Konecranes Q1 2023 transcript

Kiira Fröberg: Good morning, and welcome to Konecranes Q1 Earnings Conference. My name is Kiira Fröberg and I'm the head of Investor Relations at Konecranes. Here with me today I have our president and CEO Anders Svensson and our CFO, Teo Ottola. Before we start, I would kindly note that our presentation contains forward looking statements. Next, Anders and Teo will walk you through our Q1 results. Anders will start by presenting the group results after which they will walk you through our business segments. The presentation is followed by Q&A as usual. Please Anders, the stage is yours.

Anders Svensson: Thank you Kiira, and a warm welcome from my side as well to this first quarter result review and webcast for Konecranes in 2023. The first quarter in this year was a fantastic quarter with a strong result in all business segments. We had a record breaking Q1 in every part of the result. So order intake was nearly 1.3 billion, and that is an all time high for Konecranes in any quarter as an order intake. The demand environment remained good despite weakened macro indicators. Our orders increased in all three business segments and also in all three regions. The sales grew 33 percent on a year on year basis in comparable effects, and our delivery capabilities continue to improve during the year, even though we delivered a shorter invoicing in the first quarter than we did in the fourth quarter in the previous year but that's not connected to our capability to deliver it's more connected to timing.

Anders Svensson: We have an excellent achievement, I must say, in all areas despite our supply chain still being fragile especially when it comes to products that contain integrated circuits. The strong order intake led to a positive book to bill and at the end of the quarter our order book was 3,281,000,000 and that's a record high order book for Konecranes. This resulted in a record high quarter one comparable EBITA margin at 10.6 percent. This was mainly driven by higher volumes but also positive price impact compared to the previous year. We also held a tight cost control during the quarter. The profitability improvement was across all the three business segments. As a summary, I'm very happy with the start of the year 2023. I'll now move into the market environment and I'll start with the Service and Industrial Equipment. If we look at the manufacturing capacity utilization in the EU, we can see that it declined not only sequentially but also year on year with 1.5 percentage points.

Anders Svensson: If we look at the manufacturing capacity utilization in the US, we can see that sequentially it was actually up versus the end of last year but on year on year we were down 1.7 percentage points. If we then move into the manufacturing PMIs and I start with the global one, it was down or in contraction for the seventh consecutive month and it ended the quarter at 49.6. If we look at the same manufacturing PMI in the eurozone, it ended the quarter at 47.3 in March and that was the lowest month in the last four months moving in the wrong direction. If we instead look at the US, it ended the quarter at 49.2 and that was actually up versus February. Therefore, good traction upwards there in the US. If we look at the emerging markets, we could see that India was clearly in expansion, clearly above

50, while China was flat at 50, and Brazil remained below the 50 point signaling contraction.

Anders Svensson: Also, when we talk about these KPIs and indicators, I normally mention our utilization rate of connected sold equipment. In the last quarter I talked about that we saw a decline in utilization of the connected equipment that turned about half or midway in the first quarter, turned upwards again in utilization and that has continued in April to improve. I now move into the demand environment for Port Solutions. The key indicator we follow here is container throughput index. We can see that we started the year at a historically strong level but on year on year we were mins two percent at the end of February versus the previous year but if you look at the long term trend it's still a very strong level for Port Solutions market. I now move into a group of order intake and net sales. I start with our order intake which ended at 1,290,000,000, and as I mentioned that's an all time high for any quarter for the Konecranes group, and we were up 17 percent year on year in comparable currencies.

Anders Svensson: We saw an increase in all three business segments where Industrial Equipment was the strongest, followed by Port Solutions and then Service. We also saw an increase in all three markets where we had APAC having the strongest growth, followed by EMEA and Americas on a tied second place. If we then move into the net sales, we had the strongest net sales for the first quarter for Konecranes ever, it was up 33 percent and ended at €899 million. We also saw an increase in all three segments where ports had the strongest increase but also the weakest comparable from the previous year, followed by Industrial Equipment and then Service in a strong third position with 16 percent growth year on year in comparable currencies. We also saw an increase in all the regions and the strongest increase was in EMEA, followed by APAC and then Americas. The really strong record breaking order intake gave us a positive book to bill, and at the end of the quarter our order book had grown to 3,281,000,000, and that's 33 percent up on year on year in comparable currencies. The increase was seen in all three segments, with ports having the strongest increase at 49 percent, followed by Service at 17 percent and Industrial Equipment at 15 percent.

