

Konecranes Q4/22 transcript

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Kiira: Good morning everyone, and welcome to Konecranes Q4 Earnings Conference. My name is Kiira Froberg, and I'm the head of Investor Relations at Konecranes. Here with me today are our President and CEO, Anders Svensson, and our CFO, Teo Ottola. This time around, we have slightly renewed our presentation. I hope you like it. Before we start, I would kindly remind you that our presentation contains forward-looking statements. Anders and Teo will walk you through our Q4 results. Anders will start by presenting the group numbers, after which they will focus on our business segments. The presentation is followed by a Q&A, as always. Anders, please go ahead.

00:10:29

Anders: Thank you very much, Kiira, and a warm welcome from my side to the Konecranes' Q4 2022 webcast. I will start with some highlights of the quarter. We had a solid closing to the 2022 year, and the demand sentiment remained solid throughout the quarter. Despite the continued market uncertainty and macroeconomic indicators signaling weakening market conditions, our order intake continued well. We delivered 879 million, which was one percent less than the comparable period in the previous year.

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Anders: Our delivery capability improved in the quarter. We had more component availability, and in several material categories, it improved. It's not over. However, the component availability challenges, especially within electronic components, continues. Our supply chains remained fragile in the quarter but held up well. We managed to deliver above €1 billion at 1,000,000,021 in net sales. That was eight percent higher than in the same period last year. That made us close the year with an order book of €2.9 billion, and that's 42 percent higher than the previous year. We delivered €118 million of adjusted EBITDA compared to the previous year at 113. That was down from 11.9 percentage points of adjusted EBITDA to 11.6. I think this is a good achievement given the circumstances in the world with the Ukraine war, inflation, material availability issues, and the COVID situation that continued.

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Anders: The board's proposed dividend for 2022 is €1.25 per share. I move into the market environment. We follow a couple of macro indicators, starting with Europe's capacity utilization rate. It declined during the quarter sequentially and year-on-year by one percentage point. If we move into the US capacity utilization rate, it ended the previous quarter at 80, and now we ended at 77.5, and that's the manufacturing utilization rate. It declined sequentially and year-on-year with 1.2 percentage points.

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Anders: If we're moving into the manufacturing PMIs, it's not on the slide, but mentioning the European one as well, it reached a low point in October and then increased during the quarter but ended the year still below 50, and that's six months in a row with below 50, meaning market contraction. The same happened for the US, which ended the third quarter at 52, signaling market expansion, but had a steep decline during the quarter and ended the quarter at 46.2, signaling market contraction. If we go to Brazil, India, and China, China remained solid below 50 throughout the quarter, while Brazil started being far above the 50 mark but had a steep decline and ended below 45 at the end of the quarter.

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Anders: India remained strong, and we're above 55 at the end of the quarter. I'm moving to the demand driver for Port Solutions. Here, we measure and follow the seasonally adjusted container throughput index. The index declined in the beginning of the quarter, which was driven by lower activity in Europe but it had a strong ending at the quarter, and that was driven by China, but also a recovery within Europe.

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Anders: I will now go a bit into the group financials, and leave our CFO, Teo Ottola, to continue more with the segments and the balance sheet. As I previously said, we managed to deliver 879 million. We couldn't follow up the three quarters above 1 billion, but we think that 879 million for the quarter was a solid performance, and that's a 1.5 percent negative compared to the previous year and 4.5 negative than in comparable rates versus the previous year. We had a decrease in service order intake and an increase in industrial equipment and Port Solutions. The decrease in service was related to a strong comparison in the previous year. There we had an order intake of a nuclear modernization order of 59 million. If you strip that out of the comparison, actually we had a growth also in order intake for service on both reported and comparable rates, but also for the group on both reported and comparable rates.

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Anders: Moving into net sales. We managed to deliver 1,021,000,000 for the quarter. Good to be above a billion mark, and here we were 7.6 percent above the previous year and 4.4 percent above in comparable rates. The increase was in service and industrial equipment. One, we had a decrease in Port Solutions, and that was expected due to the delivery schedule with Port Solutions. If we look into the market, when it comes to the order intake side, we had a decrease in the Americas and that was then related to the nuclear modernization order. Otherwise, that was an increase. It was flat in EMEA, and it was a decrease in APAC. On the net sales side, we had an increase in EMEA, that was actually strong increase in EMEA, but a decrease in Americas and APAC.

