Konecranes Q3 2023 transcript

00:00:01 - 00:00:47
Kiira: Good morning, everyone, and welcome to Konecranes' 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 the usual kind reminder, this presentation contains forward-looking statements. Next, Anders and Teo will walk you through our Q3 earnings. Anders will start by presenting the group results, after which Teo will focus on our business segments. The presentation is followed by Q&A as always. Please, Anders, with that the stage is yours.

00:00:48 - 00:01:57
Anders: Thank you, Kiira. A warm welcome also from my side to this webcast for the third quarter report of 2023 for Konecranes. We headline the quarter as all-time high quarterly comparable EBITA margin. We had a strong performance in the third quarter. The demand environment remained good despite the order decline. Orders declined 18.7 percent year-on-year in comparable currencies. Port Solutions were impacted by timing of larger projects, the mega orders that we have discussed previously, and also customer decision-making. Orders grew within both Service and Industrial Equipment in comparable currencies year-on-year. Sales exceeded 1 billion and were plus 18.3 percent year-on-year in comparable currencies. Our delivery capability continued good as in the previous quarters. We had an all-time high comparable EBITA margin of 12.3 percent for the quarter. This was primarily driven by higher sales volumes, but also supported by pricing.

00:01:58 - 00:03:20
Anders: Our profitability improved in all three segments. We ended the quarter with a strong order book of almost 3.3 billion and that was up 12 percent versus the previous year. Next, I will talk a little bit about the market environment and I'll start with the Service and Industrial Equipment. Here, we can see that the capacity utilization rate in the EU dropped both sequentially and year-on-year, while in the US the capacity utilization rate for manufacturing was sequentially flat while it dropped on a year-on-year comparison. If we look at the manufacturing PMIs, we can see that in Europe or the EU zone, it remained at a weak level of 43.5. Both in the world and in the US it improved quarter on quarter but was still in contraction just below the 50 mark. In the emerging economies, we saw that India was clearly strong in expansion above 50, while China was just above the 50 mark and Brazil was signaling still contraction just below the 50 mark. Here we also mention sometimes our Truconnect connected equipment, for the industrial equipment and hoists.

00:03:20 – 00:04:46
Anders: Here we have a decline similar levels as in the previous quarter of five to 10 percent versus the previous year. Then next we move into Port Solutions. Here the key demand driver for our customers is the Container Throughput Index. It was really strong for the quarter and it ended at plus one percent year-on-year and also sequentially up. That signals a strong development. We're moving into our financials and I start with our group order intake. We ended the quarter at 853 million and that was a decline of 18.7 percent year-on-year in comparable currencies. We saw an increase in all three segments in reported rates. If we're doing comparable rates, we saw an increase in Service and Industrial Equipment while it decreased in Port Solutions. In the different geographies, we saw a decrease in all geographies, but APAC was the strongest geography, followed by the Americas. When it comes to net sales, we ended the quarter at 1 billion 5 million and it was up 18.3 percent in comparable currencies versus the previous year. We saw an increase in all three segments, and also an increase in all three regions where America was the strongest, followed by APAC.

00:04:50 - 00:06:09
Anders: At the end of the quarter, our group order book was still very strong, almost 3.3 billion. It was an increase on a year-on-year basis of 12 percent in comparable currencies. However, as you can see sequentially, it was down versus the previous quarter. We saw an increase in Port Solutions' year-on-year and a decrease in Service and Industrial Equipment. However, if you look again at comparable currencies, we actually had an increase in all three segments. Next, we look at our group's comparable EBITA margin. First, we look at the EBITA, and it was 123.2 million for the quarter, and that was up almost 30 percent versus the previous year. That gave us a nice margin expansion of 150 bips. We ended the quarter with a record-high 12.3 percent margin. We saw an increase in all three segments and the increase was mainly attributable to higher sales volumes, but

also to pricing. The gross margin stayed approximately unchanged versus the previous year. For the group, we had a negative segment mix given the strength we saw in Port Solutions.

