So from that point of view, I think that we are going in the right direction, we are going there relatively slowly. So one would of course, hope that the things would be clearing out earlier. And then unfortunately, there continues to be every now and then these kinds of unanticipated surprises regarding component availability or regarding transportation capacity, which we have been discussing earlier as well. So we are not out of the woods in any way. And we are actually saying that we are expecting these challenges to continue into next year. However, of course, the idea is that there will be a little less of those than than what we have been having in the beginning of of this year.

Speaker 1 [00:29:02]: Excellent. Thank you so much for [?? 00:29:04]. Thank you.

Kiira [00:29:09]: Thank you. Let's now take next question.

Operator [00:29:11]: Next question comes from Participant from Goldman Sachs. Please go ahead.

Speaker 2 [00:29:21]: Hi, it's Daniela from Goldman, can you hear me?

Kiira [00:29:24]: Yes, we can hear you well.

Speaker 2 [00:29:25]: Oh, perfect. Good morning, everyone, and welcome Anders. I have two questions. The first one, I wanted to follow up in terms of this seasonality, but on cash, obviously had a very strong P&L, but the cash conversion was weak. Normally Q4, I guess it's seasonally higher, should we expect like a normalisation of cash conversion this year in Q4, or is it going to be sort of more move into 2023? And then the second question relates to obviously, everyone is very worried about a downturn and you do flag some weakening signs in your own commentary. Can you help us sort of just remind us of prior downturns, what percentage of your order book normally gets delayed or cancelled, if you could give one or two reference points from prior downturns, that would be very helpful. And in case you see sort of something different this time around, if we do have a downturn would also appreciate that type of commentary, thank you.

Teo [00:30:25]: Okay, so if we start with the cash conversion, in the fourth quarter, so again, as much as I would like to say that the net working capital development will be better in the fourth quarter. So I think that that's not, let's say necessarily guaranteed, either. The thing is that we are a little bit struggling with the deliveries, still, we will probably carry a high inventory going forward. And the more we will be able to deliver and produce and send to the customer. So of course, the inventory will then be moving into the accounts receivable. So I think that that we may face a period going forward where the net working capital is on a let's say, not satisfactory level, from our point of view, which is the 15% mark there. And again, we will do everything we can to try to lower the level of the net working capital. But in the current circumstances, it's not necessarily particularly easy. So I'm a little bit cautious in promising a quick recovery from that one. The downturn question then, and the cancellation. So first of all, we do not have any indications that things would be significantly different this time than what it has been previously. Maybe apart from one exception that I can, I can soon tell. But then if we first discussed that how it has been going previously, so when we take a look at those product groups where we have advanced payments, so typically the cancellations have been very few, customers tend to cancel basically only if they need to. So if they run out of cash, for instance, which is of course, that if there are bankruptcy waves or something like that, in any given downturn, that would be impacting us as well. But when we take a look at the previous downturns cancellations have not really been an issue, there have been cancellations in product areas where the products are very standard. And where the advance payments as a result of that have not been very high in those product categories. Of course, cancellation from our point of view, would not necessarily be an issue, issue either. And then if we take a look at the current situation, so we have changed the pricing mechanisms with customers in certain product categories, where we are actually doing so that we are confirming the price to the customer only at the situation where we take the equipment into the system, so material resource planning that is. And this is a new feature. It's it's more like, let's say secure from our and customer's point of view, but it may obviously increase cancellations to some extent, if the downturn is very bad, we don't know because it's a new thing, but there is kind of a potential. But these are standard products. So cancellation in those ones would not be an issue. Now, what we have been seeing is some cancellations, for example, in the lift trucks, but the order intake overall has continued quite well, in the other product categories there are quite a few cancellations. Then I'm not sure if you actually were referring to the order book and how it is now in comparison to previously, if we assume that the downturn is coming, so of course our order book now is on record high level and typically we have been a situation that the order book is maybe six months plus a little bit of sales by size. And now of course we have a 3 billion order book and the company sales, in '21 were 3.2 billion. So we have a very high order book in comparison to the historical perspective. And about let's say how, let's say recession proof we are, so of course the service business is much less volatile than the equipment business order intake, and equipment business order intakes have been declining significantly in previous downturns, whereas the service sales has remained on a much more stable level.

Speaker 2 [00:34:50]: Thank you very much.