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Anders: Here, maybe it should be stated as well that we had some challenges in APAC in the quarter, mostly related to COVID effects affecting both people working on site, being off on sick leave, but also the suppliers. We also had closed downs for suppliers, et cetera, and also for ourselves. It's been difficult in APAC in the quarter.

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Anders: I'll move forward into the group order book. We ended the year on a €2.9 billion order book, and here you can see represented by different colors the relative size of the different businesses. Service is the red one, industrial equipment is the gray one, and the green one represents Port Solutions. The 2.9 billion was up 42.2 percent on reported rates compared to the previous year, while it was up 41.1 percent in comparable rates. We had an increase in all three segments, and it was driven by the largest increase in Port Solutions, as you can see also on the slide. It was somewhat lower, about 150 million versus the Q free period. It's positive that we have started to deliver on our order backlog.

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Anders: I'm moving to our adjusted EBITDA. We delivered €118 million for the quarter. That was 5 million up compared to the previous quarter of €130 million. The margin, however, declined from 11.9 in the previous year to 11.6 this year. That was a decline of 35 basis points. The profitability increased in service. We had a slight decrease in industrial equipment and a more solid decrease in Port Solutions that was primarily related to lower underlying sales volume. When I talk about lower underlying sales volume, I mean that we had a growth for the group of 4.4 percent in comparable rates, but our pricing components is larger than that. The actual volume growth was negative compared to the comparison period.

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Anders: We also had a slight decrease in our gross margin, and that was driven by industrial equipment not fully compensated for the inflation with increased prices. We have taken the measures. They are in the order book, but they haven't filtered through to invoicing yet. We have updated our first quarter 2023 demand outlook. The world demand picture remains subject to volatility and uncertainty within the industrial customer segment. We say, despite the weak and global macro indicators, our overall demand environment within the industrial customer segment has remained good and continues on a healthy level. That said, we have started to see some signs of weakening within all three regions. With import customers, we say that global container throughput continues to be high and long-term prospects related to global container handling remain good overall.

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Anders: The financial guidance for the full year 2023. Net sales are expected to increase in the full year 2023 compared to 2022, and the adjusted EBITDA margin is expected to improve in the full year 2023 from 2022. With that, I will hand it over to our CFO, Teo Ottola, to continue with the presentation. Go ahead, Teo.

00:21:03

Teo: Thank you, Andres, and also welcome on my behalf. As usual, let's take a look at the performance by business segments. Before that, however, we added one new slide to the presentation. We could start this section with that slide. It's an adjusted EBITDA bridge between the fourth quarter of 2022 and then the fourth quarter of 21, where we're actually dividing or splitting the different change factors and deltas into various categories. As Anders already explained, the adjusted EBITDA in the fourth quarter of 2021 was 113 million, and in the fourth quarter of 2022, it was 118 million.

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Teo: There are four different categories where we are splitting the delta. The first one is volume pricing and mix combined. We have combined all of these in one bucket. The other one is the variable cost, which, of course, excludes volume impact because that's already in the first category. This is basically inflation and so-called performance in comparison to the previous year's corresponding period. The third one is fixed cost, which is basically the cost level below the gross margin. Then we have translation impact as a result of the effects changes.

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Teo: Let's take a deeper look at these different buckets. The volume pricing mix all together, €103 million positive. Our understanding and view on the pricing in a year-on-year comparison are that our prices were around 10 percent higher than they were a year ago. That is, of course, with the sales that we have, roughly 100 million difference by itself. The volume impact in the fourth quarter of 2022, compared to the situation a year ago, is negative. Exactly as Anders already explained. Our pricing has a 10 percent impact, and sales grew by 4.4 percent with comparable currencies. The volume impact on the EBITDA from that point of view is negative.

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Teo: However, our product mix was positive both within the business segments as well as between the business segments, and this product mix positive impact almost compensated for the volume difference that we had in comparison to the situation a year ago. When we look at the variable cost, as I said, this is inflation and, of course, so-called performance in a year-on-year comparison. Inflation, obviously, is creating a negative variation. We are compensating for that with price increases, as this picture also explains. The so-called performance component was a little bit negative in a year-on-year comparison due to project execution, due to inefficiencies caused by the component shortage, and other supply chain issues.