00:06:12 - 00:07:35
Anders: Next, we look into how we progress towards Konecranes' financial targets that we communicated during the Capital Markets Day earlier this year. For the group, we have a target of 12 to 15 percent comparable EBITA margin, and with our strong 12.3 percent in the third quarter, we inched closer. Now on a rolling 12-month basis, we are at 11.3 percent for the group. In Service, we saw that for the first time on a rolling 12-month basis, we are within our EBITA range of 20 to 24 with a 20.1. It doesn't mean that we are stable within this range yet, but it's nice to see the development from the Service team. In Industrial Equipment, we also had a strong quarter at 7.1 percent, and that made us move closer to our EBITA corridor also here of eight to 10 percent, with a 6.3 percent on the rolling 12 basis. In Port Solutions, also here we had a strong third quarter at 8.3 percent, which inched us closer to our range of nine to 11 and we are now on a rolling 12-month basis at 7.1. We're moving to the demand outlook and within our industrial customer segments

00:07:35 - 00:08:50
Anders: we say the same and it's applicable for all the regions. Our demand environment within industrial customer segments has remained good and continues on a healthy level despite the weakened global macro indicators and some signs of weakening within all three regions. Here we refer to mainly customer decision-making process and the timing of that. Our sales funnel within the industrial segment remains very strong. It's both in terms of the number of cases, and in terms of value of the whole sales funnel, but also a strong influx of new cases into the funnel. Within Port customers, we say that global container throughput continues on a high level, and the long-term prospect related to global container handling remains good overall. If we look at our sales funnel here, it is still very strong, both in short cyclic products, in port cranes, and in projects of all sizes. To give some more flavor or color to this, in Q3 we think we had the trough in terms of order intake.

00:08:50 - 00:10:15
Anders: We already previously announced that we don't see any of the mega projects being closed within the third quarter, and the medium projects with 20 to 60 million size level, can close either earlier than we expect or on time when we expect it or later than we expected. We had some projects closing early, so we got that order intake already in the second quarter. Now for Q4, that can also happen again but we repeat that we believe that Q3 was the trough in terms of port's order intake. Then I move to our financial guidance for the full year of 2023. We expect net sales to increase in the full year of 2023 compared to 2022, and the comparable EBITA margin is also expected to improve in the full year of 2023 from 2022. Our focus going forward, remains on delivering on our sales execution, but also to be aware of our cost levels and really manage our cost going forward so that we can ensure that we continue to deliver on our financial targets. With that, I will ask our CFO, Teo Ottola, to come up and talk more about our financial numbers. Go ahead, Teo.

00:10:15 - 00:11:43
Teo: Thank you, Anders. Before actually going into the financial numbers for the business segments, let's take a brief look at the group comparable EBITA Bridge. The Q3, 23 to Q3, 22 profit improvement was 28 million Euros in comparable EBITA. In the big picture, the improvement comes from an improvement in the underlying volume as well as net of inflation pricing impact. Then when we take a look at this picture, we can note that the fixed costs are actually or continue to grow only moderately in a year-on-year comparison. This means that it's not really much more than the inflation, which basically means that the operating leverage from the volume improvement comes pretty nicely into our profitability. Actually, if you take a look at this bridge and compare it to the bridge that we had one quarter ago, Q2 versus Q2, it looks very similar. From that point of view, on a group level, the year-on-year improvement in Q3 resembles very much that of Q2. There are differences of course as well. This time the EBITA improvement is 28 million, one quarter ago it was 37 million.

00:11:43 - 00:13:09
Teo: Another point that is worth mentioning here is that in Q2, profit improvement was more or less equally coming from price increases and volume. This time we are more getting it from the volume point of view. This is logical because if you think about last year, Q2 had issues with pricing. Q3 last year was better from that point of view and as a result of that, it is balancing also from the bridge point of view. The pricing impact now Q3, in a year-on-year comparison on a group level numbers are

somewhere between seven and eight percent when it was eight to 9 percent one-quarter ago. Then we can move into the segments and start with Service as usual. Service order intake 360 million Euros. That is a small decline in reported currencies and a small increase in comparable currencies as Anders already mentioned. We had a decrease in Field Service and Parts orders in both of those. We had a decrease in the Americas and APAC of the regions, however an increase in EMEA. These numbers are now with reported currency. If we take a look at comparable currencies, Americas actually had a year-on-year improvement.