Operator [00:34:58]: The next question comes from Massimiliano Severi from Credit Suisse. Please go ahead.

Speaker 3 [00:35:09]: Yes, hi it's Massimiliano from Credit Suisse. Thank you for taking my questions. My first one would be if I look at Port Solution now the order backlog is is close to 1.6 billion euros. And I was wondering if you were able to comment on how much is it possible to deliver in 2023, out of the effects supply chain fees?

Teo [00:35:32]: Yes, we are not actually disclosing that one even though we are of course following that, that internally, we have decided not to disclose that timing, so, exactly, because the challenge in the current circumstances is that we will need to play a little bit with the component availability and subcontractor capacity as well. But maybe just to give an overall flavour. So, and particularly when we take a look at the Port Solution, so that we're as we get more orders, so, the delivery times tend to get longer because we are in a business model where quite a bit of the actual manufacturing work regarding steel structures, for example happens with the subcontractors and this then means that the subcontractor capacity is not in a way we cannot expand it significantly in a very short period of time, which means that it tends to be so that the delivery times that we are now offering to the customers and what we have been offering to the customer so, they are let's say significantly longer than they would be in so called normal market situation without actually, unfortunately, giving any monetary guidance on how much is secured for next year and how much is then for '24 and and beyond.

Speaker 3 [00:36:55]: Yeah, right. Make sense. Thank you. And my second question would be maybe on the on the topic of edging or cost inflation on the projects businesses [?? 00:37:04] so mainly large for or less than the unprocessed cranes. And I was wondering in the contractual structures that you have are far from raw materials, which I think that are fully edged, do you have escalation clauses for things like employees cost inflations and other components inflation or do you edge mainly just the steel? What I'm trying to get these new thing that there is a risk of margin deterioration on the backlog of large projects, in case inflation continues to go up

Teo [00:37:37]: Yeah, it is a very valid question. Of course, and I think that your comment regarding the raw materials is correct. So, that is that we tried to in a way hedge with a so called natural hedge at the time, when we get the deal, if you take a look at the other cost items, so, there is probably not the one single rule on how it is done. But one typical way of doing it would be to choose an index and then tie in a way the price into the cost index and there we are then talking about the question that - is the index that we are using in the agreement, is it a suitable one? Does it take the actual cost inflation fully into sort of consideration? What does it do if the raw material costs or whatever cost will start to go down?, etc. So, it is it is this kind of a discussion that we then have typically with the customers. Having said all that, so so we are quite comfortable with the let's say sales margin and, of course gross margins that we have within the order book, but we cannot exclude the possibility of a margin erosion in individual projects if something goes wrong or has gone wrong, for example, in setting the index.

Speaker 3 [00:39:03]: Yeah, thank you very much.

Operator [00:39:11]: The next question comes from [?? 00:39:13] from SEB, please go ahead.

Speaker 4 [00:39:20]: Yeah, hi guys, it's [?? 00:39:23] from SEB, two questions from me. First one would be on your suppliers and there you already mentioned steel structures and so forth. So, what are you seeing in within your European suppliers? How are they managing kind of the increasing energy costs and kind of being able to commit the prices that you have set regarding certain suppliers that you are purchasing from them and also your own operations in Germany?

Teo [00:39:50]: It is a wide question and it varies. So there is a very large number of suppliers that we are using. And I would maybe say so that, some are doing very well, when it comes to managing their own input costs, some have maybe more issues. And we have been having discussions with many of our suppliers on, let's say, whether we would be okay to change kind of the already agreed terms and conditions including but not limited to price. And those have probably been partially to the reason that the suppliers have been in financial challenges, or then also on only for the reason that there are margins are going down significantly. So we are not seeing that any kind of collapse in the in the supplier base, from the point of view that people would be, would be in very big difficulties as a result of cost inflation. But the discussion about, let's say, adjustments does take place all the time. And our procurement organisation is very, very busy in trying to secure the best possible deals for us going forward. But only in discussing the current ones.

Speaker 4 [00:41:17]: What I'm trying to get at is, is that if there's some sort of escalations or overload of risks going into winter, would it be for you kind of for margin risk or availability, which would lead to kind of delivery delay? So how do you see kind of the risk assessment in that team?