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Teo: The fourth quarter of 2021 was a very clean quarter from that point of view, as was the third quarter of 2022, but there was a small negative deviation in a way in a year-on-year comparison from the performance part. Fixed cost -\$8 million says that our fixed costs are much higher than they were in the fourth quarter of 2021. In this context, it mostly comes from inflation. The underlying growth within the fixed expenses or fixed cost is very modest, but inflation is also impacting this. The translation impact is a relatively a big number, this time, 6 million due to currency changes. Of course, euro-dollar is impacting quite a bit here as well. This is, in a way, a summary of the bridge that we have now put into the presentation.

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Teo: Then we look at the segment performance and start with the service. As usual, the order intake is €283 million, which is a decline both in reported and comparable currencies because of the reasons that Anders already explained, a very big modernization order one year ago. Excluding that one, we would have seen growth in the service order intake. There was growth both in field service and parts in a year-on-year comparison. We had a decrease in the Americas from the regional point of view. Then we were approximately flat in EMEA and APAC in a year-on-year comparison.

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Teo: If you take a look at it sequentially, the order intake declined there as well, so the Americas and APACs were declining, whereas EMEA was more or less on the same level as in the third quarter. The agreement's value was roughly 307 million at the end of the year, a 3.4 percent growth with comparable currencies. It's good to remember that the Russian business agreement base is not included in this number, and adjusting for that, we would

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have seen maybe a percentage point higher growth for the agreement base in a year-on-year comparison.

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Teo: The sales were €376 million, which is up 7.7 percent with comparable currencies. There was an increase both in field service as well as in parts and also in all the regions. Adjusted EBITA is on a very good level. The number is €79 million and 21.1 percent. There is actually an increase in a year-on-year comparison. A very small increase, but an increase anyways, which is driven by higher sales, higher sales obviously driven by pricing, as already discussed during this call. The gross margin also slightly increased within the service business. A very solid performance from the service business.

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Teo: Industrial equipment and order intake €306 million. This is 7.8 percent higher than the corresponding period a year ago. Maybe the most meaningful number from the order intake point of view is external orders year-on-year with comparable currencies plus 2.9 percent. We had, in a year-on-year comparison, an increase in standard cranes and components. The process crane order intake declined in a year-on-year comparison. From a regional point of view, they was an increase in the Americas and EMEA, whereas APAC decreased.

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Teo: Then if we look at it sequentially, the order intake declined from the third quarter. The explanations are very similar to what they are in a year-on-year comparison, so standard crane orders even increased. In a sequential comparison process, crane and component orders declined. This short-cycle product category was more or less flat in a Q3 and Q4 comparison.

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Teo: The sales were €377 million, which is an increase of 9.2 percent in a year-on-year comparison. Also, external sales with comparable currencies showed a 9.2 percent increase in all major business units and regions. Order book, of course, on a high level, as was already visible in Anders' presentation. Adjusted EBITDA was €22 million, which is six percent. There is a slight decline in the margin. The volume development has been quite good, but as Anders explained, the cost inflation is still impacting the price increases that we have done during the first half of last year are impacting, but maybe not to the full extent yet during the fourth quarter. We still have a bit of a negative delta due to price inflation relationship in the fourth quarter of 2022.

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Teo: Port Solutions' order intake was €356 million, which is almost exactly the same level as it was a year ago. From a regional perspective, there was an increase in Asia Pacific and a decrease in the Americas and EMEA in a year-on-year comparison. If we take a look at it by business units within the ports business, lift trucks and automation parts did very well in a year-on-year comparison.

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Teo: Sequentially, the order intake declined from the very good level we had in the third quarter. Again, if we take a look at the short-cycle product categories within the ports

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business, lift truck orders declined in a sequential comparison, whereas port service was more or less on the same level, both in Q3 and Q4.

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Teo: Net sales declined to 2.6 percent with comparable currencies. This was primarily a result of the timing of deliveries. Project timings impacted that way. It, of course, means that the order book continues to be on a very good level of 1.6 billion or more than 60 percent higher in a year-on-year comparison. Adjusted EBITDA was €21 million at 6.5 percent, so there is a decline both in euros and in the margin. The main reason for the decline is volume, so the underlying volume is quite a bit lower than what it was a year ago, but then also a few performance topics from the project execution point of view. As I said, the comparison period was very clean from that point of view, as was the third quarter. Now we had a little bit more of that. Nothing dramatic. It is an indication that we are stating that the gross margin actually increased within the Port Solutions. The issues within the execution by no means are massive, but a little bit, let's say, to the negative in comparison to the situation a year ago.

