



**Transcription**

# **Cargotec Financial Statements review 2021**

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# PRESENTATION

## Aki Vesikallio

Welcome to Cargotec's 2021 results call. My name is Aki Vesikallio. I'm from Cargotec's Investor Relations. Today's results will be presented by our CEO, Mika Vehviläinen, and our CFO, Mikko Puolakka.

This call is about to discuss Cargotec's results, and please pay attention to the disclaimer in the presentation as we will be making forward-looking statements.

With that, over to you, Mika.

## Mika Vehviläinen

Thank you, Aki. Good afternoon for my behalf as well. And thank you for joining the Cargotec Q4 and 2021 results.

A couple of highlights first from the year. It was another exciting year for Cargotec, really characterised by strong demand in all of our main market segments, delivering strong record orders and a very strong order backlog. It was also a record year for our services business that developed very well.

However, the results were affected really by two factors. First of all, the supply chain difficulties and related logistic issues reduced our revenue potential during Q4 by approximately €80 million, having about 24 million impact on our revenues.

Furthermore, we had an offshore-related, one-off project, a write-off in MacGregor that had a result impact of approximately €27 million, and those two factors negatively impacted our Q4 profitability.

Also, after the Kalmar Q4 announcement related to the electric portfolio, I'm very happy and proud for the fact that Cargotec can now offer an electric product in all of our product categories across the whole company.

In today's presentations, I will cover some of the 2021 highlights; discuss the market environment that we see in front of us; take up some of the Group level developments; and then, our CFO, Mikko Puolakka, will cover the business areas and financial results, as well as the outlook for 2022.

As I said, strong demand actually really across all of our business segments, delivering a very strong order intake, a record order intake, and record order backlog for us. Orders increased by actually 42%, and it was obviously a clear improvement in all of our main product and business areas.

Sales however, increased only by two percentage points, and that was really caused by two different factors. Revenues declined both in MacGregor as well as in the Kalmar project and automation business, and this was due to the fact that 2020 order intake in those businesses was clearly lower, and that, of course, with the long-cycle nature of the businesses resulted in lower revenue in 2021, as expected.



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In Kalmar Mobile Equipment and Hiab, revenue increased, but the increase was limited by the supply chain bottlenecks that actually intensified towards the second half of the year. The comparable operating profit improved. We declined about €6 million in Kalmar. Without the Navis impact, the Kalmar profitability would have been roughly at the same level as in 2020.

Hiab was able to leverage the good market environment, and the sales increased, to €37 million improvement in the profitability.

MacGregor actually made good progress pretty much almost in all of its product areas, and despite the lower revenues in 2021, improved its profitability in the merchant business as well as in services. However, unfortunately, in one of the business lines in offshore segment, the offshore wind-related programmes, a new project implementation with new technology resulted to the implementation challenges and 27 million write-off in project profitability. We see this as a one-time charge against the difficult technical issues we have had in that project.

If I look at the overall picture, our equipment utilisation and market activity within our customers continued at the high level during the Q4. We saw clear improvement in equipment activity further sequentially from Q3 to Q4 and also on year-on-year basis, both in Hiab as well as in Kalmar's mobile equipment space.

Overall, the market environment continues to be strong. The container traffic grew by roughly 7% - from '20 to '21 - and is expected to grow somewhat over 5%, also from '21 to '22, really buoyed by strong global trading and merchant activity as well. Also in construction, which is one of the main drivers for Hiab, we saw again increasing activity, for example in building permits in US towards the end of the year and also the European construction activity is at the high level. The growth is really limited primarily by the material availability and the workforce limitations at the moment.

Also, in Shipping, '21 was a very encouraging year where we saw the ship contracting going up significantly. We saw some softness towards right at the end of the year and early this year, but this is, in our opinion, really caused by the fact that the shipyard capacity starts to be a full, newbuild prices have gone up quite significantly, we still see long-term prospects for the shipbuilding to continue at the strong level, moving into '22.

As said, record high orders, especially driven by the strong activity in Kalmar mobile equipment as well as in Hiab, and very strong order intake growth, record orders in those businesses. This obviously resulted in a record high order book as well, so we go into the '22 with an extremely favourable order backlog. Obviously, within the order backlog, we also have started to see that in the pricing increases that we actually implemented multiple times during '21 to start to have a more positive impact on the March, and then we move throughout '22.