00:13:09 - 00:14:35
Teo: Agreement base 321 million Euros. That is an increase of six percent year-on-year with comparable currencies. Sales 369 million Euros, a very good achievement from the delivery point of view, 11.5 percent higher than a year ago in comparable currencies. A very good increase there. We had an increase in field service and parts. We had increase in basically all of the regions. Order book continues to be on a good level. It's slightly below last year's level, but still, when we take a look at the Service business in general, so for the Service business, this order book of more than 470 million is a very high level. Comparable EBITA, excellent achievement there, 20.9 percent. 1.3 percentage point improvement year-on-year. In Service the improvement comes from higher sales volumes, so the underlying volume is better as a result of the higher sales. Also from pricing to some extent, gross margin increased in a year-on-year comparison. Then moving on to Industrial Equipment, the order intake was 325 million Euros. Like in Service, it's a small decline in reported currencies and a small increase in comparable currencies.

00:14:35 - 00:15:52
Teo: When we take a look at the external orders in comparable currencies, those were up 3.7 percent. We had an increase in components in a year-on-year comparison, that is also standard cranes, we were approximately flat in process cranes. Of the regions, increase in the Americas, whereas a decrease in EMEA and APAC. When we take a look at the sequential comparison by business units. We were down both in components as well as in standard cranes, slightly up in process cranes. Sales 324 million Euros that also as in Service, so also a good delivery capability here as well. 8.6 percent increase in comparable currencies, increase in standard cranes and components, but lower sales in process cranes than a year ago. This improves our mix from the margin point of view-.Of the regions, increase in EMEA, and decrease in the Americas as well as in APAC. Comparable EBITA, a very nice improvement. We reached 7.1 percent, in the quarter it's an improvement of more than three percentage points in a year-on-year comparison.

00:15:52 - 00:17:07
Teo: This one actually comes quite a bit from pricing. There is a volume increase, but that's primarily a result of the pricing as well as a positive sales mix as already mentioned because of the structure of the business this time. Also, the optimization program that we have been having within the industrial businesses is yielding results. As a result of that, cost control has been very good when we take a look at the year-on-year comparison for Industrial Equipment. Unsurprisingly, gross margin increased in a year-on-year comparison as well. Then Port Solutions' order intake of 232 million Euros, like already discussed earlier in the call was 49 percent decrease in comparison to the previous numbers. Of the regions, we had a decrease in Americas and EMEA. We had an increase in Asia Pacific. If we take a look at the business units within Port Solutions, almost all of the business units had a decline in a year-on-year comparison. When we take a look at the sequential comparison, also, there, quite many were flat to down.

00:17:08 - 00:18:25
Teo: In a sequential comparison, lift trucks were actually up in a sequential comparison of the business units if we take a look at it from that point of view. Then sales, 375 an excellent level. Really good deliveries. For more than 40 percent higher than a year ago in comparable currencies, this was widespread across the business units. We had improvement in sales basically across all of the business units that we have. Order book 1.8 billion is still up clearly in comparison to the situation a year ago. Then comparable EBITA, 8.3 percent, that's an improvement of 0.6 percentage points in a year-on-year comparison. This was due to a sales increase so the underlying volume increased. Our gross margin actually decreased in Port Solutions. Mix was clearly weaker now than it was one year ago. Also, the third quarter of last year was actually good from the performance point of view and the gross margin point of view. From that point of view regarding gross margin, tough comparables. However, the volume compensated for that and the EBITA margin is up.

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00:18:27 - 00:19:47
Teo: Then before going into the Q&A, a couple of comments on net working capital and balance sheet. Our net working capital continues to trend in the right direction, both in absolute euros as well as in relation to rolling 12-month sales. We are at 10.6 percent of rolling 12-month sales. It's well in line with our target of being below 12 percent. Inventories continue to be on a high level, however, advanced payments have more than compensated or nicely compensated for that. As a result of that, we are trending in the right direction. This is then obviously visible in the free cash flow, which has been quite stable during the past quarters. We have been generating 100 million, slightly more even, free cash flow per quarter and that was the case also for the third quarter. Profitability improvement is a key factor there, but also supported by the net working capital release that we are seeing from the slide. All of that is visible in the gearing as well as in net debt. Our gearing is 34 percent a good level for us. Net debt has been trending down. We are at 518 million at the end of the third quarter.

00:19:48 - 00:20:15
Teo: Finally, before going into the Q&A, return on capital employed. Capital employed has been, over the past year or so, relatively stable. The return on capital employed improvement primarily comes from improved profitability so improved EBITA margin. With these comments, I think that we are ready to move to the Q&A.

00:20:17 - 00:20:27
Kiira: Thank you, Teo, and thank you also, Anders. Let's start our traditional Q&A and maybe we could start with some questions from that line, please.