Anders Svensson: Also mentioning sequentially from end of year last year we had a growth of the order book of €380 million. Now moving to our profitability and our comparable EBITA which ended at €95 million. That was an increase from the previous year of €44 million, an increase of 116 percent. Very strong delivery and comparable EBITA which gave us a margin of 10.6 percent, and that was 400 bips up versus the 6.6 percent that we had for Q1 in the previous year. The comparable EBITA increase was across all the three segments but we had by far the strongest improvement in Industrial Equipment side where we had an improvement year on year of 900 bips. The comparable EBITA increase was mainly attributable to higher sales volumes, and also to pricing, and good cost control.

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Anders Svensson: We should remember that at the start of the last year, in the first quarter, we had fairly weak sales which made the sales volume to go up 223 million, and that pricing is roughly 10 percent, around 90 million. There is an underlying volume increase of about €130 million between the years. We can also remember that in the beginning of 2022 we had issues to compensate inflation with pricing since we were late on our price increases in the second half of 2021. So that's good to carry with us here when we see the good improvement. Also mentioning here the gross margin improved slightly on a year on year basis for the group. Now moving to the second quarter demand outlook.

Anders Svensson: The worldwide demand picture remains subject to volatility and uncertainty. So I start with the industrial customer segment. We say that our demand environment within industrial customer segment has remained good and continues on a healthy level despite the weakened global macro indicators and some signs of weakening in the three regions. Here we have seen the macro indicators weakening for the last 6 to 9 months, and when we talk about some signs of weakening in all three regions, what I mean is that we see longer decision times with our customers. I don't mean that our sales funnel is getting smaller in terms of number of cases or in terms of value. It's purely related to decision making time with customers. With port customers, we say that global container throughput continues high and long term prospect related to global container handling remains good overall. Then I'm moving to the financial guidance for the full year of 2023. In here we haven't changed things. Net sales are expected to increase in full year 2023 compared to 2022.

Anders Svensson: Comparable EBITA margin is also expected to improve in full year 2023 from 2022. Overall, I'm very pleased with our first quarter performance from all the business segments and I think it reflects well with our capabilities as a company and an organization, and puts us in a good position to deliver on our full year target for both sales growth and profitability expansion. With that, I think it's time for our CFO Teo Ottola to dive deeper in the financials and in the segment view.

Teo Ottola: Thank you Anders. Good morning on my behalf as well. Anders mentioned segments in more detail but before that let's take a look at the comparable EBITA bridge. This is a little bit continuation to what Anders already talked about, EBITA change. We actually showed this slide already regarding the fourth quarter. Now it looks a lot better because the year on year comparable EBITA change is actually more than €50 million. When we take a look at the ingredients of the change, the positive contribution comes from the combination of volume pricing and mix, which you can see in the slide. The biggest contributor there is pricing. Like Anders already mentioned, our customer prices are maybe 10 percent or slightly more than 10 percent higher than what they were a year ago. However, this one is complemented by the operating leverage impact. So now we have a very good underlying sales increase in comparison to the previous year.

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Teo Ottola: Unlike in 22 when we all the time, basically, had a situation that every quarter our underlying volumes were below the previous year now our underlying volume is clearly above the previous year and this gives us a gross margin improvement which we are actually showing in this volume pricing and mix bucket as well. The third element which is mix was actually slightly negative as a result of gross segment mix but to a much lesser extent than the other two positive contributors. When we take a look at the variable costs, this is essentially the inflation impact from direct materials and direct labor. Then when you take a look at the balance of those two it's highly positive, unlike during the fourth quarter when these were more in balance with each other. Now the difference is clearly positive and it comes from the leverage. So higher sales volumes underlying, bringing additional gross margin and the pricing impact. Like Anders mentioned in Q1 22, we were a little bit behind the curve when it comes to pricing now we have compensated for that and the pricing impact is visible in this one as well.

