

Konecranes Q4 2023 transcript

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Kiira: Good morning, everyone, and welcome to the 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. We have renewed our presentation a bit. In case you have not noticed, Konecranes launched its new brand identity for a couple of weeks ago. Our new brand promise is "Konecranes moves what matters." The earnings presentation reflects the new brand visual look. Before we start the actual presentation, I would kindly remind that the presentation contains forward-looking statements. The agenda is the usual one. Anders will start by walking through the group-level results, after which Teo will focus on the business segments. After the presentations, we will have a Q&A as usual. Please, Anders, I think it's time for you to start.

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Anders: Thank you, Kiira. A warm welcome also from my side to this webcast. Before we dive into the quarter four numbers, I want to talk a little bit about 2023 as a full year. 2023 was a fantastic year for Konecranes. We closed the year with an order intake that was flat versus 2022. 2022 was an all-time high record. We also delivered in 2023 an all-time high sales and an all-time high comparable EBITA margin. The cash flow was strong and the order book is set up for a good 2024. Into quarter four then. The demand environment remained good in general. Orders were minus two percent year-on-year in comparable currencies versus the previous year. Sales exceeded 1.1 billion and that was up 16 percent year-on-year in comparable currencies.

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Anders: Comparable EBITA improved slightly year-on-year to 11.7. The improvement was driven by higher sales volumes and pricing. Comparable EBITA improved in Port Solutions and Industrial Equipment. Cash flow continues strong at 167 million for the quarter. The 2023 dividend proposal from the Board is 1 euro 35 cents per share. We have also updated our demand outlook and the financial guidance for 2024. The macro-environment first. We start with Service and Industrial Equipment. The macro indicators were challenging also in the fourth quarter just as has been throughout 2023, but the underlying demand with our customers remains still high within the industrial segment. Moving into the market environment for Port Solutions. Here we follow mainly the global container throughput index.

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Anders: As we can see, it remained on a high level even up on the previous year. It's a high underlying good demand still with our Port Solutions customers. I then move into group order intake and it was 926 million for the quarter. That was in reported rates 3.6 percent down on the previous year. We saw a decrease in Port Solutions, approximately flat in Industrial Equipment, and a good increase in Service. Geographical-wise, we saw a decrease in EMEA and an increase in Americas and in APAC. Our net sales for the quarter was 1 billion 149 million. That was up 12 and a half percent year-on-year in reported currencies. Here we saw an increase in Service and in Port Solutions and a decrease in Industrial Equipment. Geographical-wise, America was really strong throughout the quarter but we also saw an increase in APAC and a decrease in EMEA.

Konecranes Q4 2023 transcript

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Anders: Looking at our group order book. We had a negative book-to-bill in the fourth quarter but still, we closed the year with an order book of 3 billion 41 million. That's up six percent in comparable currencies versus the previous year. We saw an increase here in Industrial Equipment in Port Solutions and a small decrease in Service. What's good to note is also that we have approximately 100 million more in our order book to be delivered in 2024 than we had going into 2023. We look at the group comparable EBITA and it was 134 million for the quarter which corresponds to a margin of 11.7 percent and that was up 10 bps versus the previous year. The comparable EBITA margin increased in Industrial Equipment and Port Solutions while we saw a decrease within Service.

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Anders: Comparable EBITA increased mainly attributable to higher sales volumes but also due to pricing. If you look at the mix, we had a negative mix in all three segments and also a negative mix on the group level. Gross margin stayed approximately unchanged. If we evaluate our progress towards Konecranes' financial targets during the year, we had a really strong 2023 moving towards our targets. Starting with the profitability target for the group, we were up 190 bps versus the previous year and ended the year at 11.4. If we look at Service we were up then 130 bps versus the previous year, so also strong performance in Service. Industrial Equipment had an excellent performance. Here we increased 380 bps versus the previous year. We also had a strong performance within Ports which increased 120 bps versus the previous year.

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Anders: It's good to see that everyone is tracking towards their profitability range and we have a strategy that we are now executing on to ensure that we continue to track towards our range. If we then talk about the other financial target which was sales growth. We communicated that we would grow faster than the market. In 2023 we had a reported growth of plus 18 percent versus the previous year and 21 percent in comparable currencies. That is clearly above the market growth. We have the same trend in all the three segments. That's really good to see. Our updated demand outlook, within the industrial customer segments we say for all three regions that our demand environment within industrial customer segments has remained good and continues on a healthy level.

