

Konecranes Q2 2023 transcript

Kiira: Good morning everyone, and welcome to Konecranes Q2 Earnings Conference. My name is Kiira Fröberg, and I'm the head of Investor Relations at Konecranes. Here with me today, I have our President and CEO Anders Svensson, and our CFO, Teo Ottola. Before we start, I would kindly remind you that our presentation contains forward-looking statements. Next, Anders and Teo, will walk you through our Q2 results. Anders will start by presenting the group numbers, after which Teo will focus on our business segments. As always, we will host a Q&A in the end of the presentation. Please, Anders, now it's your turn.

Anders: Thank you very much, Kiira. Also a warm welcome from my side to this second quarter results webcast from Konecranes. I'll start with summarizing the second quarter. We say that this is a sustained, strong performance. Our orders increased on a year-on-year basis and exceeded 1 billion at almost 1.1 billion. The demand environment remained good despite the weakened economic macro indicators. We had order growth in service and in port solutions. Our sales increased 19 percent in comparable currencies. Our delivery capability continued to be as efficient as it was in the first quarter. Some deliveries were postponed by customers due to site readiness. Also our own global supply chain challenges hindered some deliveries to be made at the end of the second quarter. The strong order intake then resulted in a positive book to bill. We closed the quarter at 3.4 billion order book. The strong sales execution resulted in a record-high second-quarter comparable EBITA margin for the group at 10.8 percent.

Anders: That was mainly driven by higher sales volumes and pricing. The profitability improved in service and in industrial equipment and was close to the previous year within port solutions. As a summary, we are really happy with the sustained strong performance in the second quarter. I now walk into the macro environment and I start with some macro indicators for service and industrial equipment. You can see that the capacity utilization rate both in the EU and the US is down on a year-on-year comparison. The manufacturing PMIs, if you start with a global one, it's down for the 10th consecutive month. In EU, it's down for the 12th consecutive month in contraction. I think it was the lowest rating since May 2020. Also in the US, it was in contraction while we had an expansion in China and India. Brazil remained below the 50 mark, also in contraction. Here I normally also mention the utilization of our connected equipment at customer sites via the Truconnect.

Anders: Here we can measure the productive lifts at customer site. We can see that it's about 5 percent down from the previous year, more flat sequentially then. Then I move into the main demand driver in ports. That's the Global Container throughput index. Also here, it's down on a year-on-year comparison, but you can see sequentially it's a bit up from the first quarter. Then I move into the group order intake and we ended the quarter at 1 billion, 93 million. That's an increase then of 3.5 percent in comparable currencies. The increase was in service and in port solutions while we saw a small decrease in the industrial equipment external order intake of

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about 2 percent. We had an increase in Americas and a decrease in EMEA and APAC. Our net sales increased on a year-on-year comparison with 19 percent. We ended the quarter at 913 million. We saw an increase in all three segments and also an increase in all three regions. If we look at the segment mix, we had an increase in service of about 17 percent and in external sales for industrial equipment of 20 percent and ports of 20 percent.

Anders: In the group, we had a negative mix impact in the quarter versus the previous year. I mentioned that we had a positive book to bill in the quarter and we ended the quarter then at 3,411 million of order book. That is up then 25 percent in comparable currencies versus the previous year. We saw an increase in all three segments on a year-on-year basis. We also see here sequentially an increase of the order book of about four and one-half percent in comparable currencies. I'm moving to the group comparable EBITA. We delivered 98.3 million Euros for the quarter. That's up 61 percent then versus the second quarter in the previous year. That enabled us then to deliver a margin of 10.8 percent and that is up 300 BIPs versus the margin in the previous year. The comparable EBITA margin increased in service and industrial equipment and it decreased slightly in port solutions. The comparable EBITA increase is mainly due to the higher sales volumes and pricing.

Anders: We also saw our gross margin increase, which is not maybe a surprise since in the second quarter in the previous year we were challenging with inflation versus pricing. Now we made that up. This is a new slide that we are showing. It's to track ourselves versus our newly communicated financial targets from the Capital Markets Day in May earlier this year. Here we track the group versus comparable EBITA margin of 12 to 15 percent and then service 20 to 24 and industrial equipment eight to 10, port solutions nine to 11. We will continue to show this slide going forward so we can track where we are in terms of traction of our profitability improvements. We now look into the demand outlook for the third quarter. The worldwide demand picture remains subject to volatility and uncertainty also now going forward. Within the industrial customer segments, we basically say the same as we did for the second quarter. Our demand environment within industrial customer segment has remained good and continues on a healthy level.