The sales were growing more modestly, and as I already said, really caused primarily by the expected decline in MacGregor and Kalmar project businesses because of the low order intake in '22, then affecting the revenues in '21 and with the strong market demand in Hiab and Kalmar mobile equipment, the limiting factor, really, was the supply chain and logistic issues in there that limited the growth in that one. The impact was very strong during Q4. We estimate that the impact for the revenue was roughly -€80 million on that one.

Very satisfied with our performance in our services business. Another record year for that one. 7% growth in revenues, and roughly 18% growth in orders in services, and really growing in all of our business segments. MacGregor sales revenue was somewhat lower, and this was really primarily driven by the very high activity in shipping. Obviously, with the



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very positive and profitable environment for the ship owners, owners are reluctant to put the ships up for maintenance and servicing work, with highly favourable market conditions at the moment. But considering that the COVID restrictions were still somewhat limiting the services activities, very good performance from all of our services businesses.

We are also very satisfied with the work we are doing with our strategy implementation, aiming to be the global leader in sustainable cargo flow with the key targets around sustainability impact we can have in our own operations, but especially to our customer operations and then, the profitable growth.

Good examples of concrete actions we were able to deliver during 2021 and during Q4 in our strategy implementation: in Hiab, we are continuing to grow both organically and inorganically, and acquired Galfab, one of the leaders in the demountable market space in USA, and we see good opportunities in Hiab to continue both organic growth as well as multiple opportunities to also grow inorganically, looking at the adjacent businesses and local champion-type of companies such as Galfab.

Also, very proud about the fact that we have now launched the full electric portfolio, and in Cargotec, all of our product categories are now available also as electric solutions. And we expect a lot of demand going into electric portfolio moving forward also, throughout 2022.

We also keep on investing in addition to electric to our robotics and automation solutions. One example of that one was the Cargotec investment, Kalmar investment in Coast Automotive Inc., a start-up company that is helping us to develop further our robotic and autonomous operations into our mobile equipment space. And again, very satisfied with our performance in services with the strong growth in the business segments.

And with that one, I'd like to hand over to Mikko Puolakka, who will cover the business areas.

### **Mikko Puolakka**

Thank you, Mika, and good afternoon, ladies and gentlemen, also, from my side.

Let's start first with the Kalmar business area, where we had strong orders, strong market demand continued, and we had also very good performance in service delivery during quarter four. When we look at the orders, the large crane replacement market, that continued to be active; also, in mobile equipment as well as in services. However, the large automation activity has remained fairly low during 2021, and we got only one automation order during the year earlier in '21.

Now, when we look our order book €1.3 billion, we start the year with a sizeable order book. It's good to remember, however, that delivery times are longer than usual: in Kalmar mobile equipment, for example, we have approximately 12 months delivery times at the moment.

Our sales were €430 million. This was up by 5%. We were able to grow the sales despite component shortages in the mobile equipment. Service sales were up by 7% year on year. The large crane sales declined due to the low order intake back in 2020.



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We had approximately €30 million mobile equipment deliveries postponed from quarter four to 2022 due to missing components.

Kalmar profitability improved by 19%, even when we did not have any more in quarter four; the Navis result's part of the Kalmar business area.

Growth in profitability is coming from higher sales as well as a good large cranes project execution.

The divestment of Navis had roughly €7 million profit impact in quarter four. So, in quarter four '20, Navis contributed roughly €7 million to our profitability. As previously mentioned, €30 million delays in our deliveries had approximately €9 million impact on Kalmar profitability. So, with those €30 million, we could have made approximately €9 million more operating profit.

Then looking at Hiab, in Hiab we had a mixed quarter. The customer activity continued at a good level; orders were €384 million. Like in Kalmar's case, also in Hiab, the year starts with an extraordinarily high order book, and in Hiab's case, we are talking even up to nine months delivery times at the moment due to the component shortages.

In Hiab, we had good growth in sales; sales were up by 15%. However, I would say that the quarter four '20 sales were still, to a certain extent, impacted by the low order intake from early part of 2020. So, perhaps the comparison point is also not entirely apples to apples.

In Hiab, we had a very good performance in services, in spare parts, in installations, as well as in maintenance. In Hiab's case, we had approximately €50 million deliveries, postponed from quarter four to 2022. And this is very much coming from also missing components as well as availability of truck chassis.