Teo Ottola: Another way of taking a look at the operating leverage is obviously through fixed costs which we have there next. This 14 million year on year increase is more than half of inflation, so the underlying fixed cost increase is very minor. This means, on the other hand, that the gross margin increases as a result of the underlying volume improvement comes more or less directly into the profitability. That's why it explains a big part of the comparable EBITA improvement of more than 50 million year on year. If we then move into the segment, Service is here first as usual, at this point in time it's good to remind you that we have changed the order intake definition so that agreement based sales are now visible also in the order intake. This basically makes sales and orders particularly for Service more comparable to each other on a quarterly basis. The historical numbers have been restated so quarters are comparable with each other as well. The order intake for Service was €379 million. That is an eight percent year on year improvement in comparable currencies.

Teo Ottola: When we take a look at the improvement year on year and Q on Q, it evenly comes from all the regions, APACs change in percentage is the highest but otherwise equal across the regions. Agreement base number reached 311 million that is 4.2 percent improvement in year on year in comparable currencies. That is still regarding the order intake, taking a look at it like regionally leading to good development in all of the regions. Net sales, €354 million and that is a 16 percent improvement year on year. We had sales growth in both field service and parts. There was no significant product mix change in one way or the other. We also had an increase in all of the regions Americas, EMEA and APAC. Our delivery capability improved, whereby the 16 percent improvement is an indication of how the order intake was very good as well and as a result of that the order book continued to grow and reached €461 million at the end of Q1. Comparable EBITA, 66 million, 18.7 percent a very good level.

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Teo Ottola: The comparable EBITA increase mainly comes from the sales growth which is driven by pricing and underlying volume improvement even though the gross margin also increased slightly in an year on year comparison. Then moving into the Industrial Equipment, a very good order intake €465 million here, the external orders on comparable currencies are about 24 percent higher than a year ago. When we take a look at the year-on-year improvement, basically all of the major business units, standard cranes, process cranes components, order intake increased more modestly in standard cranes than in the others. Also sequentially, in comparison to the fourth quarter, order intake increased in all of those business units and particularly component order intake during the first quarter of 23 was very strong. Orders increased in Americas and EMEA whereas they declined in APAC in year on year comparison. Sales were €331 million, that is as much as 37 percent higher than a year ago.

Teo Ottola: Taking a look at the external sales with comparable currencies which is from the profitability point of view is the most relevant one, we had increase in all of the business units once again as well as in all of the regions. Order book kept going upwards as a result of the very good order intake, even if sales improvement was also very good at this 37 percent. Then lets take a look at the comparable EBITA, that reached 23 million or 6.8 percent an extremely good improvement year on year, which is explained by at least three different factors. One of them is, of course, the sales leverage as already discussed, and 37 percent improvement in sales creates a lot of additional gross margin. The other one is pricing like discussed in Q1 22 as well as in Q2 22 where we're still suffering from being late in some of the price increases. Now this has been corrected, it's visible in the profitability, and the third topic is the industrial optimization program that we have been having ongoing and it is actually yielding positive results already during the first quarter of 23 and of course consequently, gross margin increased.

Teo Ottola: Then when we take a look at the Port Solutions, an extremely high order intake, €513 million, 20 percent improvement on year on year. Q1 22 was also an excellent order intake quarter, and as we can see from this picture we now have had six quarters in a row where order intake has been on an excellent level. Order intake improved year on year across the regions also across most of the business units within Port Solutions. If we take a look at the short-cycle products, lift trucks order intake was more or less on the same level as a year ago, port service order intake continued to improve in an year on year comparison. Sales, €273 million. That is even a higher improvement than in Industrial Equipment. 57 percent actually in comparable currencies. A couple of things to remember like Anders also said, comparables are easier in this one. We did cancel some of the Russia-related POC sales in Q1 22, which mostly is in ports. Q1 22 is artificially a little bit lower than what it would be. The order book timing or delivery timing in Q1 22 was not in our favor but given both of these it's still a fabulous achievement that the sales improvement is 57 percent.

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Teo Ottola: Order book obviously has continued to grow here as well as the difference between order intake and sales is very big. An order book is more than 1.8 billion. When we take a look at the comparable EBITA margin it is 18 million or 6.5 percent. This improvement year on year basically comes from the volume. So it is operating leverage and gross margin was approximately flat in on year on year comparison. Then a couple of comments on the cash flow as well as the balance sheet. Starting with the net working capital, we have actually changed the definition for the net working capital as well so that it better matches the cash flow statement definition of net working capital. We have excluded tax related topics as well as, other financial assets and liabilities which are derivatives of related topics. The pattern of the picture is exactly the same as it was also before but these changes mean that the net working capital number has come down by almost 100 million, which in relation to rolling 12 month sales means something between 2.5 to 3 percentage points.