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Anders: The funnel remains good and healthy both in number of cases but also in value of the total funnel. The uncertainty has not disappeared completely, of course, in the market but we see it as a little bit more stable and perhaps even a bit more positive than we did one quarter ago. Within our port customers, we say that the global container throughput continues on a high level and long-term prospects related to global container handling remains good overall. Also, here, the sales funnel is strong. It continues to contain short-cyclic products but also projects of all different sizes. It is important that when we talk about Ports to remember that this business is fluctuating by nature. It's very difficult to estimate when we will get order intake from customers. In Q4, for example, last year we got some early order intake which made the numbers for Ports order intake good in Q4 as well.

Konecranes Q4 2023 transcript

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Anders: Updated financial guidance then for 2024. Net sales is expected to remain approximately on the same level or to increase in 2024 compared to 2023. Our comparable EBITA margin is expected to remain approximately on the same level or to improve in 2024 compared to 2023. Overall we have a positive outlook on 2024. We see that demand remains on a good and healthy level in all our segments. We have a strong order book to convert into sales during 2024 and we have a good cash position. With that, I leave it over to our CFO, Teo Ottola, to dive more into the financial details. Please, Teo, go ahead.

00:09:45

Teo: Thank you, Anders. Actually, before going into the segment-level data, let's take a brief look at the comparable EBITA bridge Q4 '23 versus the situation a year ago. Now that we take a look at this EBITA bridge so structurally, it again looks quite a bit like the bridge in Q2 and Q3, but there are also a couple of differences. Of course, one of the differences is that the year-on-year improvement in EBITA which is 16 million euros is now less than what it was in the second quarter or third quarter. There are basically two reasons. In the big picture, there are two reasons behind this one. The first one is that if you take a look at the two first parts of the bridge, so this volume, price and mix, and variable cost, the positive net of those is now less than what it was, for example, in Q2 or Q3.

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Teo: The decline in the positive net does not actually come from the underlying volume improvement. That's more or less on the same level as it was in the second quarter or third quarter. It more comes from the pricing impact. The net of inflation pricing impact a positive one is now less than what it has been in the previous quarters during '23. This is, obviously, quite natural because we were able to correct the pricing already towards the end of '22 and then the positive delta towards the end of '23 in a year-on-year comparison, obviously, is a smaller number. The other reason is then the fixed costs. The fixed costs' delta in a year-on-year comparison is now higher than what it had been earlier during '23. There is a pretty natural reason for that one as well.

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Teo: As you may remember, so during the first three-quarters of '23, we did not really increase fixed costs much more than inflation. Now that our underlying volume improvement has been quite high, 10 percent or more, so obviously having this kind of a, let's say, non-increase on a long-term basis is quite difficult. There is nothing extraordinary in this one but it is, of course, impacting the operating leverage for our fourth-quarter numbers in a year-on-year comparison. Maybe worth noting, a third point on this one as well, which is the gross number regarding volume, pricing and mix and particularly pricing. This is now a lower total number than what it has been in the previous quarters. The pricing impact overall is now less than what it has been in the previous quarters. Now we are estimating that the prices in the P&L have been about five percent higher than a year ago whereas the pricing impact in the previous quarters has been higher in some quarters maybe even clearly higher.

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Teo: We can move into the segment level data and let's start with Service as usual.

Konecranes Q4 2023 transcript

The Service order intake, a good number of 378 million euros. This is a five percent increase year-on-year, actually with comparable currencies as high as 8.5 percent. Currencies were against us in the fourth quarter. When we take a look at the regions, we actually had growth in all regions. We also had an increase both in field service and parts. Agreement base was 380 million euros and that is an increase of a little bit more than five percent year-on-year with comparable currencies. Sales of 403 is an excellent level for Service. It is as high as 11 percent growth with comparable currencies. We had an increase in America's and EMEA of the regions, a slight decline in APAC.

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Teo: When we take a look at the different types of businesses within Service, so field service and parts, we had an increase in both but so that the relative share of field service grew more than parts which obviously then created a small negative product mix impact for the Service business. EBITA and EBITA margins. EBITA, 82 million euros, margin 20.2 percent. This is higher than a year ago in euros but a slight decline in the margin. The margin decline in a year-to-year comparison is due to two things. Temporary lower productivity and then already mentioned negative sales mix when it comes to spare parts and field service. The temporary lower productivity is primarily as a result of slightly higher labor cost. When you take a look at the Service sales of 11 percent growth, so we had very high sales.