Anders: This despite the weakened macro indicators and some signs of weakening in all three regions. It's the same here. We refer to some signs of weakening in decision-making time, in larger CTO projects or ETO projects, for example, but also the macro environment uncertainties that we have around the world. Otherwise, the sales funnel continue to be good and healthy within industrial side. We have the same sort of number of cases, same sort of value of the sales funnel. We also have a good influx of new cases into the funnel. Within port customers, we say that the global container throughput continues on a high level. Long-term prospects related to global container handling remains good overall. Here we are adding then a second sentence. That said, we have started to see hesitation in decision-making in the short-term among some of the port customers. Here also the sales funnel in ports is

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strong. We have all from short cyclic to more longer cyclic port cranes to projects, smaller, medium, and really large projects. They are still there in the sales funnel as the previous quarters.

Anders: What we are referring to here is that large projects are by nature lumpy. We are not foreseeing that any of those really large or mega projects will close in the coming two quarters or so. This is the reason why we added the second part here. Then moving to the full-year guidance, the net sales is expected to increase in the full year of 2023 compared to the previous year. Also the comparable EBITA margin is expected to improve in the full year of 2023 versus the previous year. Overall, we are pleased with our sustained strong performance in the second quarter. We continue to focus on cost control, sales execution, and strategy execution going forward. With that, I think I will leave to my colleague and CFO, Teo Ottola, to talk more about the financials and also the business segments. Please, Teo, go ahead.

Teo: Thank you. Thank you, Anders. This next section, we can start with the group profitability bridge so comparable EBITA bridge. When we take a look at this year's Q2 and compare that to the previous year's Q2, so we have a comparable EBITA improvement of roughly €37 million. When we take a look at the reasons for the improvement, so the first part here is the volume pricing and mix section in a way, 87 million. Pricing impact year on year is between eight and nine percent, which basically explains, say, 60 to 70 million of that 87 million bucket there. The remainder, say, 15 to 25 million is then a net of volume and mix in this first part of the bridge. Then when we take a look at the variable cost and fixed cost within this bridge, both of these are actually a combination of cost inflation as well as then, of course, the efficiency improvements that we have done throughout the year. One way of analyzing, of course, this is to take a look at the pricing impact of 60 to 70 million and compare that to these variable and fixed cost increases that are altogether 47 million.

Teo: We have a positive net of, say, close to 20 million as a result of those ones. In a way, the big picture is that if we take a look at the improvements, so the sheer volume improvement, the underlying volume improvement brings maybe a little bit more than half of the improvement of 37 million. Whereas then a little bit less than half of the improvement is due to the pricing and the efficiency improvements that we have achieved during the, let's say, last 12 months or so, if you want to take a look at it that way. Translation impact is slightly negative in a year-on-year comparison. Then next, we can take a look at the segments separately and start with service. Service order intake, 374 million Euros. That is up 4.7 percent year-on-year with comparable currencies. We had an order intake increase in field service. Parts orders were approximately flat. If we take a look at it from the region's point of view, we had increase in the Americas.

Teo: We were approximately flat in EMEA and a decrease in Asia Pacific. Then agreement base 314 million Euros. That is up 4.8 percent in a year-on-year

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comparison with comparable currencies. Then the sales number, 365 million Euros, that is a very handsome increase of 17 percent year on year with comparable currencies. There was growth both in field service and parts. We had an increase in all of the regions as well. Then good to note here that even if the order intake is growing significantly less than the sales, so sales growth is higher, still book to bill is above one, which has meant that the order book also for service has continued to go up and we have 477 million at the end of the second quarter of this year in the order book. Comparable EBITA is very good, 71 million Euros, that is 19.5 percent of sales. The reasons are, of course, the underlying volume improvement. The higher sales even net with inflation. Then, of course, the combination of pricing and our own internal efficiencies as discussed already in connection with the group EBITA bridge as well and gross margin improved as well in a year-on-year comparison.

Teo: Industrial equipment is next. Our order intake 348 million Euros. That is down 8 percent comparable currencies year-on-year. However, if we take a look at the external orders which may be more tells about the industrial equipment demand as such, that is down only 2 percent year-on-year with comparable currencies. When we take a look at the year-on-year change, so we have a decrease in components. We have a decrease in process cranes, but we have an increase in standard cranes from the order intake point of view. Regionally, Americas did well. There is an increase, but we have a decrease both in EMEA and APAC. Then when we take a look at the sequential development within the order intake, so Q1 of this year was obviously very good for industrial equipment. Our order intake is basically down in all of the BUs from Q1 to Q2, even though if we take a look at the standard cranes, one could maybe be able to say that they are more or less on the same level between Q1 and Q2.