00:20:32 - 00:20:58
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 Antti Kansanen from SEB. Please go ahead.

00:21:01 - 00:21:19
Antti : Hi guys, it's Antti from SEB. Just two quick ones from me. The first is on the Industrial Equipment optimisation program. Could you please remind us how much was the earnings impact on the third quarter and how much would we expect in the following quarters? How much is left on that one?

00:21:23 - 00:22:19
Teo: We have not given exact numbers on the optimization program. However, we can conclude that now for the third quarter, the positive impact is some millions. Not a huge number yet, but some millions are in a way helping there. What I already said is that the fixed costs and the overall cost management are on a good level, and it is supported by the optimization program that we are having. We are proceeding according to the plan and we also have items affecting comparability as a result of the agreement that we have made in Germany. It's visible in the PL as well. We maintain our target of having 40 to 50 million benefits by ‘25.

00:22:22 - 00:22:43
Antti : That's very clear. Then on the port side, just a couple of questions on the backlog and mix. You mentioned that the mix hasn't been favorable this year. If you look at the demand drivers right now and the mix that you have in the backlog, how would you expect that to develop in the next 12 months?

00:22:45 - 00:23:44
Anders: The key thing with the mix when it comes to ports is that we have a very strong backlog of equipment and projects. That is growing faster than the port service side, which is the most profitable area, and hence the mix becomes negative. We grow Service at a very high rate also in Port Solutions, which is important to mention, but we don't grow it at 41 percent year-on-year. That's the reason why the mix is not favorable. Then we expect also as we have this strong backlog of equipment going forward, that the mix will remain less favorable versus the service sales. However, the mix and the profitability in the backlog are still strong so we continue our journey towards our financial targets.

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00:23:46 - 00:24:56
Teo: As an addition to that one or to complement what Anders said, the mix impact that we are seeing in the third quarter it's clearly more in a way depending on the order book that we have currently. It has been easier for us to deliver short cycle products earlier, like port service, for example, which is of higher margin. Now the more steel content you have in the project, typically the longer the delivery time. Now that we have been delayed in some of the deliveries we would have wanted to deliver earlier, now that we are catching up, these higher steel content projects come through and it has an impact on the mix. Then this will go in waves depending on the economic cycle the mix can be better or worse. When we take a look at it structurally, we do not see any reason why the mix would need to permanently be weaker than what it has been. Quite the contrary because in the long term basis, we want to increase the share of port service of the total port business.

00:24:56 - 00:24:56
Anders: Absolutely.

00:24:58 - 00:25:13
Antti : Is there any way to comment on the length of the order book? What I'm trying to get is that it's up 16 percent year over year, but is it of considerably longer lengths than a year ago? Because you have had a lot of these big project orders which typically last a bit longer.

00:25:15 - 00:26:38
Anders: The order book is very different between different areas. If you look into the Industrial Equipment side and Service, the order book is significantly shorter than in ports. Here you typically have Service and spare parts within one quarter currently, probably a bit longer. You have modernizations in Service which is then longer than one quarter. In Industrial Equipment, you have the components, which are within one quarter. It could be a few weeks longer here as well currently. Then you have the standard cranes, which are basically within two quarters. Then you have the process cranes which are longer than two quarters, but it could be quite long depending on how big the order is. Then if you look into ports you have service which is within one quarter. You have lift trucks, which should be within one-quarter but are currently with an order book of 12 months or more. Then you can look into the different projects. Here's where the majority of the backlog is, I would say. Those can have delivery times of 12, 24, or even 36 months. That's not so dependent on our own lead time.

00:26:38 - 00:26:49
Anders: That's more dependent on how ready the customer is with other parts of the larger projects. However, here we are taking orders in many areas for 2025 currently.

00:26:50 - 00:27:29
Teo: As a summary, one can maybe say that if we take a look at the length of the order book. One year ago, we were selling with relatively long lead times. From that point of view, there hasn't necessarily been a massive change. This is more a balance between order intake and deliveries. Now that the deliveries are so much higher than they were one year ago, for example, 40 percent in ports. This is creating an impact on the mix. One year ago we were selling with relatively long lead times because of the component topics and others that we have been discussing.

00:27:31 - 00:27:44
Antti : The question was specifically on the ports, just trying to get how much revenue we will be booking from that order book in the next 12 months. Is it comparably different than what it was a year ago?