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Teo: It was pretty much in field service, the growth was a lot in field service. We have been lacking service technicians already to begin with. Towards the end of the year, we have a lot of holidays and also we had some sick leaves during the fourth quarter and as a result of that then the labor cost was somewhat higher than a year ago in relative terms, for example, as a result of overtime pay. Both the labor cost increase as well as a then the product mix, we consider to be temporary, so there are no structural changes that would be impacting us on a long-term perspective. Industrial Equipment order intake 304 million euros. That is an increase of two percent year-on-year. However, if we take a look at external orders which is maybe telling more about the demand in the marketplace, the growth is four percent.

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Teo: Again, by regions, we had an increase in America and APAC in a year-on-year comparison and a decrease in EMEA. When we take a look at the business units, we actually had growth in all of the major business units, so standard cranes, process cranes, and components. Then if we take a look at the order intake by business units sequentially, so worth noting that the process cranes declined a little bit in sequential comparison, but both components and standard cranes were more or less on the same level as they were in the third quarter. Sales 370 million euros. That is a slight decrease actually in a year-on-year comparison with comparable currencies. Of the regions we had growth in the Americas but a decrease in EMEA and APAC. Of the business units standard cranes' deliveries or sales grew, whereas then we had a decrease in process cranes and components.

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Teo: Order book €892 million or roughly four percent higher than a year ago. If we take a look at comparable EBITA and EBITA margin, so there EBITA 24 million,

Konecranes Q4 2023 transcript

margin 6.5 percent, there is an increase both in euros as well as in percentage in a year-on-year comparison. Of course, the increase doesn't come from the volume this time because the volume was lower. The increase is primarily due to the pricing impact as well as then the optimization program that we have been having within the Industrial businesses and that is benefiting primarily Industrial Equipment. Of course, as a result of these two things, gross margin also increased as a result of the pricing and optimization program as well. Port Solutions' order intake, €304 million.

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Teo: That is a decrease of roughly 16 percent in comparable currencies year-on-year against tough comparables. Obviously, we had, of the regions a decrease in EMEA but an increase in the Americas and APAC. Regarding the business units within Port Solutions, we had good orders in Mobile harbor cranes, RTGs, and RMGs within the fourth quarter. If we take a look at the sequential comparison a little bit and maybe review also the early cyclical business unit Lift trucks. Lift trucks was down in a year-on-year comparison but if we take a look at it sequentially from the order intake point of view, it was stable. Sales were at a very good level, 445 million euros. That is a growth of as much as 38.5 percent in a year-on-year comparison. We had very good deliveries in Lift trucks, we had very good deliveries in RTGs, and overall a very successful delivery quarter.

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Teo: Order book still, regardless or despite the high sales, 1.7 billion and more than six percent higher in a year-on-year comparison. Then taking a look at the comparable, EBITA, 36 million euros or eight percent margin. This obviously, came primarily or the improvement came primarily as a result of the volume being higher. Here we had a gross margin decrease unlike in the Industrial Equipment business. I think it's fair to say that when we take a look at the project execution, it was probably not as clean as we would have had in Q4 '22 or Q3 '23. That has impacted a little bit into the operating leverage. Also, in one of our factories as a result of, for example, a lowish order intake in Q3, we had a little bit lower capacity utilization that we would have wanted to have.

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Teo: Nothing major in either of those topics but worth mentioning that it impacts, of course, the operating leverage in the quarter. Before going into the Q&A, still as usual, a couple of comments on the balance sheet or cash flow and the balance sheet. Net working capital has been trending very nicely, 354 million euros 8.9 percent of rolling 12-month sales. This is clearly on the better side of our target setting. Of course, the basic reason behind the lower net working capital throughout the year is the improved delivery capability. We have been getting rid of the late backlog and, of course, it has helped our inventory situation and inventory receivables balance as well. Now in the fourth quarter, inventories decreased and then the account receivable did not increase in the same manner, so the fourth quarter was also good from that point of view.