Teo [00:41:34]: There are there are both in a way so that of course, we have suppliers on which we are dependent on short term basis. So, and I'm not saying that there would be a significant number of single source suppliers even though they exist also. But there are all sorts of suppliers that are supplying such a big part of a certain critical components so that at the worst case, it can become a, let's say, availability topic. As we have seen, for example, in terms of COVID lockdowns in China, so if there is no component availability, or let's say no transportation from Shanghai area, so it can create issues to us. And these are, of course, these, let's say criticalities, and, and let's say dependencies, what we are now actually going through one by one, and trying to figure out that how do we make it so that we do not end up in issues and we do not have a dependency that cannot be rectified in a relatively short period of time. Then this question about the let's say, gas availability in Germany, for example. So that is of course, a wide question. And if there is no gas availability in Germany, so I think that quite many suppliers, and many companies will be in difficulty so that would then obviously be a bad bad thing. For for for the whole industry. Not only not only us.

Speaker 4 [00:43:10]: Okay, and then the second question also, perhaps a quite wide topic, but if you kind of look at the short cyclical businesses, components, perhaps standard cranes, also the lift trucks, and you are seeing some equation of slowness there and perhaps even some cancellations. So how would you kind of, kind of what is the magnitude? Is this sort of a normal downtime patterns? Or is it still very, very minor? How do you assess kind of the trends there.

Teo [00:43:38]: So it's maybe when we, if you take a look at particularly if we'll take a look at a sequential change, so one cannot really say that it would be minor as a change. So I think that the change is actually in percentages. quite big. But the levels in Q1 and Q2, in both of those short cycle product groups were so good, that that we were we were on an exceptionally high level. So that even if the delta from that very high level is quite big. So still, the volume what we are seeing in the third quarter from the order intake point of view is actually in a historical perspective. quite okay. And, even so that if we take a look at this lift truck, so they're year-on-year, we are seeing an increase in the order intake in components we are not so that is going down sequentially, and year-on-year. Then your underlying question that whether this is a this is the beginning of a downturn or something else, so time will show but but if this is a beginning of a downturn it this would not be the first time that the the market behaves the way that it seems to be doing now.

Speaker 4 [00:44:52]: Do you think that the high levels in previous quarters are kind of a demand stolen from next year given kind of the extended lead times or is it just [?? 00:45:04] from before or how should we think about the [?? 00:45:04]?

Teo [00:45:04]: There is a possibility regarding Q1 and Q2 ordering data people, customers in this case have wanted to secure availability to some extent, we have typically been saying that, that you do not, you cannot have a lot of inventory in our business. But if you take a look at the short cycle product group, so, of course, you can to some extent, so there is a possibility that people have been concerned about the inflation and availability and those kinds of things that have been kind of pre buying. But it's very difficult to prove one way or the other, but I'm, let's say more cautious than previously to, in a way to deny that it wouldn't be this kind of pre buying it can be to some extent, can have been to some extent there in Q1 and Q2, because the levels have been they were really high, for example, in the components.

Speaker 4 [00:46:03]: All right, thanks so much.

Operator [00:46:08]: The next question comes from [?? 00:46:10] from Danske Bank. Please go ahead.

Speaker 5 [00:46:16]: Thank you. It's [?? 00:46:18] from Danske Bank, I have two questions. Firstly, continuing on the topic that [?? 00:46:23] already asked. So can you talk about your own energy cost, especially in Germany? What are you seeing there? And did kind of Q3 already reflect what's happening in the spot prices? Or is this something that will come with a lag? And then the second question is on the guidance, you get the revenue guidance unchanged, but if I kind of do the math, and assume that full year sales will be flat, and Q4, will be down more than 10%. And that's kind of excluding the effects. So, just wondering, what is that, why is the range of outcomes so wide in EQ for guidance?