Teo Ottola: This is good to take into consideration when checking the old presentations. These numbers obviously have been restated so these quarters are comparable with each other. Net working capital declined or decreased a little bit from the end of 22 which is good, inventory is actually continue to go up but our advanced payments were on a good level increased and as a result of that the overall net working capital is decreasing. This one is, by the way, adjusted for the dividend payment as well as the acquisition advance payment that we had at the end of Q1. Therefore Q1 is comparable to Q4 from that point of view. Free cash flow was good in the first quarter, €116 million. This, of course comes partially from the net working capital factor but primarily the driver is the good profitability in the first quarter. Then finally gearing and return on capital employed, net debt €586 million gearing 42 percent. These numbers are obviously before the dividend cash outflow and capital employed which has been quite stable is now taking a good step upwards, 16.1, as a result of capital employed but primarily this one as well, the very good improvement year on year on the profitability. With these comments we are ready for the Q&A.

Kiira Fröberg: Thank you Teo, thank you Anders. We are ready to take the questions. You can either send them to us through the chat function or call by telephone. So let's please take the first question from the line.

Speaker 1: 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. The next question comes from a caller from Goldman Sachs. Please go ahead.

Daniela Costa: Hi. Good morning. It's Daniela Costa here from Goldman. I have two questions if possible. Some clarifications to things you've said before. Can you talk about through when you talk about in your near-term outlook, a healthy level, how should we interpret this? Obviously, you had a exceptionally strong one Q with some really large projects. When you say a healthy level, you're thinking about more underlying demand or the new healthy level means continuation of very strong large orders as we've seen recently? Then my second question, I think you've alluded in the presentation for 130 million underlying improvement when you were talking about the margins year on year. I couldn't quite understand if that was referring to the quarter only or more a rolling figure. Can you talk through these unprecedented high one Q margins that you have now to help us break it down. What was the pricing? What are some of the savings coming through? What is just more pure volume? So that we think about how to build margins from here. Yes. That would be my two questions. Thank you so much.

Anders Svensson: Thanks Daniela. Should I start to you and then you can complement? So when it comes to the near-term outlook, we give a more of a industry demand prognosis more than we give any order intake guidance. What we can say is that in the first quarter we had quite strong short term orders like the lift trucks, the components, etcetera, and those were driven by different things. In Industrial Equipment, for example, we had pricing increase in February, so we got some order intake before that pricing increase which drove the short cyclic order intake there. We also had some changes in our offering, we will phase out some legacy products. We also had some orders on those. That drove an uptick in Industrial Equipment. When we talk about weakening macroeconomic indicators, that has been going on for the last 6 to 9 months, we have seen both the manufacturing capacity index going down, we have also seen the PMIs being below 50 now for the seventh consecutive month on the global PMI.

Anders Svensson: Those are the kind of indicators that normally filters through the order intake over time. We haven't seen that yet but that's why we mentioned this as potential weaknesses or signals of weakening markets overall. There we have also seen the longer decision making time, which is also an indicator and that's normally is something that happens in a higher capital cost climate as we're having now with interest rates, etcetera. That's more of what we are saying. Otherwise we are saying we are forecasting that the market outlook is similar as it was in the first quarter. Then if I go into what I said regarding the €223 million uptick in comparable sales, we have mentioned that about 10 percent is related to pricing increases. On our 899 million that would then be around 90 million give or take, and that would give an underlying volume increase of roughly 130 million. That's what I meant with that. On that volume you get a good leverage on gross margin, especially as we manage to keep our fixed costs fairly constant in the quarter.

Daniela Costa: Just on that because I was wondering on the EBITA, if you could give how much was net on the pricing because you also have cost inflation on the other side. Can you bridge it from sales to EBITA margin?

Anders Svensson: Our main target with price increases is to compensate for inflation.