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Teo: Of course, it reflects to the free cash flow which is on the right-hand side. Free cash flow was even better in the fourth quarter than what it had been during Q1, 2, and 3. A very good achievement in that respect, of course, driven by the profitability

Konecranes Q4 2023 transcript

but also the net working capital development. This then, obviously, leads to the net debt and gearing situation here. We have a net debt amount of 366 million euros, and the gearing is 23 percent on a very nice level. When we take a look at the return on capital employed on the right-hand side, it is 17.7 at the end of the '23. Of course, stabilizing a little bit we still have a very high balance sheet total but, of course, the net working capital development is clearly a very positive thing from our balance sheet management point of view. I think that this is then the time to move into the Q&A.

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Kiira: Thank you, Teo. Thank you, Anders, as well. Let's start the Q&A. I think that we could first take some questions from the line, please. Let's open the line, please.

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Moderator: If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Daniela Costa from Goldman Sachs. Please go ahead.

00:23:21

Daniela: Hi, good morning. I hope you can hear me. I have two questions. One is just following up on the pricing commentary you've mentioned, the moderation towards the five percent in Q4. Can you give us a view on how you think about 2024 given the inflation in general across the board coming down? Can we still have positive pricing in '24? The second one just regarding your outlook statement, you've changed it to flat or up, but it sounds like maybe a bit more of a transition or a lower growth year perhaps. I don't know if I'm reading too much. Do you have when you look at other opportunities for growth, inorganic or opportunities for portfolio pruning? Can you tell us how you're thinking about the portfolio more on a medium-term on those basis? Thank you.

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Anders: Do you want to start with the pricing?

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Teo: I can definitely start with the pricing comment. Of course, you are right. The inflation is on a lower level and in some of our raw materials, even the costs are, of course, on a lower level than what they were, for example, a year ago. The basic line that we like to follow continues to be the same. We definitely are of the opinion that we can move cost inflation into the customer prices or within all of the business segments. That is definitely something that we intend to do. We are intending to increase prices already now during the springtime. The price increases, obviously, in percentages will not be as high as at the time of the cost inflation being on a very high level, but there will be price increases also this year. When we take a look at those big pieces of equipment that are containing a lot of steel, and steel can probably be the item where the overall inflation has maybe even turned the other way around so that we are on a lower level from the cost point of view.

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Teo: We do not really currently see a situation that the end customer prices would be lower than what they were, for example, one year ago. The lead times are relatively

Konecranes Q4 2023 transcript

long. The labor costs have continued to increase and they will most likely increase this year as well in comparison to the previous year, so that the overall inflation will be there even though it is much more moderated particularly in heavier equipment where the steel content is higher. The basic idea is that we will be increasing prices in line with inflation sometimes maybe even a little more, but the extra benefit from the net of inflation pricing will not be as high as it was in '23.

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Anders: If I comment then on the guidance. We are guiding net sales to remain approximately on the same level or to increase in 2024 versus 2023. What we mean with that is that in 2023 we had a really large increase in net sales, 18 percent in reported currencies and 21 percent in comparable currencies. What we mean with flat to increasing is then that, it will not be on the same level but we are still tracking according to our plan to continue to grow the company going forward. The same comment is then valid on the comparable EBITA margin. We had 190 bps increase over 2022. When we guide like this, we mean that we are targeting an increase in the year, but it's not going to be of the same magnitude as we had in 2023 versus 2022. I don't know if I understood your question correctly.

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Daniela: Thank you for the colour. I was wondering if you could comment on inorganic opportunities, portfolio pruning, other things that could complement and tick the point exactly as you say on the tough comparables. Anything else that we can look at that you're looking at potentially?

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Anders: As a company, we're always looking at pruning opportunities. We had in last year's industrial products which we divested. We have nothing big that we are working on now in terms of divestitures. In terms of M&A as we have said previously we have, again, reactivated ourselves in M&A where we primarily look at bolt-on acquisitions where we can grow our geographical coverage or expand our product offering. That comment still remains.

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Daniela: Thank you very much.

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Kiira: Next question from the line, please.

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

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Antti: Hi, guys. A couple of questions from me also. I'll start with the backlog and a question regarding Ports. I assume that the 100 million delta for next year's deliveries is largely coming from Ports. Could you talk a little bit about that backlog, its mix, and let's say project execution risks as you flag that it has not perhaps been optimal in the past couple of quarters? I assume that there's a bit more heavy equipment and bigger projects there as the lift truck demand has slowed somewhat. A couple of words from that, please.

Konecranes Q4 2023 transcript

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Anders: Do you want to take that?