Teo: Net sales were 330 million Euros. That is 23 percent up year-on-year comparable currencies, external sales up almost 20 percent in a year-on-year comparison. There was increase in basically all of the BUs. There was increase in all of the regions as well. Here also order book is slightly higher than what it was a year ago. Of course, one has to remember that we sold the industrial product business during the second quarter. Of course, part of the order book was moved to the buyer as a result of that deal. Small technical change there as well. Then when we take a look at the EBITA, so that was 18 million Euros or 5.4 percent very good improvement year on year, which is basically for the same reasons as in service as well. The underlying sales volume is significantly higher at the same time. Then, of course, the combination of pricing and our own optimization programs are improving the result.

Teo: Like Anders already mentioned, particularly the second quarter of last year was still suffering quite a bit from the pricing issues. We had been late with certain price increases earlier. Now that this has been corrected, gross margin has increased. It is of course visible in the EBITA as well. We have a small sequential decline in the margin from Q1 to Q2. Good to remember that in the sales, we have actually the last

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delivery crane delivery to Russia, which is from the accounting point of view, profitable in the second quarter. The corresponding losses one year ago were booked in adjustments. Now also the profit is in items affecting comparability. It's not visible in comparable EBITA, whereas sales is included. This, of course, dilutes the margin to a certain extent. Port solutions order intake on a very good level 420 million Euros. That is an improvement of 5.7 percent year-on-year of the regions increase in the Americas, decline in EMEA and APAC.

Teo: If we take a look at the year-on-year comparison by business units. Lift trucks are down, but then when we take a look at, for example, port cranes and solutions, so these have actually been doing well in year-on-year comparison. Then I guess maybe sequentially taking a look at this as well, Q1, of course, was a very good order intake quarter for ports as well. Maybe worth just noting regarding Q1 and Q2, so that also sequentially lift truck orders declined. Net sales were 278 million Euros. That is an increase of almost 20 percent in a year-on-year comparison. It could have been actually even more. We had a little bit of timing issues towards the end of the second quarter. Some deliveries slipping to the next quarter, but a good improvement there as well. Then, of course, the order book at a very high-level book to bill has been tremendously above one all the time. We are almost at two billion order book at the end of the second quarter, comparable EBITA here also actually 18 million Euros, 6.6 percent margin. The EBITA margin has a slight decline in year-on-year comparison.

Teo: This is primarily as a result of product mix. We have very different product mix from the deliveries point of view now than what we had a year ago. It also impacts our gross margin, which is on a lower level than what it was a year ago. Then a couple of comments on the cash flow and balance sheet before we go into the Q&A. Net working capital and free cash flow here. Net working capital was 424 million Euros. That is 11.4 percent of rolling 12-month sales. It is below 12 percent. We have given 12 percent as our new target level to be below that. We are just barely there. Also, the relation is better than what it was a year ago and better than it was at the end of Q1. We are definitely going in the right direction. Worth noting is that the inventories have continued to go up during this year, particularly or specifically work in progress that is as a result of book-to-bill having been as good as it has been. The advance payments from customers have compensated for that from the net working capital point of view and also from the cash flow point of view.

Teo: Free cash flow has continued to be good in the second quarter as in Q1 as well on a relatively similar level. The reasons are also the same, improving profitability and then let's say neutral to beneficial net working capital development during the whole of '23 so far. Then gearing and return on capital employed, net debt was 620 million at the end of the quarter. We did pay dividends during the second quarter. Gearing 43 percent, a good level for us. Then of course, when we take a look at the return on capital employed, so this has now developed very positively during Q1 and Q2. Not because of lower capital tied as a result of the inventory as discussed, but as

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a result of the profitability improvement that we have been able to achieve. This is actually the last slide of the presentation. Now we can move into the Q&A.

Kiira: Thank you, Teo. Like Teo said, now it's time for the Q&A. Questions can be asked either by telephone or by sending them to us through chat. Maybe we try to open the line and see if we have any questions by telephone. Please, Operator, go ahead.

Operator: 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 Moyo Adebayo from Goldman Sachs. Please go ahead.

Moyo: I've just got one this morning. I was just wondering what you're seeing in terms of pricing carryover for the second half of this year. Thank you.