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Teo: Finally, before going into the Q&A, here are a couple of comments on the networking capital and cash flow. Net working capital was, at the end of the year, €581 million, which is 17.3 percent of rolling 12-month sales. The net working capital has been increasing during the year, as we can see from the slide. There was a very small increase from the third quarter to the fourth quarter as well, as we can see, so the rotation in a way improves the relation between the rolling 12 months sales improved.

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Teo: Inventories declined during the fourth quarter, and, of course, in a way the same deliveries then moved into the AR at the end of the year. Cash flow in the fourth quarter was positive, 91 million, of course, as a result of the relatively good result, and that was barely enough to make the free cash flow positive for the full year as well, so 25 million on a cumulative basis at the end of 2022. Of course, the main reason for the low cash flow continues to be the net working capital accumulation.

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Teo: Gearing and net debt. The net debt decreased from the third quarter level slightly to 688 million. That corresponds to gearing of 48 percent, which also, of course, came down from the previous quarters' level. Then finally, the return on capital employed on an adjusted basis, let's say, is very stable at 13.4 percent. I guess that with those comments, we can then move into the Q&A.

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Kiira: Thank you, Teo and Anders. Before we turn the line on, we have a couple of questions through the chat, so maybe we could start with them. The first one is regarding the industrial equipment. These are not my words now. The industrial equipment is the black sheet of the company. What can we expect from that area?

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Anders: In industrial equipment, we have had a difficult time since the inflation started to compensate for with the prices for the increased inflation. We have now taken all the right

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measures, and looking forward, we are compensating for that. We are recovering and, with the easing of our supply chain issues, getting up the productivity within the industrial equipment. We shouldn't forget that the without industrial equipment, our service wouldn't have the kind of growth that we have had. We are sort of populating the market with our equipment, and then we are servicing our equipment. We also service third-party equipment, of course, but our equipment is also critical in this. If you look at it integrated, it's actually very nice business.

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Teo: Maybe worth adding to this one is that when we have been talking about the efficiency improvement activities within the industrial segment or industrial business area consisting of two segments, service and industrial equipment. We have been talking about efficiency improvement targets of 30 to 35 million within the next three years. Of course, this is combined for the service industrial equipment business area, but a clear maturity, a very big deal of these expected efficiency improvements would be taking place within the industrial equipment sector. The actions that we have been discussing regarding those ones are in relation to product platform changes and go-to-market changes, among other things, but those are maybe some of the most relevant ones here.

00:35:48

Kiira: Thank you. We have another question, which is related to the Russian write-offs. This question actually came in while you were there discussing the EBITDA bridge, Teo. What impact did the Russian write-offs accumulate? We need to remember that all Russian-related write-offs have been adjusted, so they are not included in the breach, but perhaps you can show it.

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Teo: That is correct, as Kiira said. We have done those corrections, so they have been adjusted from these numbers. However, we take a look at the brief summary of that. At the end of the year, the adjustments in relation to the Russia-Ukraine crisis and Russian business are all together in the ballpark of €38 million. There is also a sales impact because we have, in a way, canceled POC sales that were already in the books, and the sales impact is a slightly smaller amount. It's about 32 million or so, but the PNL impact is 38 million within the adjustments. That is basically impairment of the assets in Ukraine or impairment of the majority of the assets in Ukraine, and then the impacts of the canceled projects that we are not delivering to and in Russia.

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Teo: In addition to that, of course, the overall decision of withdrawing from the Russian business or not taking new orders and sales is, of course, having its own impact on these numbers as well in the way that the business does not exist anymore. We have not been giving the actual profitability numbers. We have been referring to the Russian business having been around two percent of our total group turnover. Then, maybe, as we also have been discussing earlier, we cannot utilize the Ukrainian manufacturing facility, obviously, in the way that we planned earlier. This has created a need to manufacture crane structures elsewhere, and this has created a cost of approximately 1 million per quarter, which is also visible in these numbers that we can see in this slide, so that has not been adjusted.