00:27:45 - 00:27:56
Teo: When we take a look at the port order book and the delta, it is primarily for next year. The difference, the delta is primarily for next year.

00:28:01 - 00:28:35
Antti : If I can squeeze in a third one on the industrial side. If you look at this point of the cycle where the capacity utilization is quite low and PMIs are quite weak. It seems that your Equipment business is behaving almost as stable as your Service business. Do you have a slightly bigger Service footprint in

Europe compared to what you have on the Equipment side? Because it seems that the US is strong on the Equipment side. Do you have much more equipment sales in the States versus in Europe?

00:28:38 – 00:29:31
Anders: We don't go into any details about country by country, but we have been strongest in the Americas and a bit weaker in Europe in terms of equipment sales, where we have been stronger in the northern parts of Europe and in the southern parts of Europe, and weaker in the central parts of Europe, basically. However, I wouldn't say that that's the reason why it holds up so well. I think it's because we are present with many customer verticals. Even if general manufacturing is not performing very strong, we have other areas like power, waste to energy, wind, metal, and aerospace. We have other industry verticals that help us carry through a bit of the downturn within general manufacturing.

00:29:35 - 00:29:36
Antti : All for me. Thank you.

00:29:39 - 00:29:40
Kiira: Next question, please.

00:29:45 - 00:29:51
Speaker 1: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:29:52 - 00:30:04
Panu: Thank you. I have a couple of questions. Firstly, on the new orders that you are taking in. How is the pricing developing? Do you see more price pressure than in the previous quarters?

00:30:09 - 00:31:12
Teo: If we take a look at the competitive environment in general, we can conclude that the competition is getting tougher from the pricing point of view. This does not necessarily mean that everywhere is in a similar way. One example could be Asia Pacific. China, for instance, where competition is tougher than it was some time ago. Maybe in some other locations as well. However, from the big picture point of view, you cannot draw parallels to every place in the world. We continue to be confident that we will be able to pass on any cost inflation into the customer prices. We have now been able to do this when we take a look at it from the PL point of view in Q1, two and three this year. We are not expecting our capability to deteriorate from that point of view.

00:31:14 - 00:31:47
Panu: Thank you. Then just a couple of questions on the Port Solutions related to the previous discussion, to understand what is the delivery capability or what's the annual quarterly run rate of revenues that you could deliver in this business. I'm just asking because you have an exceptionally high order book, and it's difficult to know how much revenue you can deliver. Any color on this or any indications of the numbers?

00:31:48 - 00:32:18
Anders: Our delivery capability depends on if we hire more people and go up in shifts, et cetera. Also how our supply chains can adapt. However, currently with the order book we have, our delivery capability has only been sort of a challenge within our lift trucks business where we have too long lead times. Otherwise, we are delivering according to customer expectations. That would be a normalized capability that we are running at.

00:32:19 - 00:33:25
Teo: Now that you are asking about Port Solutions specifically if I understand correctly. Normal capacity is extremely difficult to determine and the reason is what Anders said. The supply chain is something that is quite important there. The projects are of different sizes. They are being manufactured at different places. We do not have much steel manufacturing capacity or steel building. steel construction capacity of our own. It's basically done by the subcontractors. Then we cannot increase the number of subcontractors or the capacity of subcontractors at any pace that we want. That is something that has also meant that the delivery times have become longer. This kind of normalized delivery capability is very dependent on the business unit and we cannot, unfortunately, in a way give a number that would be matching to our current capacity, particularly in ports. If your next

question is on the other business segment, we might not give that either. However, particularly in ports, it is very difficult.

00:33:27 - 00:33:45
Anders: It's important to mention that we are often not the limiting factor in terms of lead times and delivery capability in the larger projects, that are our customers. That's more customer readiness at the site et cetera. Which sets the timeline. We get the order well in time before we need to deliver it.

00:33:47 - 00:33:56
Panu: Just to clarify, that comment on the previous question is that the order book is primarily for next year. How should we read that?

00:33:57 - 00:34:07
Teo: Order book delta is primarily for next year. If we compare the order book now and the order book that we had a year ago. The difference is primarily for next year.

00:34:08 - 00:34:21
Anders: We communicate once per year how the order book looks in terms of delivery in the coming years. We do that together with the annual report.