Teo: I'm not 100% sure if I know what you mean with pricing carryover but if we take a look at the pricing environment, in general, so we can maybe note now that when we are discussing the P&L impact for the second quarter. The pricing impact was eight to nine percent. In Q1 of this year, it was about 10 percent. The year-on-year pricing impact from the inflation point of view, of course, is trending downwards. This is something, in a way, it may be worth noting. If we then take a look at the, let's say, specific positive impact that we have been receiving from the pricing, particularly regarding industrial equipment. It is so that the impact has been large now in Q1 and Q2. The positive year-on-year impact, because we have corrected the prices to be on the correct level from our point of view. Of course, that impact will be less in year-on-year comparison in Q3 and Q4 than what it has been in Q1 and Q2. There will be some impact still, at least in Q3 from the industrial equipment point of view.

Teo: Otherwise, one can maybe say so that when we take a look at the overall level, so we have been able to compensate for inflation in pricing. We believe that we will continue to be able to compensate inflation with pricing across all of the segments. The order book margins from the pricing point of view that we have, they are from our point of view on an okay level.

Moyo: Very clear. Thank you.

Kiira: Maybe next question then, please, Operator.

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

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Antti: Hello, It's Antti from SEB. A couple of questions on your profitability. If we start with services and as you highlighted, you are now very close to the bottom end of your target range. On the CMD, this was a business that was mandated to grow. If we think about margin progression going forward, do you expect to start to add more fixed cost into the business, invest a more into the growth because you are now very close to a profitability level that you are satisfied right now? How should we think about that?

Anders: Thanks, Antti. In service, we had a really strong profitability quarter. Service is really a volume business. When we get volume, we get really good leverage. If you compare them to what we had in the second quarter in the previous year, that was a low-volume quarter. It really obvious in the result also in last year that it was only 15.5 I think. We are mandating service to grow already now because that will be a profitable growth to take us towards the profitability range that we are looking to achieve within that business. I wouldn't say that you need to add a lot of fixed cost into that business because now we have invested in tools and all the support systems and structures for the service organization. Now, it's more to invest more in COGS and get more people on the ground to help us to grow that business going forward.

Antti: That's very clear. Then perhaps secondly on industrial equipment and ports and again, reflecting to the CMD message then, and if we believe the leading indicators and assume that there's a bit of a downturn coming in. If you think about the actions that are you doing, what type of actions do you have in place or are now implementing that would allow you to grow your margins if you don't get the benefits of strong volumes and strong earnings leverage going into, let's say, next year and the year beyond that? Could you maybe open up about the things that you are doing to protect the bottom margin of those businesses?

Anders: We have the industrial transformation or optimization program that we communicated about earlier where we simplify the go-to-market models, the product platforms, the way we handover between different teams, et cetera. All of this is made to increase productivity, to increase the customer perception of our services and our products. We have a lot of things ongoing that will help us to be more productive and more efficient. At the same time, we shouldn't forget that in the last, I think eight quarters or so, I think the order intake has been larger than sales in all but one of those quarters. Still also in this quarter, the order intake was larger than sales. We are not in a situation where we are seeing a huge volume drop or so. We also, as I communicate, are seeing quite strong sales funnel within the industrial equipment side. Should something happen that we would see a more steep decline, we have contingency plans in place that we will launch in those cases, but we are not seeing that at the moment.

Antti: Then the last question from me is regarding demand, and I guess both end

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markets, but notably on industrial. You had a fairly stable development right now and have been on a good level. As you mentioned, the macro indicators are weakening. What are you seeing from your clients? In Europe, the process industry looks quite weak. If you look at the headlines, but then your client seems to be continuing to order. Could you maybe open up what's your views on the stable demand picture that you are now seeing?

Anders: In the industrial equipment side, we are serving very many different customer verticals. Even if general engineering or general manufacturing would be weaker to some extent, which might very well be true. We still serve many other segments that are much stronger, so waste to energy, metal, pulp, and paper, wind energy, et cetera, which are all quite strong at the moment. That's the benefit with industrial equipment. We have such a broad customer base that we work with within different sectors. We're not so dependent on one specific sector. Like I said, we see in our sales funnel the number of cases is constant with what we have seen in previous quarters. Also, the value of the sales funnel is also constant versus the previous quarters. We also see a good influx of new cases into the sales funnel. Where we see the weakness is still on longer decision-making time on larger projects like ETOs and really big CTOs.

Antti: Thanks so much.

Anders: Thank you.

Kiira: Thank you. Next question, please, from the line.