Teo [00:47:06]: Okay, and then starting with the energy costs, so we have been discussing about the, let's say, annual energy costs on a group level being being around 15 million, one-five in millions of euros. And, we have not actually seen an increase as of now. So as of Q3, at least in any significant way, because of the hedging systems that we have been having, with the energy cost. Maybe not specifying any individual country, Germany, Finland or any other country for that matter, either. But when we take a look at next year, so the energy costs will be higher than this 15 million. And we are not going to be in a situation that it would be doubling. But let's say that somewhere between 50 and 100% increase in this 15 million, one-five is something to be expected from the energy cost point of view. And there is a caveat, which is that, as we all probably know, I mean, the the hedging that you can do in the electricity market, or how the gas price setting goes. So of course, if those hedges do not hold for one or another reason, then the situation can be different. But if the agreements that we have in place today, so that's roughly the ballpark. Then we're talking about the guidance. So yes, the sales guidance is on the same level or higher, and the margin guidance is on the same level or lower. And of course, there are things that are and these are with reported currencies basically. So it's not with fixed currencies, which makes it a little bit more challenging, that's why it is it is quite wide and from that point of view, and, and like said about the fourth quarter in particular, so we are expecting the normal seasonality to be valid, also this year in 2022.

Speaker 5 [00:49:20]: Alright, thank you.

Kiira [00:49:22]: Okay, let's now take a couple of questions from the chat function. Next, we still have some 10 minutes time. So, we have questions on raw material pricing. Has the headwind from raw material prices, for example, steel east, can you say that the worst is behind you?

Teo [00:49:42]: The raw, many raw material prices have of course, turned or the price trend has turned and they at least they have not been increasing any more they are maybe on a lower level than what they used to be. However, the thing what we have always been talking about is that the lead times from these kinds of direct raw material prices to our sort of PNL impact is quite long, because we are using a lot of processed materials that comes through a chain of suppliers. But of course, I mean, to answer the question it is better that the raw materials have started to go down from our, let's say business management point of view, because it's always, of course, more difficult to run off to something that is going up than the other way around. So it is a cautiously positive thing that it has, it has turned that way.

Kiira [00:50:37]: Then we have a couple of questions on timing for revenue recognition. So how significantly did the timing of some deliveries affect sales and profitability in the quarter? And I think this other question is linked to this one. So there was some sales slack in Q2, and could you shed some light on this sales tailwind in Q3?

Teo [00:51:03]: Yeah. And actually, that's a good question. And I forgot to mention that in terms of the order book, so what I was intending to say was that, that even though the sales delivery capability has improved during the third quarter, so still, our so-called late backlog actually increased during the third quarter, even though it's very difficult to measure it accurately because we are changing the delivery times as we agree with the customers. But one can say that the actual delayed backlog still increased. So we did not really have this kind of significant tailwind from that from the second quarter. And we did have some slippage of deliveries from the third quarter to the fourth quarter, like for example in the Ports business, a couple of projects. But maybe from that point of view things and as the sales number also, maybe less issues than what we what we had in in the second quarter. What was the what was the other part of the question?

Kiira [00:52:06]: The other part was that there was some, let's say like in Q2, so how much was this tailwind?

Teo [00:52:14]: Yeah, exactly. And I think in the net terms, there was no tailwind in that sense, because unfortunately late backlog continued to go up. Not clearly as much as in the second quarter. But what went up anyways.

Kiira [00:52:28]: Yes. And then we have a question on the story of the merger with Cargotec, is it over? So yes, the merger was cancelled in late March this year. And now we have the new CEO Anders here with us. I think we can then move back to the questions from line. So please, operator, let's continue.

Operator [00:52:55]: The next question comes from [?? 00:52:57]. Please go ahead.

Speaker 6 [00:53:03]: Hi, Teo and Kiira, and welcome aboard Anders. Regarding the optimisation program, some parts of that sounded familiar, talk about platforms and organisation, etc. And I was wondering what are the main action points there on the agenda that you have not yet addressed in the company history? And secondly, I would like to ask, is it too early to model anything regarding costs and savings and their timing?

Teo [00:53:31]: Yeah, the timeline that we have given for the savings is, is obviously, let's say quite long. So, and we cannot really specify it in more detail at this point of time, because these are plans and and all the relevant discussions and negotiations are still ongoing and unbending. You are quite right in saying that the themes sound familiar. However, one would maybe say so that if you take a look at the go to market strategy, which we have that we are selling componentry to [?? 00:54:09] crane builders and distributors, and then we are selling, let's say complete cranes to end customers. So that has in practice not been as clear as it would be on paper. So that we have a little bit let's say, complexities inbuilt in that one certain brands are being used both as customer brands and distributor brands, we still have a very large number of platforms in both standard lifting as well as in heavy lifting. And I think that this is, you're probably quite right. So that this is this is not something that will be completely new, but it is actually a logical continuum to what we have been doing when it comes to the integration activities regarding MHPS for instance. So yeah, the wheel has not been reinvented. These are topics that are in a way, continuing on the same path where we have been, or let's say these plans one has to say.