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00:38:17

Kiira: Thank you. I think that we can now open the line for questions.

00:38:27

Moderator: 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. Please state your name and company. Please go ahead. The next question comes from Antti from SEB. Please go ahead.

00:39:11

Antti: Hi, guys. It's from SEB. A couple of questions regarding industrial equipment. On the outlook comments, you are flagging some signs of weakness on the demand, but then if we look at what's happening, kind of the short-cycle business components and standard cranes are doing better than the process cranes. What does this tell you where we are in the cycle? Where are you actually seeing the signs of weakness?

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Anders: Thanks, Antti. I think if you start with the macro indicators that are showing a decline in utilization in both Europe and the US, and we have our true connect where we can follow the utilization equipments. We also see in our connected equipments that are utilized to a somewhat lower level than previously. Then we have our sales funnel within industrial equipment in the industrial segment, where we can see that we have slightly fewer cases in the funnel and also the value of the funnel is slightly less than previously. We have also seen that decision making is somewhat longer than previously, so it hasn't hit us in any way so far, but we see signs of weakening in the different regions.

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Teo: Then back to your question about what you can conclude about the process cranes being in a way weaker than the standard cranes or the component. Of course, you are absolutely right. That is not according to the model. I would say that it is rather a coincidence than anything else. I wouldn't really conclude anything on the position where we are regarding the cycle based on that. The key thing is still just to take a look at the development within the components, within lift trucks and standard cranes to some extent and try to conclude it there. As we discussed, the components were more or less flat in a sequential comparison. Lift trucks came down, the service number is visible as we can see. There are signs of a weaker demand which have not really massively at least been in a way materializing in the order intake.

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Antti: That's very clear. Then the second question is on the sales guidance for this year. Could you talk about how you see that divisionally and also price versus volume? I'm quite interested on the porch side, how much of that big backlog you are kind of scheduling to deliver during 2023?

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Anders: We are not really giving any more details on how we see that. What we can say is that we go into the year with an order book, as you can see, which is very strong at 2.9 billion, and a large part of that to be delivered in 2023. If you compare, we have 500 million more going into 2023 being delivered in the year than we had going into 2022. I think we are

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fairly confident that we go in with a strong backlog and we have done the pricing changes, et cetera needed to keep our profitability going forward. We already did that earlier in 2022, and that is reflecting in the later half of 2022 and also now more in 2023. We are not giving any guidance on specific sales development per segment going forward.

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Antti: Then perhaps on the EBITDA guidance, it's a very nice bridge chart that you provide for Q4. Could you conceptually talk about 2023 profitability improvement in the same terms?

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Anders: If you look here at the different businesses, it was mentioned by Teo. In the service, we have improved our profitability from 21.0 to 21.1. We have seen sort of an underlying performance improvement also driven by pricing, as Teo mentioned, and not by volume, but services is a volume business, so the more we can get our componentry business in line, of course, there's an opportunity to drive additional productivity. Also, the productivity in service is driven when we don't have supply chain constraints hindering us from doing the right sort of planning of our service technicians, et cetera. There is potential going forward. It's nothing that doesn't say that we could keep the development that we have had within that area.

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Anders: When it comes to the port side, we have been challenged by lower volumes in the year, as mentioned, and that impacts our profitability. We now see we go in with a very strong order book and improved delivery capabilities. Even though we also had some project related performance challenges with imports, that is not something which will follow us in 2023, we believe. In the industrial equipment, we have already talked about the compensation of pricing versus inflation. Also, here we have had, as Teo mentioned, impacts from the war with a million per quarter related to not being able to operate our Zaporizhzhia plant. We have also seen here COVID effects and a lack of availability impacting our business and our ability to plan in our different production facilities. Also, closing due to COVID in Asia. We go in confident with that in our pocket.

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Antti: All right. Thanks so much.

00:45:49

Teo: Regarding the product mix comment that we have been discussing earlier regarding the future. Maybe one can conclude that if we take a look at the current situation, for example, in the fourth quarter and it applies for the full year, the mix impact has been positive. It most likely will not be that positive in 2023. The mix between the segments will probably change to the worse, and it is, at least within ports, the mix most likely will change to the worse. I guess this is something that one can, in a way, conclude from the order book that we have at this point in time. I think that overall the margin development very much boils down to what Andres was saying about the order book being much higher than a year ago, and then that worries the delivery schedule of that, and how are we constrained by component availabilities or other topics within this year.