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

Panu: Thank you. I have three questions. Firstly, coming back to the services margin, what are your thoughts sequentially going forward on the services margin? If I look at your comments, it seems that the field service demand grew, but spare parts are not. Then I guess there is salary inflation that is coming through. Do you expect the margin to kind of increase near term? What are your thoughts on this?

Anders: Like we mentioned, we see that the service is really a volume business. When we add volume, we get a very good leverage on that volume in terms of profitability. You're right, it was mainly field service that grew. Still you see the effect when we have field service growing as well. It really helps our margin to improve. We had nothing one-off positive or anything in the quarter within service. We don't see any reason why we shouldn't continue to grow this business as we target to do and with that to improve our profitability also going forward.

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Panu: The mix change is not a huge headwind going forward?

Anders: Of course, we want our spare parts to grow as well, but that goes normally more together with the factors like capacity utilization in manufacturing and the number of productive moves, et cetera. Those are more connected to spare parts. There it's difficult not to follow the market trends. Of course, we will still aim to take market shares as we communicated also in a Capital Markets Day. We also have equivalent parts for other brands. We can also, like Fabio talked about, going to take market shares from that perspective. Our ambition is, of course, to continue to take market shares as well.

Teo: Sorry. Maybe regarding the mix within the service business. If we compare Q2 to last year's Q2, maybe we had a slightly better mix now, which may explain something of the profitability improvement that we saw now in a year-on-year comparison. When we take a look at the overall situation and the order intake now during the second quarter and its impact to the mix going forward as you were asking, of course, mix has an impact. In service, typically it is not so big that it would be in a way somehow mitigating the impact of the underlying volume development. It's nevertheless so that the underlying volume development within service is the one that brings the leverage. Mix is a factor, but not as much as it would be in the industrial equipment and port solutions. The order intake mix that we had in Q2 does not by itself have a huge impact on the margin going forward.

Panu: Thank you. Secondly, on your delivery capacity in the port solutions, you have had high book to bill for a while. Just to try to model your revenues, I mean, how much can you kind of deliver on a single quarter going forward? There has been some volatility in the past quarters.

Anders: We are targeting, of course, to grow our delivery capabilities. We are working on lift trucks to improve our delivery times to customers, of course. We normally should be at one quarter. As we communicated, we are three to four quarters rather now. Here we are really ramping up our capacity to serve our customers better. Then on the larger project deliveries, those are not so much that we don't have capacity. Those are also placed long before the customer actually wants the deliveries. We saw one example that they mentioned also in this quarter where a customer asked us to delay the delivery into the third quarter because they were not ready at the site with the preparations like electricity, et cetera. There is a combination here of ramping up our own capacity, ramping up our supply chain capacity, mainly then related to electronic components, et cetera, which is also impacting, I guess other industries than us. Then to ensure that our customers are then ready to receive our deliveries.

Panu: Thank you. My final question is on competition and pricing of new orders.

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Basically the question is that have you seen more or increasing price pressure in the new orders that you are taking in?

Anders: I would say a combination. We have had great acceptance from our customers on pricing. They understand that we can't absorb the inflation. They do the same in their turn to their customers. That's how the chain goes. We are not trying to squeeze more margin out of our customers due to pricing than what we had before. We are trying to compensate inflation with pricing. We see in some areas that the pricing competition is increasing. I would say that's primarily then APAC region is more hit than other regions. In general, pricing has not been a big issue so far.

Panu: Thank you. That's all for me.

Kiira: Let's take the next question from the line, please.

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

Tomi: Tomi from DNB. I have a couple of questions, starting with the supply chain issues, if you could comment, where do you see those still impacting mostly the deliveries? Is it ports? Is it the industrial equipment side? Start by that, I'll get one by one.

Anders: I would say our supply chain situation has improved basically since mid-last year. It continuously improves. Now we see that in Q2, for us, it was on a similar level as Q1. But going forward, we expect this to further improve. The supply chains are, however, still fragile. It's in several areas. I would say electrical components is one area. Then logistics can sometimes be still one area. We had some ships that were delayed in the end of the quarter, for example. There are still things, but I wouldn't say there's one particular thing that we can mention is the main issue. It's much better than it was 12 months ago. We forecast that it will continue to improve further.