00:34:23 - 00:34:44
Panu: Final question for me on ports. You indicate that Q3 was the trough for orders in '23, but is this more like a Q4 guidance, or did you say that it's like a trough overall? If you think about the next 12 months, your sales for now and the expectations.

00:34:44 - 00:35:09
Anders: No, I'm not talking longer than just a quarter, I'm talking a longer outlook. We have those mega projects and a lot of projects in the sales funnel for ports. It's equally strong as what this has been previously basically. However, we see those projects are going to be signed somewhere in 2024 not in 2023. It's more of a long-term projection.

00:35:10 - 00:35:12
Panu: Clear. Thank you. That's all for me.

00:35:12 - 00:35:13
Anders: Thank you.

00:35:13 - 00:35:15
Kiira: Thank you. The next question, please.

00:35:21 - 00:35:26
Speaker 1: The next question comes from Tomi Railo from DNB. Please go ahead.

00:35:29 - 00:36:06
Tomi: Hi, Anders, Teo and Kiira. It's Tomi from DNB. Also a question on the port's third quarter orders. Just asking if you were surprised by the level of the orders at about 230 million. If you could describe a little bit how the months developed. Was there no pickup in September as you had assumed? Then a follow-up, how have you seen October starting since you commented that the third quarter was a trough? Thanks.

00:36:08 - 00:36:52
Anders: Thanks. No, I wouldn't say we were surprised. We got an early order intake in the second quarter of some things we were expecting to get in the third so we were aware of those. Then we always get 20 to 60 million orders that can come early or that can come late or on time to what we would expect it to come. In general, we were not surprised. Maybe we had a little bit more hitting the post out than hitting the post in for the third quarter. However, nothing came as a big surprise for us. It was actually quite close to the forecast that the ports are giving themselves.

00:36:56 - 00:36:57
Tomi: All right. Thanks.

00:36:57 - 00:36:58
Teo: Thanks.

00:37:02 - 00:37:03
Kiira: Next question, please.

00:37:07 - 00:37:12
Speaker 1: The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:37:14 - 00:37:26
Tom: Good morning. I wish you could provide some insight into the order outlook by different industrial segments. What are strong end markets and where do you see weakness at the moment?

00:37:29 - 00:38:29
Anders: We see strength in the market. In the third quarter, for example, like Teo mentioned, year-on-year components and in standard cranes. We have seen a strong development also in process cranes in the previous quarter. Generally, we see that the whole market here is quite strong. Teo talked about the different regions already in his presentation. America has held up very strong. I mentioned also that the northern parts of Europe and the southern parts of Europe have been performing better, and we expect that to continue then the central parts of Europe. Like Teo mentioned, there is probably more price competition on the APAC side than we have seen previously, while a bit less so in the Eurozone and in America.

00:38:30 - 00:39:20
Teo: If you mean by customer segments. We can talk a little bit about that. Power has continued to be quite strong. If we take a look at metals, that has actually been quite okay as well. If we take a look at the areas where things have not really been moving in the right direction, it's maybe raw material related, like mining type of things that we have seen. Some softness in general manufacturing as well, and then maybe pulp and paper. Not so surprising in a way segments from that point of view but no significant movement, for example, in general manufacturing, which is, of course, by far the most important for us, particularly from the component business within Industrial Equipment point of view.

00:39:22 - 00:39:30
Tom: Do you see any concrete signals or orders from the US IRA Program or near-shoring activities?

00:39:31 - 00:40:32
Anders: It's always difficult to answer that question, what would have to come anyway. However, if you look first at near-shoring, any sort of change of supply channels is an advantage for us because you never bring a crane with you when you build a new factory somewhere else. The same goes for the port side because then you have new routes that ports need to either be built or expand current capacity. All of those kinds of changes in the supply chain across the world are working in our favor. I would say the underlying long-term demand drivers are very positive for us. Then in terms of the US alone, I wouldn't say that we are the first that would notice that, but I'm sure there will be some positive contribution from that side as well. However, to define the level would be very difficult.

00:40:32 - 00:40:51
Teo: The Americas and Northern America in particular have been strong. If we take a look at the market area so clearly, you can see that there is activity there. How much is related? To which factor? It's a relevant question but it's very difficult to pinpoint the different factors in monetary terms.

00:40:53 - 00:41:02
Tom: Are Demag cranes now sold only through distributors and has that had any impact on market share?