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Teo: I think you are right regarding the comment that the delta in the order book on a group level is primarily Ports. It is primarily 24 if we take a look at it that way. The mix is definitely more towards heavier end than, for example, one year ago or even more so if you compare to a so-called normal order book. We are, in a way, very well sold from the heavier projects' point of view when we take a look at our capacity going forward. We have a couple of business units there, where we have a need to get new orders to be able to fill the factories and get the wheels rolling in a way. From the pricing perspective, we feel that the order book as such is in good shape. It's not weaker than what it was a year ago. It's probably slightly better. From the order book margin point of view, execution risks, obviously, are always there, but we are doing a lot of activities to improve on that front as well. We feel that we have actually good actions ongoing and the execution will be in good order in '24.

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Antti: If we think about margin improvement prospects in '24, is it reasonable to assume that the mix is the biggest headwind in Ports compared to other divisions on a year-over-year basis?

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Teo: Mix is going to be a headwind for next year, but, actually, if we take a look at the order book now, so it's not a significant headwind. Of course, then it depends a lot on how order intake will be developing because, of course, in the lighter end of the product offering, the order book obviously is shorter, for example, port services. If we take a look at it just from the overall, let's say, in comparison to the previous year, the mix is negative, but not hugely.

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Antti: The second question was on the margin guidance. The guidance is very similar for sales and margin improvements. I guess, volume is the big driver going into this year, but could you talk a little bit about your self-help actions and the long-term margin targets? What do you either numerically or conceptually expect to achieve during '24? Is it more Industrial? Is it more Ports? What type of actions should we think into the profit improvement and the costs?

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Anders: If I start and you fill in, we are targeting margin improvements in all the areas. We have our strategies that we execute on in each and every segment. Starting with Service, here is about being closer to customers, being easy to do business with, growing the business, being more productive, less downtime, less rescheduling, etc. It's about being more efficient. Moving into Industrial Equipment, here we have our optimization program. As we communicated, it yielded about 11 million EBITA improvement for 2023. We see that it would be a similar level for 2024. There are also other initiatives, of course, within Industrial Equipment, which is not a part of this optimization program, such as standardization, new products to market, which are more cost-efficient, etc. There are lots of initiatives. Within Ports, it's about focusing on growing port service, which is a large area for us going forward in terms

Konecranes Q4 2023 transcript

of growth. It's also focusing on the products in the regions, which has the right profitability margin. That's a summary.

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Teo: There is not actually that much to add on that one. I think that was the summary. Maybe, in a way, if we take a look at it from the Service point of view, and Anders talked about productivity. For Service productivity and volume improvement would be basically the drivers for margin improvement. Volume, of course, from the Service point of view, plays a role because of the operating leverage, whereas Industrial Equipment, as we have all along been talking about, is much more self-help. The 11 million and the probably gain of something of a similar magnitude this year will be helping Industrial Equipment profitability. That's not, in a way, directly volume dependent, even though, of course, volume plays a role there as well, but the optimization program, as such, is not volume dependent.

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Antti: Great. The last one from me is something that I didn't fully understand when you mentioned the shortage or availability of technicians and that impacting negatively on Services. Why is that temporary? If field services continue to grow, why wouldn't that be a further issue in '24?

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Teo: The reason that it is temporary is that now in the fourth quarter, let's say, we had a lot of orders to fulfill, so we had a lot of deliveries, as you can also see from the increase in the sales number. When this, let's say, burst takes place towards the end of the year where you have a lot of holidays, and then at the same time, you end up in a situation where there are maybe more than average sick leaves, then we have had a need to have a lot of overtime done. This, of course, increases the unit cost of labor. The reason why it is temporary is that over time, we can, of course, balance it better and we can match it better. Of course, also the demand from the delivery point of view, service delivery point of view, is highest in the fourth quarter. The situation from that point of view is more normalized than towards the beginning of this year.

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Anders: Maybe if I should add just one thing. I think this is primarily we're talking about North America here where we have had the biggest problem in recruiting the amount of service technicians we were looking for. Combining that with a high percentage of sick leave and throwing in Thanksgiving and Christmas to be able to deliver and to serve our customers, we had to then book overtime and overtime bonuses and those payments.

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Antti: That explains it. Thanks so much.

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Kiira: Thank you. Then let's take the next question from the line, please.