We were not successful in doing that in the first half of the last year. During the second half of last year, we started catching up and now you can say we are compensating fully for inflation with price increases. It's not the same in all areas. Some areas like ETOs might be a little bit behind, some other areas might be a little bit in front but we are overall compensating inflation with pricing.

Teo Ottola: Maybe another way of taking a look at the same topic is that if we think about it from the pricing point of view, in a way year on year comparison, of course, what is relevant is that in Q1 22 we were in a way behind the curve so we had been late with certain price increases and therefore we were suffering a little bit from the net of inflation pricing challenge in Q1 22. Now like Anders we have been correcting that unit 22 in Q4 but particularly in Q1 the situation has become more normal and as a result of that pricing it is obviously a positive delta. Particularly in the Industrial Equipment business, even though we by and large we would be saying that we have been compensating inflation with pricing. However in Q1 comparison, there is a positive delta as a result of that one. Another way of taking a look at the margin development is if you try to figure out what is the impact of leverage and what is the impact of the of the other topics.

Teo Ottola: Therefore if you compare our Q1 now to the numbers that we had in Q3 last year they are actually not so far from each other. If you take a look at the sales and then you take a look at the EBITA margin, they are fairly close to each other. From that point of view one can also conclude something. Of course it is clear that the operating leverage in an year on year comparison is a big indicator. Q1 and Q2 last year were weakish from the deliveries point of view because of the component challenges, because of our own issues. Now we have been able to in a way fix many of those topics and the delivery volumes are better like we can see.

Daniela Costa: Understood. Thank you very much.

Speaker 1: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

Panu Laitinmäki: Yes. Thank you. I just wanted to ask about the fixed cost development after Q1. How do you see this developing? Any guidance on what it's like on the labor cost inflation headwind for this year, and how does it timing wise impact you?

Teo Ottola: When we take a look at the cost inflation or labor cost or salary cost in particular, we can now see for Q1 that the cost inflation is somewhat higher than what it has been previously, so in a way it is accelerating like we have been commenting. We are now somewhere at 5.5 percent in on year on year comparison. Previously we have been at five or slightly below. The expectation is that the cost inflation may still accelerate slightly, not necessarily significantly but of course then at some point in time we are already in a year on year comparison. Having comparables that are in a way very different from the inflation point of view. However, at least Q1 has seen a slight acceleration there. This is of course something whereby the idea is that we would be moving into the customer prices and I guess that from the fixed cost overall control point of view, the idea is that we will take good care of the fixed cost going forward.

Panu Laitinmäki: Okay, thanks. Secondly, just on the order intake which was pretty good. Can you kind of try to quantify or describe how much was the exceptionally large orders and how much was something else just to get an idea? Was there anything exceptional that you just happened to have in Q1?

Anders Svensson: Yes. We can comment on two things that were quite exceptional. In Industrial Equipment we had a large crane order for US Navy and that was valued at around €45 million which was a very positive contributor to the order intake in Industrial Equipment. Also at the end of the quarter we had a large order intake from Port of Savannah with 55 hybrid rubber tyred gantry cranes and that was valid around €150 million. So those two were what you could say more exceptional or bulky orders that we got in the first quarter.

Panu Laitinmäki: Okay. Thank you. Maybe a follow up, what do you see in the pipeline? Do you see a lot of very large ones and is the timing an issue or can you describe what you have there?

Anders Svensson: Yes. In the sales funnel we see it being constant in both or to some extent, sometimes growing and sometimes going down a bit, but over time being quite constant in both number of sales cases we have in there and also the total value of the portfolio. It's a good mix between large orders or large potential orders and more repeat orders of more normal size. We don't see that changing, of course with imports you don't know this order we got now, you don't know if we get the whole order, will it be given in next quarter or will it be divided in several orders over time? So it's very difficult to look forward from that perspective.

Panu Laitinmäki: Okay. Thank you.

Speaker 1: The next question comes from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen: Hi, it's Antti from SEB. Thanks for taking my questions. A couple of ones on mainly Industrial Equipment. If we look at the margin level right now, how would you describe it? Should we be a bit cautious on the development going forward? What I'm trying to get is that are you now achieving exceptionally high earnings leverage on deliveries as you are perhaps shedding some of the old backlog that has been sitting on your factory floor for some time and should we be a bit concerned that the gross margin development will ease off going into the back half of this year and into 24, not taking into account anything that happens with volumes?