Hiab's full-year profit was €166 million, or 13.3%, a very nice 29% improvement year on year. However, quarter four profit declined slightly, and one of the reasons for this is the €50 million delays in deliveries that caused lower productivity. And the €50 million delays had approximately €15 million impact on operating profit.

In Hiab's case, we have also added certain costs in selected areas to support the growth in services, mergers and acquisitions as well as in our assembly operations.

Then, in MacGregor, I would say that otherwise good development, but we had significant cost overruns in the offshore wind product line. The order intake growth in MacGregor was very much driven by the merchant and service divisions. Order book has continued also to improve; roughly 75% of our MacGregor order book is merchant-related, and 25% offshore. Sales declined by 16%. This was more or less as expected due to the low order intake back in year 2020. Service sales were up by 15%.

MacGregor's quarter four profitability was disappointing. The key drivers described earlier by Mika is the €27 million cost overruns in our offshore wind projects. This is first-of-its-kind technology. We have needed to do more extensive design for the project. Also, the manufacturing of components is more expensive.



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Good to remember that in quarter four as well as on full year level, the merchant and service divisions have improved profitability in MacGregor, the TTS integration is progressing according to the plans; we have made approximately €13 million savings in 2021.

Then, a few words about our key figures. We start the year with €2.8 billion order book, roughly €1 billion higher than a year ago. Good to remember, like I said, also, earlier, the delivery times are substantially longer than in a normal supply chain situation. Comparable operating profit was €232 million, and below that we had €124 million positive items affecting comparability. Here, the largest positive item was the Navis divestment - €230 million sales gain - and then, we had merger-related costs - €50 million as a negative item. The other restructuring costs have declined from 2020. Earnings per share were €3.82, and if we eliminate the positive items affecting comparability, EPS would have been €2.37. Our ROCE is now 14.5%, and Navis had a big contribution to this improvement.

Looking to cash flow quarter four and full year 2021, cash flow was weaker than in previous year. The key driver here is the inventory increase, and this inventory increase comes from missing components. We have more semi-finished goods currently in our stocks. Our inventories have grown 36%, while sales grew only 2%.

Despite the lower cash flow, our balance sheet has continued strengthening during 2021. Our gearing was 27%, and excluding the IFRS 16 lease liabilities, it was 16%. We have also prepaid €150 million bond, which would have matured in quarter one this year. But we prepaid that in December 2021, and basically now, we do not have any major debt maturities coming until mid-2023. So, in the next 18 months. So we are in a very good position to support both organic and inorganic growth from our balance sheet point of view.

Our Board is proposing a dividend of €1.08 for each B share. This is the same as in 2020. This dividend payment amounts approximately to €70 million, and this is in line with the combination agreement between Cargotec and Konecranes signed back in 2020. This €1.08 for each B share is approximately 28% dividend pay-out ratio. Excluding the one-off items, it would be 46%. Our dividend policy is to pay 30% to 50% pay-out ratio, and the dividend payment would be made on the 28th of March 2022.

And then, the guidance for this year. As discussed already earlier, we start the year with the high order book. However, the operating environment is still volatile. The COVID restrictions impact us and may impact us and our suppliers, and also the component availability is going to be a constraint throughout the year 2022. Based on these assumptions, we estimate that the 2022 comparable operating profit improves from 2021, and thus, is higher than 232 million euros.

And with those words, I would then hand over back to Aki.

### **Aki Vesikallio**

Thank you, Mikko. A good presentation. Let's invite Mika Vehviläinen back to the screen. When he's here, we are ready for the questions.



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## **Q&A**

### **Operator**

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There'll be a brief pause while questions are being registered.

The first question we've received is from Magnus Kruber, UBS. Please go ahead, your line is open.

### **Magnus Kruber**

Hi, Mika, Mikko and Aki. Magnus at UBS. A couple of questions from me. Obviously, I want to start with that 27 million overrun that you discussed. Is this project completed? What's the nature of the project, and is there any risk we could see more costs coming from this?

### **Mikko Puolakka**

Thanks for the good question. The project is still ongoing. We have assessed the project at the end of the year, made the provisions based on the best understanding, based on the current engineering estimates, based on the current manufacturing estimates. We expect to deliver the project during this year.