Speaker 6 [00:55:20]: Okay, I have to ask directly, is it so that you're going to disclose more information regarding this problem on the CMD. So it would probably be a little bit too early to model in anything. Regarding the numbers and the impact?

Teo [00:55:36]: We will most likely communicate more in connection to the CMD.

Speaker 6 [00:55:41]: Okay, thank you so much.

Kiira [00:55:44]: But some restructuring costs might come already earlier. That's great to say.

Operator [00:55:50]: Next question comes from Magnus Kruber from UBS. Please go ahead.

Speaker 1 [00:55:58]: Hi, thanks for taking my follow up. You are approaching the year end now, and 2023. Could you comment a little bit how do you see the EBITA [?? 00:56:09] developing into '23 from from this year, which are the key moving parts you see, contributing positively or negatively?

Teo [00:56:19]: Well, we haven't, we haven't really started talking about '23 too much. We do not have, let's say any financial guidance or anything like that out for the next year. But of course, if one takes a look at it on general terms and takes a look at the the key challenges that we have been having now, which have been in connection to the material availability, to some extent, labor scarcity, or quite a bit, labor scarcity, as well. And then inflation, which has been, let's say, discussed in this call as well, quite many times. So those will probably continue to be themes for next year as well. And then it is all the improvement activities that we are planning to do, and and want to do, example of which being the optimisation topic that we have now briefly been discussing in connection to this report, maybe we will need to leave it at that at this point of time and come back a little bit later.

Speaker 1 [00:57:25]: [?? 00:57:27] And then actually, following up on what you said on labor shortages. Could you explain a little bit sort of to what degree that has actually impacted your capacity to deliver? I'm thinking particularly on the service side, are we talking about notable headwinds to growth there or not? Not so much.

Teo [00:57:43]: Yeah, there are certain market areas where we are clearly lacking service technicians. And I guess that part of the reason is the overall labor market being quite hot and the overall attrition that we have been having, even if it's not on a normal levels, but it is higher than what it used to be. So we need to hire more people, train more people, etc. So this is of course creating a challenge of its own. And, then of course, the COVID situation still if people are ill, so they will need to, they will need to stay out of job for quite some time, even if the symptoms may have gone away already a bit earlier. We are lacking, let's say if you take a look at the service technicians how if the situation were optimal, we could probably use 150 to 200 more service technicians at this point of time.

Speaker 1 [00:58:48]: Okay, thank you so much.

Operator [00:58:56]: The next question comes from [?? 00:59:01] from DNB, please go ahead.

Speaker 7 [00:59:05]: Hello, this is Tommy from DNB. Question related to the optimisation improvement actions, anything related to possible preparation for downturn or lower demand what you might be seeing next year.

Teo [00:59:24]: And not, the let's say, not the optimisation program as such, I mean, that is to improve our long term competitiveness and to make us more agile in general and more, let's say, straightforward simplified from that point of view. Of course, it would be helping to be more streamlined in in a downturn scenario as well. But if you take a look at the overall preparedness for the downturn, so that is of course inbuilt into the business system and when we are doing our our own own plans for next year, and beyond. So we are of course, taking a look at different scenarios when it comes to the economic environment as well. And okay, downturns and options have been there before. And I think that we roughly know, what are the activities that we should be we should be doing. It is, of course, also good to remember that currently, our primary concern is not that we cannot deliver everything to the customer.

Kiira [01:00:31]: Thank you. I think that we, I think that we are running out of time here. We still had one question in the chat function regarding the one of restructuring costs expected for Q4 2020. So we haven't given any this kind of guidance, and what was mentioned was that we expect that part of the restructuring costs related to the optimisation program would be booked already before this EMD. There was this question whether we will reveal more on this EMD. I thank everyone for the active participation and the questions. It's always a pleasure to host this quarterly earnings calls. And as a kind reminder, we will report our 2022 financial statement release on February 2nd next year. Thank you.

Teo [01:01:24]: Thank you.

Anders [01:01:24]: Thank you.

[recording ends]