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Moderator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

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Mikael: Thank you. Good morning, everybody. I'll start with a question on the Service

Konecranes Q4 2023 transcript

business. It sounds like you're planning for higher volumes there. I'm just wondering in terms of the cost side of things, and I'm thinking about labor costs, which will increase and have an impact here on the margins, would you say that you are already well covered in terms of prices on that side or do you still need to increase your prices to be able to cover for the inflation in the Service business?

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Anders: We will have our annual increases in Service just like we do every year to compensate for increased salaries, etc., with pricing. Like Teo said previously, there will not be such a positive gap that we maybe had when we were catching up from where we were behind in increasing prices in 2021. The gap will be smaller than it's been previously. When we grow a Service, we only need to add basically service technicians because the existing infrastructure we can apply to additional business, which then only needs service technicians in the execution phase, not in the backline for planning that is already built up and automated to a large extent. That's why growth comes with a good leverage in Service.

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Mikael: That's clear. Can you talk a bit about the demand environment for the equipment business across both Industrials and Ports? Which segments and regions do you see strength? Where do you see weakness? How is the competition behaving and so on?

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Anders: Should we start in maybe Industrial Equipment? Industrial Equipment, we have seen strength, very strong market has been North America and the Americas. We have also seen positive actually in APAC, while EMEA has been a little bit on the weaker side. When it comes to Asia Pacific, we have seen, in general, good growth with our primary customers, which are tier-one customers and Western companies in that region. We're not going maybe as quick as the local market because we're not in the mid-market in low segments. We're only in the top-tier segments, basically. We see that the demand has remained really strong through the year. We had an external order intake increase of some eight percent on the equipment side. We also saw a good increase in Service.

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Anders: If you go into Ports, the underlying business is very much dependent on how the container throughput indexes, etc., which is the lift trucks, the service, and all of these things. You have the additional project business, which comes more in lumpiness. Since there is a high container throughput still in the business and it's even growing towards the previous year, we foresee that our customers will have a good demand also going into 2024. As I said, to estimate where those larger projects will then convert into order intake for us is very difficult because it's up to the customer decision-making process, etc. It can come either earlier or later. Teo, do you want to add something?

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Teo: I could maybe add on the geographical split that Anders talked about a little bit already. EMEA, which has been a little bit on the weaker side, maybe a couple of comments on that. We have every now and then commented that by subregions. The northern part of Europe has been quite strong, actually, in relative terms. Maybe

Konecranes Q4 2023 transcript

there is a little bit of stabilization there, including UK, which has also actually been surprisingly maybe quite good for us. The central part of Europe has been a question mark, particularly because of Germany. There have been some positive signs from the demand there. Middle East is doing very well, actually, from the demand point of view. If you take a look at southern Europe, so that there are countries that are doing well and then countries that are not doing that well.

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Teo: The overall point still is that America is a little bit on the better side than the European demand, which is very visible in the utilization rate graphs as well. If we revisit the segments a little bit from the Industrial point of view, it's maybe fair to say that the power generation continues to be a segment that is doing well. Metals production is a segment that is doing well. Maybe transportation, at least to some extent aviation, has been doing well. I guess that there are a lot of those who are more or less on the stable level. Of course, also the most important segment from our point of view, general manufacturing, which is the other category, has been quite stable now during the fourth quarter, both in Q and Q and year-on-year comparison.

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Mikael: Okay, that's clear. A follow-up on this topic. It seems as if you have won multiple large orders both within the Service segment as well as Industrial Equipment in Q4. Would you say that Q4 was exceptionally strong for these segments or is this just business as usual?

Anders: We did not have any specifically large orders. We know we have sometimes in history talked about mega orders in Ports, for example. We didn't have any orders over 50 million in the order intake in Ports. That is clearly business as usual. There were no particular mega orders or really large orders also in the Industrial side. This is more business as usual.

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Kiira: We were maybe a bit more active in posting corporate press releases on the Industrial side order. I think that would be a fair comment here, but nothing unusual in the orders themselves.

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Mikael: That's very clear. Thank you very much.

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Kiira: Thank you.

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Anders: Thank you.

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

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

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Erkki: Hi, Anders, Teo, and Kiira. It's Erkki from Inderes. About the optimization program, 11 million euros a year, do you expect also in '24? How will it be divided

Konecranes Q4 2023 transcript

between Service and Industrial? How big one-off, of course, do you still expect from this program in '24?