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Antti: That's very clear. Thank you.

00:47:09

Auto: The next question comes from Massimiliano Severi from Credit Suisse. Please go ahead.

00:47:19

Massimiliano: Thanks for taking my questions. My first one would be on Port Solution and execution challenges that you mentioned. First of all, are these projects ongoing or have they been finished, and how should I think about these execution challenges potentially affecting 2023 and maybe which measures have been taken to avoid these execution challenges in the future?

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Teo: When we look at the challenges as I already said, there is no reason to exaggerate the impact of those because the gross margin is basically up year-on-year, even with these challenges. These are primarily projects that are at the very, let's say, towards the end of the period of those projects. I cannot say that they would be completed, but they are to be completed. We feel that adequate measures have been taken, and we are not expecting any kind of, let's say, trend wise weakening of the performance as a result of project execution.

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Teo: I would rather say that this is a kind of normal fluctuation and volatility. As I already said, Q4, 2021 was very clean from a project execution point of view. Q3, 2022 was also very clean. We even had, within the ports, a small positive one off there in the third quarter. This now, in comparison to those two, is maybe weaker performance in a way, but it doesn't mean that we would be having any massive issues in this respect.

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Massimiliano: Just to clarify, it's not really related to maybe cost inflation hitting the margins on your backlog. This is more of a one off, and you do not generally see any larger than usual issue on cost inflation in your backlog in projects.

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Teo: This particular challenge that we are talking about here now is not pricing related. This is more like a project timing execution related topic. When we talk about the order book margins, as already discussed, I think it applies to all the businesses. Of course, the order book is picking industrial equipment and ports in particular, so we are quite comfortable with the margin levels that we have within the order book.

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Massimiliano: Thank you. My second question is going back to the topic of process cranes and the turn around. I was wondering if you can give us an update on whether process cranes were profitable in 2022, and if they're not profitable, how would you think about 2023, and process cranes turn around continuing to be somewhat of a tailwind for industrial equipment going forward?

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Anders: I think Teo mentioned it a bit in his part of the presentation that process cranes are, unfortunately, still in the red for us. We have a lot of initiatives ongoing and we have

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communicated around this as well. What we do in terms of our different platforms and go-to-market models, et cetera. We also communicate that in 2025 it then contribute with an EBITDA improvement of 30 to 35 million, and it will come at a cost of 30 to 35 million. We are executing on that plan and proceeding according to our plan. Most of that related cost will then be taken within the first 12 months of announcement, which was basically one quarter ago.

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Teo: Taking a look at the 2023 and from the process crane point of view in particular, I think that it would be fair to say that the war impact that we were now discussing in connection to the 2022, this 1 million per quarter, unfortunately, it will not completely go away. We were not intending to update on the number every quarter because the impact has been there in 2022 as well, but it will not be vanishing just like that. I think that it will continue to burden the process crane profitability, and hence it's not at all guarantee that it would be with black numbers in 2023. Obviously, we are working the best we can to make it happen. Of course, these extra costs may impact that plan to some extent.

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Teo: We can probably comment on the process crane profitability then on a quarterly basis going forward, maybe not with a number, but whether we are on the black or on the red.

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Anders: You could probably add as well that the lead time to filter through from the price increases has also been longer in ETO cranes and process cranes than in the short cycle products, and that would then help us a bit in 2023.

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Massimiliano: Thank you. My very last question would be on the order book of Port Solution. If you could maybe comment, I would expect it right now to be more tilted towards mobile equipment than it has been historically because of supply chain issues. I was wondering whether it is the case if you can provide more or less the split between the short-cycle equipment and large cranes. In terms of the mix of 2023, how much do you expect to sell in terms of revenue generation capacity? I don't know if you can provide any color at all on how much could be on large cranes versus mobile equipment.