Anders Svensson: There are no positive one offs like the ones we are mentioning that would stick out significantly in contributing. I would say the main contributor here is that we have a volume leverage on our fixed cost and hence getting good pull through from gross margin, not increasing our fixed costs that much, and then it's like you mentioned, it's the price compensation versus inflation that we were lacking last year. On top of that, we have some really good initiatives with optimization program within Industrial Equipment and Service that is starting to contribute. We upgraded that to where it will contribute with 40 to 50 million positive EBITA from 2025 and onwards. Some of that is already now filtering through. We had some good contribution with a couple of millions already in the first quarter here. However there is still room for improvement in Industrial Equipment. Our engineered to order products with long lead times are still not contributing positively. They are still in the reds, so there's a lot of initiatives ongoing within Industrial Equipment to enable a further growth but you shouldn't expect 900 bips going forward towards the previous year.

Antti Kansanen: Okay. That's very clear.

Teo Ottola: Like Anders said, there definitely is improvement potential going forward as well. If you take a look at these different segments in particular now regarding the Q1, and we have a typical seasonality pattern within all of those businesses. I'm not saying that one should be concerned but one can at least consider that regarding the Industrial Equipment, the Q1 was very good as a result of shedding some of the late backlog or delivering it. So the seasonality pattern is not quite as strong as it normally would be in the Industrial Equipment business in particular. Not necessarily saying that the concern would be in gross margins but just because the volume improvement in IE has been so good in Q1.

Antti Kansanen: Okay. Then if you look at your workload situation and lead times for standard cranes and components, how long are you kind of covered regarding manufacturing, and where are your lead times currently standing at roughly?

Anders Svensson: So if we start with lead time then in the Industrial Equipment, on components we normally have within one quarter, I would say that's probably more two quarters now given the high order demand. If you look at CTOs, that's normally within two quarters. I think we can do that and then ETOs is longer than two quarters generally. If you look at our on time delivery, we had difficulties with supply chains, both internal and external during the large parts of the last year. COVID related, war related, etcetera but we have now seen that improving and from October last year we have started to see on time delivery precision increasing. That's positive and at the same time, from the beginning of this year, we have also seen lead times starting to reduce and that's because we have been able to improve our supply chains, ramp up our internal capacity as well as our external capacity.

Antti Kansanen: All right. Then the very last question from me still on the industrial demand. If we exclude the one large ship grain order and perhaps a little bit about the pre-buying that you mentioned earlier, it seems that you're still up year over year, perhaps even excluding pricing. For me this is at least a bit surprising given the macro indicators. So any further color on why is the demand staying so resilient? What are your clients actually doing? What is what is strong for you guys? Any explanation on that one would be appreciated.

Anders Svensson: Well, I think we have a strong offering that we are renewing as well. We are changing some of the go to market channels etcetera, enabling us to be more focused on our on our customers, and we have a high focus on really serving our customers and being customer centric rather than more of what we have been in history, more product centric. So there is a lot of focus in the organization to really pull through and serve our customers and having the best products to do so that normally rewards you over time.

Teo Ottola: Demand has been very resilient. That is true and I guess that we can say that we have been positively surprised by the demand and order intake in general, including Industrial Equipment in this quarter as well. Customers continue to prepare for new projects, they are believing in their own future, they are they are pushing for orders and it seems to be happening quite widely. These concerns that the overall economy has like higher interest rates etcetera. It is in the discussions to some extent that it may be one of the reasons why decision making times have been getting longer but like we commented regarding the fourth quarter as well it still seems to be within the sales pipeline the case is actually continuing to move on. Which then means that the decisions are then done at the end of the day anyways. This is also like we have been discussing. It is very true regarding the short cycle products as well in longer lead time products. It's logical because you have started the preparation early on but customers do have the belief in the future even in the current situation.

Anders Svensson: Yes and the short term product was up both sequentially in year on year. I think that shows strength.

Antti Kansanen: It seems to me that you are taking a bit of market share as well. Would you agree on that?

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Anders Svensson: It's difficult to say when you're in it. We normally measure market share in hindsight but it feels like we're not losing market share at least.

Antti Kansanen: All right. Thanks.