00:44:19

Teo: That number, similar number for '24 as we had in '23, this is basically for Industrial Equipment. We had benefits in '23 regarding Service to a smaller extent than in Industrial Equipment, but they are by nature more dynamic. It is, for example, including pricing mechanisms. It's a little bit, let's say, difficult to calculate out how much is as a result of the optimization and how much is something else. That's why we are giving the number only from Industrial Equipment. The benefit from the optimization for Service will be less this year than what it was in '23. Also in '23, it was less than for Industrial Equipment. We have booked restructuring costs in relation to the program in the amount of roughly 30 million, maybe a little bit below. It's 30 to 40 that we have given as a range. We are basically sticking to that range.

00:45:26

Erkki: Very good. Secondly, what's your salary inflation expectations for '24?

00:45:37

Anders: It's somewhat less than we had in 2023. We had roughly five percent in '23. We're expecting four percent or so.

00:45:47

Teo: Four to five, I would say.

00:45:51

Erkki: Thanks. Finally, what were the big non-interest rate-related items in your net financials in Q4?

00:45:59

Teo: In Q4, we had a positive FX net. This FX net now is the part that is a little bit difficult to forecast because it is the non-hedge accounting hedging. We are hedging commercial flows that we are not booking in hedge accounting, and, hence, we will need to leave it there in the financial items. The thing that makes this analyzing a little bit easier is that when you take a look at the full-year financials, so the FX net was very small number on a full-year basis as it was also in '22. Basically, you can compare the financial items of '23 to '22 without major comparability issues from the foreign exchange point of view.

00:46:52

Erkki: In Q4, the positive FX was how much?

00:46:59

Teo: It was several millions.

00:47:07

Erkki: That's all for me.

00:47:10

Kiira: Thank you. Let's then take the next question, please.

00:47:19

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

Konecranes Q4 2023 transcript

00:47:28

Tomi: Hi, Anders, Teo, and Kiira. It's Tomi from DNB. I'm also wondering about the guidance for sales flat or slightly increasing. Thank you for the comments and summary on this. I understand the 100 million higher backlog. I'm just wondering about the Service. Actually, the backlog was slightly down. If you can still give a little bit of ranking, where do you see the biggest growth and the margin expansion potential by divisions this year?

00:48:02

Anders: Basically, we don't give guidance on segment level. Our guidance is given on a group level. As I talked a bit previously about, we have plans in all of our segments to continue the growth. The lower order book in Service was actually very little lower than the previous year. We previously had an issue a little bit to be able to service our customers in the way we would like to. We had a lot of order intake coming at the same time. Teo touched a bit on service levels and productivity also in Q4. We want to keep our lead time short when it comes to Service. That shouldn't impact anything in terms of growth when it comes to Service going into 2024. The guidance, maybe we can say that for Port Solutions, it's a similar guidance as for the group. It's flat to increasing in sales.

00:49:05

Anders: We shouldn't expect the same increase that we saw at all in 2023 when it comes to 2024 versus '23 then in terms of sales growth. It's still we guide for flat to increasing also then in Ports. In Industrial Equipment, we expect to continue the growth as well in the year, but as we communicated also on Capital Markets Day, the key for us in Industrial Equipment is to first fix the business before we grow it. It's more about profitability, hence more focus on the optimization program that Teo covered previously to ensure that we have the right profitability in that business before we grow it.

00:49:53

Tomi: Thank you. The second question is just maybe on the overall demand and order outlook. How has the year started? Maybe if I can leave that, is it fair to assume fairly stable demand levels for the first quarter compared to the fourth quarter as was pointed out? There were no major orders in the fourth quarter, but then again, the first quarter last year included at least a couple of more sizeable orders. Maybe just for the first quarter or something.

00:50:30

Anders: We don't guide on quarter order intake, etc. The first quarter hasn't started in a way that make us question the guidance that we have given if we say it like that. There are tough comparables in Ports in the first quarter, definitely. As I mentioned previously, Ports is a fluctuating business by nature. We will have ups and downs in order to intake in Ports, but the underlying business is important and that remains very strong. You can also see that from the container throughput index that the underlying business, there is a strong demand in our Ports customers business. That's probably what we can comment.

00:51:15

Tomi: Very helpful. Thank you.

Konecranes Q4 2023 transcript

00:51:19

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

00:51:25

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

00:51:35

Tom: Hi. I have a couple of questions. Initially, you said that you have seen that demand uncertainty has decreased a bit. I listened to you, it sounds like the delta is coming from Central Europe and Germany. Is that a correct observation?