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Teo: We would rather not talk about the numbers, but I think that your underlying question is that is the order book tilted more towards the shorter-cycle product offering within the port. I will not necessarily draw that conclusion. The reason is that we have definitely longer delivery times when it comes to the mobile equipment, and what we have been having previously. The same applies to many other product categories. Of course, the order book, in a way, is basically quite longer than usual regarding most of the product groups that we have. The key question then, from the mix point of view, which I think that you are after, is then what is the delivery capability regarding all of those business units, in particular product groups, and that is what will be decisive then from the PL point of view. In 2023, we are a bit cautious on commenting on that in more detail because the future is uncertain after all.

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Massimiliano: Okay. Thank you.

00:54:55

Kiira: Let's now take only two questions.

00:55:05

Kiira: The next question comes from Tomi Railo from DNB. Please go ahead.

00:55:13

Tomi: I'm Tomi coming from the DNB. I have a couple of questions. Firstly, I respect that you have the outlook, but can you say anything about how the year has started, especially for the short-cycle business? What got the levels good proxy where you start the year with the comment that demand is overall healthy in terms of components and services that?

00:55:45

Anders: Basically, we don't go in and comment within existing quarters. If you read and listen to what we say in our outlook, it continues on a healthy level and we haven't seen anything that would deviate from continuing, as we said, flat or increasing quarter on quarter or year-on-year, as Teo mentioned previously on the short-cycle products. If anything would have changed in the last weeks, we would have mentioned that.

00:56:21

Tomi: Thank you. Have you seen any order cancellations?

00:56:29

Anders: There are always order cancellations to some extent, but we haven't seen more order cancellations than we have done historically in previous quarters. No sort of escalation in any cancellations, and not within any projects such as specific projects that we couldn't sell to others. More as we normally have within price list products that we then can sell to another customer, but nothing that's indicating any sort of increased cancellations.

00:57:04

Tomi: On the currency or forex impact, do you think or do you expect any negative currency impact on EBITDA this year due to the strengthened euro compared to the US dollar?

00:57:21

Anders: I don't think it's our job to speculate on currency development going forward. I think what we normally say is that changes between the dollar and the euro of 10 percent has an effect of roughly 10 million on our adjusted EBITDA, and that's about what we can say regarding that.

00:57:44

Teo: Which obviously comes with a delay because there is a hedging process in place.

00:57:55

Tomi: Okay. Finally, just checking what you said on booking of the efficiency improvement costs. Can you please repeat that?

00:58:08

Anders: It's what we announced in the third quarter report that we are making initiatives to improve the profitability of the industrial equipment segment. We have a project that will reward us with 30 to €35 million EBITDA improvement in 2025, but it will come at a one time

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cost of 30 to 35 million, and most of those costs will be booked within the first 12 months from when we announce.

00:58:46

Kiira: We've already booked costs related to that program now in Q4.

00:58:50

Anders: Yes.

00:58:51

Tommi: Perfect. Thanks.

00:59:02

Auto: Please state your name and company. Please go ahead.

00:59:08

Anonymous: I was just wondering if you had any plans for refinancing the debt maturing in 2023.

00:59:16

Teo: We have actually refinanced the debt maturing 2023. There will be refinancing needs for the year 2024, which at this point in time has not been refinanced, but will be planned in 2023.

00:59:38

Anonymous: Thank you. Can I just ask a follow up on what we should consider the right level of inventory for the business in the medium term?

00:59:49

Teo: The level of inventory as a normalized case is a very challenging question because it much depends on the product mix that we have, and we cannot really give a very good guideline and what the correct number is because the work in progress in long projects starts to accumulate in a very early phase. Then on the other hand, you can have an inventory of spare parts and it depends on the mix. I would maybe concentrate and focus on the indicator that we are also showing ourselves, which is the net working capital as a whole in relation to rolling 12-months sales. This has proven to be one of the best indicators for net working capital efficiency, including inventories.

01:00:41

Anders: To add to that, we target to be clearly below the 15 mark, and we are currently at 17.3, so we will work on that in 2023.

01:00:55

Anonymous: Thank you.

01:01:02

Auto: The next question comes from Antti from SEB. Please go ahead.

01:01:13

Antti: Thanks for the follow up. It was on something that Anders said about industrial equipment and services, and it's obviously an enabler of services. Could you elaborate a bit? How do you look at those two businesses? Is there more kind of a collaboration to be done?

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How do you look at kind of equipment profitability versus lifetime profitability, including the services, and maybe talk a little bit about around that theme?