Teo: Maybe one way to, in a way, give color on that one also would be regarding the ports business, first of all, like we now discussed regarding Q2. These are mostly timing topics, so that customer is not ready or shipping is not ready or something like that. It's a timing issue rather than that we would be missing a component as such. Then when we take a look at the industrial equipment area. The situation is tremendously better than a year ago. That's clear like Anders said. We have certain product categories where the lead times from our point of view and from the customers' point of view are longer than what we would like them to be. This is maybe an indication of the supply chain not being in a way fully normalized from the point of view that we will need to wait longer, that we get the components. Then in a

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way, the reliability is better, but the time to delivery is still long in certain product categories. This is maybe a way to, in a way to describe the current situation.

Teo: Then the fragility, what we are talking about is then maybe also related to that. If there are sudden shocks in the supply chain, so it can have an impact because still we have a lot of inventory, but we do not necessarily have a lot of spare inventory regarding the critical component because of some of the availability topics that are still there. All in all, the situation is much better than what it was, say, a year ago.

Tomi: Thanks for the color. Then you mentioned this one customer delay to the third quarter. Is it really one specific customer? You said site issues. Maybe on top of the question, have you seen customers or suppliers being financially distressed or anything on that front?

Anders: In that specific case that we mentioned is actually one customer with a fairly large delivery where the customer was not ready with electric installations at the site. We have agreed to delay the delivery for that within ports.

Teo: We have not really seen, let's say, that kind of, let's say, financial stress impacting our customers directly. Of course, everybody is talking about higher interest rates and the, let's say, challenges in funding from that point of view. If we take a look at the postponements, so there are not more than they would say normally be. If we take a look at the credit losses, they are on the same level as they were a year ago. We are maybe a bit more prepared than at the end of the year from the, let's say, provisions point of view. The difference is definitely not big, but anyway, it's a little bit. It's not something that would be clearly visible, at least not so far.

Tomi: No cancellations?

Teo: Cancellations, yes but no, other than, let's say, normal level one would say so. Individual cancellations, yes. Particularly in products that are, let's say, productized products where the advance payment situation is such that there are not that many advanced payments. Then, of course, we can also sell the equipment to somebody else. It's a business model question. There are always some cancellations, but they haven't exploded in any way. It's the normal way of operating from that point of view.

Tomi: I'm still on board, if I may know. Obviously fairly steady first and second quarter sales, site issue of one customer. Can you comment in any way second half deliveries timing, is it more third or fourth quarter tilted, and then maybe the order book quality for the remainder of the year?

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Teo: Order book quality from our point of view is quite okay as already said. From the margins point, we are comfortable with the level that we have. I would not maybe rather go into the, let's say, quarterly forecasting from that point of view. Kiira is nodding not to go there. Of course, what we can repeat is what we have been saying earlier. It is that as the beginning of last year was challenging from the deliveries point of view, and now we have been able to catch up during this year. Even if there is seasonality this year, so the seasonality is much more modest than what it would be in normal year. Of course, this is something that we can see between Q1 and Q2 already, so that the seasonality between those two quarters is not very strong. We are not saying that there wouldn't be seasonality, but it is maybe not as strong as it usually would be.

Tomi: Maybe on that front also for the group level, I know no quarterly guidance is, but your margin has, of course, improved substantially 350 basis points for the first half. Do you see that the margin can still improve in the second half year-on-year or have we seen that improvement for now?

Kiira: Tomi, before the gentlemen answer, we have a couple of callers waiting for more questions. This is then your last question, please.

Anders: We mentioned already previously that the first half in 2022 was quite weak from two perspectives. One was supply chain issues and challenges enabled us not to have the sales execution that we wanted to have. The second one was then the gap between inflation and pricing. Like Teo mentioned, we have compensated for the pricing situation. The delivery situation is much better than it was 12 months ago. We saw that difference then in the first half of the year. We don't expect to see the same difference in the second half of the year because the second half of previous year was a much stronger one than the first half.

Tomi: Thank you.

Kiira: Thank you. Next caller, please.

Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

Tom: Tom Skogman from Carnegie. I have three questions. First, on price hikes and order dynamics, I think you had the last price hikes in March. Was there an element of pre-buying in Q1 that hurt Q2 orders somewhat? Especially this dynamic with you selling components to other crane builders in this part.

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Teo: Most likely, yes. Most likely, yes. There was to some extent that in Q1.

Anders: You had then the opposite situation than in the previous year where we had the price hike in the second quarter of 2022. You probably then had the situation in Q2 last year.

Tom: [inaudible] of the situation with the crane builders. Now that by components, they have normal inventory sources.

Teo: Sorry, I didn't hear what you said.

Kiira: He asked about the crane builders that the situation is normal when placing orders for components. That I think was the question.