00:51:51

Anders: No, not really. We would say that the unsecurity that we have previously talked about, we have seen it's improving and that's more valid for all the regions. We have specific regions which might have been a bit further down. Teo talked about Germany before in Central Europe. There we see maybe a little bit of a comeback. It's not only a comment for EMEA.

00:52:23

Tom: The savings, can you quantify the SG&A savings? If you say 11 million euros of savings, that's both on the gross margin side and the SG&A cost, but what are the SG&A savings in '24 from moving Demag to a brand sold by distributors?

00:52:48

Teo: We could, but unfortunately, we would not like to. We are in a way restricting ourselves in commenting the total amount, including cost savings. Of course, also as we have been talking about this efficiency program also earlier, and particularly when it comes to the Service, so that there are also productivity improvements that are not only in a way cost savings, but regarding Industrial Equipment, of course, this 11 is a cost-saving number. It would be exciting information, but unfortunately, we do not split it between SG&A and above gross margin items.

00:53:32

Tom: Is there a tail of the savings in '25 as well or are we all savings visible by the end of '24?

00:53:43

Anders: No, there is a tail of savings into 2025 as well. By the end of 2025, we will have the full benefit of the program. There's a tail.

00:53:54

Tom: The COP28, you saw that there are very big promises to build new nuclear reactors. I realize this takes time, but could you give an update on your position in this competition and also the value and number of cranes going into a normal reactor? Pekka Lundmark talked about this some 10 years ago, but the information starts to be so old. It would be good to get some updates on it.

00:54:23

Anders: You're right, nuclear is not something that builds quickly and it takes a long time to get approvals, etc. Our nuclear business is already quite strong because we have service contracts on many of the different nuclear installations. It's an important business for us in the energy field, just like waste energy and wind, etc. Nuclear is an important area that we follow. I wouldn't be certain to mention how many cranes we

Konecranes Q4 2023 transcript

have in the different facilities. It's an important business for us and we have a strong market position, both in Europe and in Americas.

00:55:10

Tom: What is a rough figure of the value of cranes going into reactors so we don't totally misunderstand this opportunity?

00:55:20

Anders: These cranes come at a significant value if you compare to a normal crane. I would say it's several times what you have a normal process crane being sold. They come at a high value. We're not talking 100s and we're not talking 50s of millions either, but it's a significant order intake when you get the nuclear orders.

00:55:46

Kiira: Maybe this is something that we can come back to. We usually publish a Q&A in the Investor Relations website on the IR blog. Maybe we can try to touch upon this there in writing.

00:56:01

Tom: My final question would be on Service. I assume now the Service sales mix change should be positive in '24 with more spare parts and less modernization projects, but on the growth side, are you doing something particular to attack all the sold Demag base, which I guess you still undersell inspections and that preventive model and perhaps sell more spare parts too still. What are you doing concretely to push growth there now?

00:56:41

Anders: There are a lot of initiatives that we do to push growth in Service. As you can see, we had an order intake in Q4 that was plus nine percent in comparable currencies versus the previous year and good delivery as well as Teo mentioned. To be able to grow spare parts, you need to grow field service because that's how you get the spare parts. Via the agreement base and then field service and then you get the spare parts. That's how the whole business builds. It's not that we can grow only spare parts. We need to have service technicians to be out meeting the customers, inspecting the cranes, doing all the different levels of service agreements as we discussed previously that we have now also service agreements that are fit for smaller customers that maybe we're not interested in the full service agreements that we can also offer, of course. It's about the offering, it's about getting out, meeting customers, but being easy to do business with for customers. We do this in all regions. We are not only focusing on one region or so. There's a global initiative that we push within Service.

00:58:04

Tom: Thank you.

00:58:05

Anders: Thank you.

00:58:06

Kiira: Thank you. Hey, I think that it's time to conclude now today's conference. We start to run out of time, unfortunately. We had some questions through the chat function, but most of them have been touched upon either in the other questions or in the answers. I thank you all for your active participation and following the conference.

Konecranes Q4 2023 transcript

Just as a reminder, we are already one month into Q1, not Q&A. Our Q1 results will be published on April 21st. Talk to you 25th. Not 21st, 25th. I'm mixing the numbers here. Talk to you then at the latest. Thank you, everyone. Have a great day.

00:58:49

Anders: Thank you.

00:58:50

Teo: Thank you very much.

00:58:51

Anders: Bye-bye.