00:41:04 - 00:41:41
Anders: No. It's a process that we change, not over one day. We take different regions and change them into being an indirect go-to-market model for us. Currently, it's a mix between different regions on how we go to market with Demag, but we are quickly moving towards making it an indirect brand

across the globe. We already see here now that we have an increase in crane sales for the Konecranes brand and a big increase in components for the Demag brand.

00:41:44 - 00:42:00
Tom: Then finally on that field, you said that on Capital Markets Day, you would like to achieve some kind of cultural change at Konecranes. Now you have been there for one year, so could you open up about where you have come from, what you have identified, and what you would like to change still?

00:42:01 - 00:43:06
Anders: Thanks. That's a good question. I think we have launched our purpose and our strategic enablers, as we did in the Capital Markets Day. Recently, we followed up with launching our new company values, which are more driving towards how we act and behave. Here we have to Putting customers first, Doing the right thing, Driving for better, and Winning together. It's about achieving those kinds of competitive mindset in the organization. I think we are clearly taking the right steps. I can feel it in the organization. I also get actually feedback from the organization, even from Australia, that we feel that the organization is changing. There is more power, there's a more competitive mindset in the organization and I also think that our result shows that with a very strong sales execution and an all-time high quarterly EBITA margin.

00:43:10 - 00:43:10
Tom: Thank you.

00:43:12 - 00:43:31
Kiira: Thank you. Now a couple of questions from the chat. The first one would be on share buybacks or potential share buybacks. Given your very strong free cash flow and limited CapEx, would it make sense to embark on a share buyback program that would be very earnings-enhancing and raise the share rating?

00:43:36 - 00:45:01
Teo: It is a valid question. We haven't really been doing share buybacks for quite some time. It's probably more than ten years now since the previous ones have been. It is in our toolbox that we have authorization from the AGM to do share buybacks. We have not been doing that in practice. The primary means to distribute profits to the shareholders from our company has been dividends, and that has, in our opinion, served also the owners pretty well. Now when times develop and the company develops, obviously we are not saying that absolutely we would not do it or absolutely we would do it. However, it's in a way linked to the time where we are and if we see a need to develop the capital structure of the company with the share buyback. We do not have any categoric view that we, that we shouldn't do it or that we should do it. It's something that we will be discussing within the company and with the board of directors, in particular, going forward, and then decide accordingly.

00:45:02 - 00:45:15
Kiira: Then we would have another question on China. China is an important market for Konecranes from the production point of view. How are you de-risking the current geopolitical tension and weak economic sentiment there?

00:45:17 - 00:45:55
Anders: Yes, correct. China is an important supply market for us and also a production market for us. We are, since I think two years back, looking into alternatives because it's not only China, but the situation in the last two years has proven that you shouldn't be dependent on any market or any country by itself. We are ensuring that we have alternatives throughout our supply chains and also our manufacturing footprint going forward. We take initiatives to ensure that we're not dependent on China or any other country for that sake.

00:45:58 - 00:46:05
Kiira: Good. Then we still have time to take a couple more questions from the line, if there are any, please.

00:46:08 - 00:46:47
Speaker 1: As a reminder, if you wish to ask a question, please dial star five on your telephone

keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

The next question comes from Johan Eliason, from Kepler Cheuvreux. Please go ahead.

00:46:51 - 00:46:53
Johan: Hello? Can you hear me?

00:46:53 - 00:46:55
Kiira: Yes, we can hear you well.

00:46:55 - 00:47:04
Johan: Sorry. I was a bit surprised. I think she said the call was over. Obviously, I still have a chance here to ask a question. That's good.

00:47:04 - 00:47:04
Kiira: Of course.

00:47:04 - 00:47:55
Johan: I was just wondering a little bit. Now, obviously, we are very close to these new margin targets you've achieved in this quarter. However, what are the main building blocks? Because it's obviously a margin guidance that should stand over the cycle as well. What are the main building blocks that you still need to improve going forward to make sure that this is becoming a reality? We've heard about the savings in the Industrial Equipment for example, which is probably part of it. However, could you just repeat a little bit, from the presentations at the CMD what is going to take you to a sustainable 12 to 15 percent margin going forward? Thank you.