Anders: We don't have any dramatic price increases done in the second quarter for components for crane builders. So that situation is more normalized this year than it was maybe in the second quarter in the previous year.

Tom: My second question is about Near-shoring and the US IRA initiative. Do you see any direct links to your orders from these two phenomenon?

Anders: We think it's maybe a little bit early. There's a lot of talks. Of course, we see initiatives to some extent. For us, the impact is extremely small, I would say so far. I think it's more planning in many instances than it is actual actions so far. So I wouldn't say that that impacts us to a specific extent currently.

Tom: Then I would like to get an update on the savings you have in industrial cranes and services that when you combine them, what was the savings this quarter and the number of employees that can see now is down 5 percent year-on-year in industrial equipment? Will that continue down in coming quarters despite the still healthy demand situation?

Teo: When we take a look at the overall impact of the optimization savings program, so we saw some, let's say, millions of euros in benefits in Q1. I guess that one can maybe say that we have added some millions on the level that we had for the Q1, but we are not really talking about a massive amount of benefits yet. It is part of these efficiencies that we have been talking about, particularly regarding industrial equipment to some extent also for service. The program is ongoing and it is according to the plan and we are in a way getting additional benefits from one quarter to another one.

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Anders: I think the reduction in people that you mentioned is then primarily related to the divestment of the IPD business as we communicated in April. The reduction from 16,600 people to 16,300 people is mainly related to that.

Tom: Can you just help us to understand from a P&L perspective, and you build an EBIT bridge, what are the savings this year and what will they be next year from a P&L perspective? What is your best understanding now?

Teo: We haven't so far shared the, let's say, timing on an annual or quarterly basis. We are only giving in a way the backline for that one by which year. Of course, I mean feedback received. We will consider how to do it going forward. At the moment, we do not have an exact plan to give you.

Tom: Thank you.

Kiira: Thank you. Then next question from the line, please.

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

Erkki: Hi, guys. It's Erkki from Inderes. A couple of questions. First, could you provide us with a ballpark figure for the pricing impact on your second-half sales? What you see in your current order book.

Teo: Sorry, can you repeat, the surprising impact of?

Erkki: Of your second half sales this year. Based on your current order book, how many percent will that be?

Teo: That is an excellent question. I'm afraid that we are not going to give an exact answer to that one. I think that when we take a look at the pricing impact overall, like I said, Q1 was about 10 percent. Q2 was something between eight and nine. The impact will most likely be lower during the second half, but exactly which percentage it will be - we will rather not share our view on that one. I'm not denying that we would not have a view, but we do not feel comfortable in sharing that at this point of time. It will be going down but how much is the question.

Erkki: Then almost linked to this, your material inflation, salary inflation trends for the

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second half, will the material cost and salary cost share of sales - will they evolve in either direction?

Teo: Now that we take a look at the material inflation. So it has maybe unsurprisingly been moving quite much in line with the pricing. If we have gone from, let's say, 10 percent to eight to nine, so you can see a corresponding decline in the material inflation. Salaries and wages inflation is much more stable. There we have been talking about 5 percent or more. Maybe from the Q1 to Q2, there was not a significant increase in salary inflation, which is obviously a good thing. We are roughly on the same level as we were in Q1. The overall, of course, view is that the material inflation would be coming quite a lot down going forward, whereas then the salaries and wages inflation would remain flattish or maybe even go up a little bit. These are working in probably in opposite directions to some extent.

Erkki: Then finally, your net financials were pretty high in the second quarter. Could you open up what was the part of net Forex and then other non-interest financials and how the coming quarters look like? Should we model in any extras also in Q3, Q4.

Teo: The net Forex is primarily Swedish crown. It is the order book that we have in primarily in lift trucks, which is very sizable one. The Swedish Crown has been moving in the direction that it has generated a net negative in the financials. We are not applying hedge accounting in that business. That's why it is in the so-called normal P&L from that point of view. Then of course, when the equipment is delivered, it will be in a way moving from one place to another one compensating then the improved margin in the operation. That's the way that it works. The year-to-date impact of that one, it's not 10 million, but it's close to 10 million. Say nine million that we are having in the net FX as a result of that one. The overall financial items have increased maybe by 14 million year to date.

Teo: Then if you compare to nine to the 14, the rest is then interest. Interest increase as a result of the higher interest rates that we have now had as a result of the interest rate hikes. The overall 10 to 15 million higher cost as a result of our debt burden is still in a way valid for the whole year. Your question is that can we forecast the FX. Unfortunately, no. It is depending on where the FX rates then move.