Kiira Fröberg: Next question, please.

Speaker 1: The next question comes from Erkki Vesola from Inderes. Please go ahead.

Erkki Vesola: Hi. Erkki from Inderes. Still on the Industrial Equipment EBITA margin, Palfinger just talked about the importance of own price increases versus raw material and component price decline when they talked about their Q1 profitability rise, did you see any of that price decline in IE in your own sourcing? Where are you really in steel but in terms of own prices versus material prices? That's the first one.

Anders Svensson: You know what is what is being delivered now we bought quite a long time ago. Even though raw material prices, both in terms of steel and copper are down year on year, we didn't buy this material at this point in time, of course. So that's difficult to draw that parallel. Should it remain like this over time, that would be a positive contributor. What I would say is what we are benefiting from to some extent is probably the lower logistics cost that we are seeing currently.

Erkki Vesola: Thank you. My second question would just have been about the IE margin sustainability on what you know about your own pricing versus material pricing dynamics that you already talked about. Could you repeat?

Teo Ottola: We are quite comfortable with the order book pricing in on year on year comparison in particular because one year ago we had it in the in the order book. Deals that were with so-called old prices and now the order book is from our point of view healthier. Maybe not a significant difference to end of Q4 but in a year on year comparison the order book margins are in a better shape.

Erkki Vesola: 6 to 7 percent EBITA is not an anomaly but it's something that we could look forward to as well?

Anders Svensson: There is nothing that indicating that this should be a one off.

Erkki Vesola: Okay. Thank you so much.

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Kiira Fröberg: Next question please.

Speaker 1: The next question comes from Tomi Railo from DNB. Please go ahead.

Tomi Railo: Hello. This is Tomi from DNB. A couple of follow ups. Is it possible to try to quantify the pre-buying activity you mentioned? Is it a couple of tens of millions or is it just a millions?

Teo Ottola: No. We would rather not start quantifying that. We can deduct things from our own frontline but these are not scientifically accurate numbers. The topics that Anders was talking about, the platform changes may cause pre-buying and I think it's good to recognize that it can be there but the euro number we would be uncomfortable disclosing.

Tomi Railo: Any comment on the price increase level you did in February?

Teo Ottola: We have been increasing prices. Price increases have been lower than what they were a year ago. Increases that can be called price increases, let's put it so, are something else rather than nominal.

Tomi Railo: All right. You then mentioned that the components were really strong in the first quarter. Was there something particular big impacting that and how has it started in April, if you can comment?

Teo Ottola: Regarding the component, like in many cases, these price increase cycles may be part of the pre buying in a way and we did have price increases in the first quarter. This may have been triggering some extra buying regarding the componentry as well as some of the changes that we are doing in the product offering etcetera regarding the order intake beyond the end of the quarter. So we would rather not give the volumes.

Tomi Railo: Okay. How much was the Service agreement reclassification impacting the Service orders in the first quarter?

Teo Ottola: The overall annual volume is 300 million and what it was exactly for the first quarter. We would need to go and I would need to go back to the release that we made because there we have the quarterly changes. I do not recall the number by one 1 million or so but it can be found there.

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Tomi Railo: All right. Thanks. Final question. One of your dear competitors announced a split of the company yesterday. Have you ever considered to split Port Solutions from the company?

Anders Svensson: I'm not sure we are the right ones to answer that but that's not something that we are discussing now and there are no such discussions that we are aware of and we wish them luck.

Tomi Railo: Thank you.

Kiira Fröberg: That is the line today. We have a couple of questions through the chat function. I think that the pre buying was already covered but then there was a question on seasonality. Do we expect seasonality to be as strong in 23 as it has been in the past? I think this probably refers both to sales and profitability seasonality.

Anders Svensson: We expect maybe the seasonality to be less transparent in this year than previously.

Teo Ottola: Particularly in the Industrial Equipment but probably also on a group level because of the very good sale deliveries in the first quarter.

Kiira Fröberg: So those were all the questions for today, and just as a reminder we will host our Capital Markets Day on May 10th and the registration for the webcast is still open. If you are interested please go and register yourself for the event. Then our Q2 interim report will be issued on July 26th. Thank you all for participating and have a great day. Thank you.

Anders Svensson: Thank you.

Teo Ottola: Thank you.