01:01:39

Anders: We are working on a strategy update now for the CMD on the 10th of May where we will talk about our strategy going forward in detail, but clearly there is an opportunity, as we have combined these two segments into one business area, to look more on end to end profitability to really understand our profitability in the different legs that we have of the business.

01:02:11

Kiira: To kind of increase collaboration and cooperation. That was one of the reasons for the new structure.

01:02:19

Anders: It won't mean that we will start reporting together, we will keep reporting separately as we do today.

01:02:29

Antti: I was thinking if you look at the process cranes, and there's been a couple of questions regarding the margin weakness over there, if you look at the service opportunity in process grants and kind of the lifetime profitability, including the services, how does that stack up against the component and standard crane business today?

01:02:48

Anders: Versus the component business, of course, it's not the same because you're not comparing apples with apples. Components are basically a part of the service in the process cranes. I think it's difficult to compare. For us, it's important to understand the lifecycle margin, and we haven't been working that way previously. That is something we'll look into more to really understand where we should not water the plant and where we should water the plant.

01:03:32

Antti: All right. Thanks.

01:03:38

Auto: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad.

01:03:47

Kiira: We have some questions in the chat function. A couple of questions related to the inflation, so I think we could take them here in between. What should we think of raw material inflation development in 2023? Could that become a tailwind to group margin in the course of the year? If this inflation occurs, should we see a downside risk to the pricing? That would be one question.

01:04:20

Teo: I think that when we look at the inflation picture as a whole, of course, it's extremely difficult to say where the inflation would be going. That depends on the overall economic environment, the central bank's rate increases, and all of that. Of course, it would be realistic to think that the material inflation would be declining because we have been seeing

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raw material prices going down as a result of how the economies have been doing. It is quite possible that the material inflation will be lower in 2023 than what it has been in 2022. It's not certain, but it's possible. If that happens, it has typically been a piece of good news for us. A decline in raw material prices maybe an easier environment for us, even though raw materials technically are pass-through items, so there is maybe a potential to, in a way, benefit a little bit from the margin point of view.

01:05:23

Teo: I would not, however, exaggerate the impact of this because by definition we are passing it on to the customers. The environment where raw material prices are going down is definitely easier for us to manage than the other way around, so from that point of view, maybe it would be, to some extent, a positive thing. Then again, it may be that the labor inflation is somewhat higher even in 2023 than what it has been in 2022. That's at least a possibility given the current status of where we are.

01:06:02

Kiira: Thank you. I think we can now take at least one question from the line, please.

01:06:13

Auto: The next question comes from Erkki Vesola from Inderes. Please go ahead.

01:06:18

Erkki: Thank you, Kiira. Regarding what Teo talked about labor inflation. What was the labor inflation last year, and what kind of inflation do we expect in 2023?

01:06:34

Teo: The labor inflation has been somewhere between 4.5 to five or so. Whether it will accelerate or not is an excellent question. It might, but that's not in a way, of course, certain, but let's say between four and five for the fall of 2022 and higher towards the end of the year than in the beginning.

01:07:06

Erkki: I'm not sure if I'm going to answer this. Regarding your either ongoing or planned price increases in tendering currently in 2023 in total, are you still raising prices altogether in 2023 as we speak?

01:07:27

Anders: We are raising prices basically on a quarterly level when it comes to the service side, and have been doing so. We will probably not do it on a quarter level going forward if the inflation starts reducing. We are taking all the measures needed, and we learned our lesson a bit late in the industrial side during the early days of this cycle. We have learned, we are quick, and we are taking all the measures needed. As Teo mentioned, the raw material prices at the end of 2022 were lower than at the beginning of 2022. What we are mainly battling now going forward is then labor inflation.

01:08:21

Erkki: Then a final one to Teo, just a housekeeping question regarding corporate tax rate, a ballpark figure for 2023.

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01:08:31

Teo: It was a little bit more than 27 percent, 27.4 or 27.5 now in 2022. I would use roughly the same, so no major change is to be expected.

01:08:44

Erkki: Okay. Thank you so much.

01:08:47

Kiira: I think that we've started to run out of time here. It's time to conclude our today's conference. I thank you all for your participation. As a reminder, Q1 interim report will be issued on the 28th of April. We'll meet again then. Thank you.

01:09:10

Anders: Thank you very much.

01:09:11

Teo: Thank you very much.