Erkki: Thank you so much.

Kiira: Thank you, Erkki. Hey, we have a couple of questions through the chat function. Maybe we should take them now. The first one is on the heavy industrial cranes margin. I think referring to process crane margin. Can you break out the margin in the heavy industrial cranes? Is that a significant driver of margin improvement in this business segment?

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Teo: No, not really. I think if we take a look at the margin improvement, it is primarily elsewhere in the business. That is, of course, but probably primarily as a result of the timing in a way. When we make changes in the pricing or in the operations, so the lead time from action to improvement is shorter in components and standard cranes than what it is in the process cranes. The overall lead time from the process crane point of view is longer. That's why primarily the improvement is in the shorter cycle parts of the business.

Kiira: Then we had a question on Cargotec. What is the situation with Cargotec? Maybe I can cover this one. There isn't really a situation with Cargotec. The planned merger was canceled already in March last year due to the UK CMA blocking the merger. If you have any Cargotec-related questions, they should probably be directed to Cargotec's IR team. Then we have a question on orders in ports. Your ports orders have exceeded sales in port solutions for the seventh consecutive quarter. How long do you expect this to continue?

Anders: That's a good question. What we are saying now in the updated demand forecast is that we see some hesitation in the short term on closing the larger projects that we have seen in the past couple of quarters. Basically, we got one of those mega orders per quarter. We don't see that now coming in the next two quarters or so. As I mentioned, they are still in the funnel, but we don't see them closing in the next two quarters or so. Let's see, I think we still have a good demand picture as we mentioned, in all the areas. We are working hard on ramping up our delivery capabilities. As I mentioned, both in our internal manufacturing capacity, in our supply chains, and in our outsourcing partners' capacity to really improve our delivery capability to service our customer in a better way with shorter lead times, et cetera. It's an impossible question to answer, but we are doing what we can to improve our delivery capabilities.

Kiira: Then I understand we still have one more question in the line. Please, Operator, let's take the one last question.

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

Antti: Thanks for the follow-up question opportunity. It was actually a question on your ports backlog, which is obviously substantially up year over year. As you mentioned, you have had this kind of a large project order in there with a very long delivery time. Is there any way to communicate what kind of the backlog increase is for, let's say, next year's deliveries versus what it was last year or one year forward or talk a little bit about how long the backlog is today, what it was perhaps a year ago?

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Anders: Thanks, Antti. We don't do that on a quarterly basis. We do that I think, once a year in the annual report, but we don't do it on a quarterly basis.

Antti: I'd assume that it's not only inflation and longer delivery times that has caused the backlog to increase, that there's also quite substantial growth, if you think about your revenue recognition for next year.

Anders: No, absolutely.

Antti: The volume, let's say impact.

Anders: It's a substantial volume impact in the order intake in the backlog.

Teo: Maybe, again, if one thinks about the additional color regarding this order book. Of course, when we take a look at the delta between now and the last year, of course, it is primarily ports as you, I think pointed out. There is an improvement in service and industrial equipment as well. It's maybe tens of millions. If you take a look at the ports, it's hundreds of millions. I think that's quite right. If we take a look at the split of that order book, how much is for this year in a year-on-year comparison how much is for the next year in a year-on-year comparison? Of course, the vast majority of the increase in the order book is for next year. In a way from that point of view, it will be supporting port sales next year.

Antti: Perfect. Then I'll squeeze in the last question. This is mainly, I guess, on industrial equipment. You mentioned supply chain issues are easing up. Most likely your lead times are or delivery capabilities improving. Prices are not coming up anymore. Are your customers in a wait-and-see mode, some of them waiting for your lead times to shorten and getting back to normal order patterns, not the extraordinary high long delivery times as we saw last year and so forth? Any hesitancy from that front?

Anders: No, I don't think there's any hesitant from our customers in that perspective. We have improved our lead times basically since end of last year quite significantly in some parts. Of course, still on components, maybe we are one quarter more than we would like to be normally within one quarter. Maybe from a component side, it's a little bit longer lead time than normal. I think CTOs or standard cranes are back to normal lead times. I think the process cranes are also back to normal times, basically.

Antti: Great. Thanks.

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Kiira: Thank you, Antti. Hey, we are already on over time, so thank you for all the questions and both through line and then also in the chat function. As a reminder, Q3 interim report comes out on October 25 and we will then meet by latest then. Now it's time to thank you all and have a great day and summer everyone. Thanks.

Anders: Thanks. Bye.

Teo: Thank you. Thank you very much. Bye-bye.