00:47:56 - 00:49:08
Anders: Thank you. If you look at the Service business first. Service is a very volume-dependent business. When we get volume, we can then be much more productive with our service technicians. We have also had a challenge historically in the last two years or so to recruit service technicians. There's been a lack of service technicians. I'm happy to report that for the third quarter, we actually increased service technicians in the Service segment by a net of plus 50 or so. We are moving in the right direction here. We're getting more service technicians on board to ensure that we can make the growth. The growth then will give us a really strong operating leverage because we're not adding more sort of overheads. We have the tools and the systems to support our service technicians to perform, to serve our customers. That's the Service side. On the Industrial Equipment side, we have a lot of initiatives. The optimization program, with its go-to-market models. It's reducing the number of product platforms. It's making it efficient and streamlined.

00:49:09 - 00:50:40
Anders: A lot of internal initiatives to make us more efficient. Those we have talked about and Teo talked a bit about that, by 2025, we will have an EBITA improvement of 40 to 50 million, and it will come with a one-off cost of 30 to 40 million. Here we had 17.5 in the current quarter. That was not cash flow out, but we booked that as we agreed with the unions in Germany to downsize with 60 to 70 people in our Wetter facility. There are a lot of internal efficiency gains to be had within Industrial Equipment. Then you have the process crane side within that. That's where we have made red numbers for quite some time. Here we have a lot of initiatives to make this into more Lego parts. Less special solutions and more standardization. If we have 20 percent standardization in that area today, we want to have 40 to 60 percent standardization in that area when we are done. That will make us much more efficient in how we sell, but also how we de-risk projects and how we can deliver the best solutions to our customers. Then for the ports, there is a lot of focus on growing our service side in ports.

00:50:40 - 00:51:28
Anders: Like Teo mentioned, in the long-term, we don't see that the mix should be negative with in ports, it should rather be the opposite. We are growing very quickly, but in the last year, we have had a very strong order intake on the equipment side in ports, which in the short term, in the next 12 months or so, will make the mix negative within the port segment. It's also then to leverage the volume growth that we have now. Ports is a good business. A lot is outsourced, as Teo mentioned.

We don't need to build a lot of internal capacity or supporting structures with the SGA structures, et cetera to support the growth that we are having with in ports. Those are the key things.

00:51:29 - 00:52:28
Teo: In light of those ones. Anders talked about the growth for Service, productivity and efficiency improvement for IE and then automation and service for ports. One thing that we all saw that is worth mentioning, we want to improve our adjustability in a way and our resilience towards cycles. This is done with the help of Service. Service by definition is resilient to downturn because of the demand factors, but also when it comes to the equipment businesses and the optimization topics that we have, for example for industrial businesses are also aiming at making us more resilient in basically any sort of economic cycle. Not that we would be able to eliminate the fluctuation, but to make the company as flexible as possible to respond to changes.

00:52:28 - 00:52:39
Anders: We need to be more agile to respond to the loading of factories, et cetera. We're talking less about under absorption when things happen and more about what actions we have taken to counter it.

00:52:41 - 00:53:20
Johan: That excellent review. Coming back to the Port Solutions, the service business. This is a topic we've been hearing about for the past 10 or 15 years. It's always been very difficult to get the service business going on the port side because of unionization and the historically good profitability of port operators et cetera. Are there any structural changes here on how the customer side thinks about services that would allow you to grow that share, or are you building a much denser network, what are the driving forces behind that part of the story?

00:53:22 - 00:54:47
Anders: There are quite a lot of underlying demand drivers that work in our favor. Customers have an aging workforce in service to a large extent and it's difficult to renew that. You also have the more complex automation solutions and digital solutions that the products contain, the more difficult it is to have an in-house service force, and that works for both Industrial Equipment and the port side to take care of the service because you need to be more and more of an expert going forward. Then we also see tendencies on port customers to outsource more service. That's also in countries where traditionally unions have been extremely strong within this area. We also see tendencies here to increase the outsourcing of service. Then you have the whole inland terminal, which is also a big business actually, where you don't at all have that stronghold from the union side as you do on the port side. There are a lot of underlying strong demand drivers supporting the service within Port Solutions, and we actually have a very strong development as well in service growth in that area.

00:54:50 - 00:54:53
Johan: Excellent. Those were all my questions.

00:54:54 - 00:54:54
Anders: Thank you.

00:54:54 - 00:55:14
Kiira: Thank you. With that, it's time to conclude our today's conference. I want to thank all the participants for the questions and as a reminder, this year's financial statements release will go out on February 2nd next year. Time flies. Have a great day everyone. Thank you.

00:55:15 - 00:55:15
Teo: Thank you.