### **Magnus Kruber**

OK, but what type of engineering work is it? What type of product?

### **Mikko Puolakka**

Like I mentioned, this is related to offshore wind, and these cost overruns are related to engineering work and also, to a certain extent, also, the component manufacturing.

### **Magnus Kruber**

OK, so some kind of wind installation vessel?

### **Mika Vehviläinen**

It's a solution which is supporting the windmill installation.



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### Magnus Kruber

Got it. Thank you so much. And then, if we could talk a little bit about net price impact going into '22. As you commented on through the presentation, you see a pricing filtering through the backlog as we speak. How do you see the balance between cost inflation across the varying types as well as your pricing? Do you see any air pockets opening up in the first half of '22 with respect to the relative impact of pricing and cost?

### Mikko Puolakka

In general, the pricing environment has been quite challenging this year in the sense that we have been increasing the prices by double digit, for example, in Kalmar mobile equipment and in Hiab. And of course, we continue to monitor also the component price as well as the labour inflation development during this year, and if needed, then we would implement further price increases. What comes to project-related pricing, there we typically price based on the current raw material costs and then reflect that cost level also to our customer contracts.

### Mika Vehviläinen

Maybe if I add on that one, if you look, that varies slightly from product area to another. But then, multiple pricing increases starting from very early on '21, and last major price increases roughly by summer '21, and altogether, as Mikko was saying, double-digit pricing increases. So, obviously, when you look at the lead times, at the moment, you would estimate roughly nine up to 12 months lead time from those product increases.

So, effectively, what we will be delivering in the first half of this year is primarily products that are still ordered on the first half of last year, and the price impact should be coming fully through on the second half of this year. Then, obviously, in the same way, some of our component deliveries and component prices has been also increasing gradually. So, overall, I think those two are expected to match each other fairly well during the first half. And then, depending a little bit on the price development in the component area on the second half, let's see if we can create some pocket there or not.

### Magnus Kruber

OK, so no obvious mismatch between the timing of the price increases hitting the P&L and the cost, then, in the first half, as you see it now?

### Mika Vehviläinen

No. Thankfully, obviously, it's also the price increases coming from our suppliers that are happening gradually, obviously. With the little connote of course is that, in some cases, you are forced to go to the spot market, where your price increases for particular components could be considerably higher. And the other thing that is obviously eating slightly into the margin is the transportation costs that are up, obviously, considerably again. It's not a huge impact, but it has some impact as well.



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### Mikko Puolakka

And on top of that, of course, there are certain lower productivity in cases where we are missing some components and cannot finish the product. So, some un-optimal production flows, and those are, of course, then staying in our books, those costs.

### Magnus Kruber

Got it, absolutely. Just one final question. Also, you still have a sustained, solid momentum in Kalmar mobile equipment. Any chance you could help us quantify the mix impact that we potentially could see into '22 on the back of that?

### Mika Vehviläinen

In terms of the electric portfolio, now that we can offer fully and start to take orders for all the equipment - and maybe, as an example, give you the area where we have had a product available for longest time, which is the heavy forklift trucks in Kalmar mobile equipment, roughly about a third of that equipment is now in electric format. We expect similar development to start to happen, and also in other products. There clearly is a market demand coming from the regulatory pressures, customers own sustainability strategies, and effectively, the electric format starts to be a better and better business case for our customers as well.

### Magnus Kruber

When it comes to the profitability mix into '22 in Kalmar, how do you think it could be impacted by the solid momentum in mobile equipment?

### Mika Vehviläinen

I think, overall, first of all, quite a large deal of the revenue is already in the backlog. And in some cases, we can still take orders to be delivered within this year, but most of the, I think, the orders coming now in Q1 onwards are starting to be in a '23 order, so a lot of the pricing is in the backlog at the moment.

And then, as I said, I think, right now, it looks like some of the component pricing increases could be easing off when we move to the second half and at this stage.

### Magnus Kruber

Got it. Thank you so much. I'll get back in line.



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### Operator

The next question is from Aurelio Calderón, Morgan Stanley. Please go ahead. Your line is open.

### Aurelio Calderón

Hi, good afternoon, Mika and Mikko. Thanks for taking my questions; I've got three. I'll take them one at a time. The first one is around the 80 million that you mentioned that you've missed this quarter due to supply chain issues. I guess my question is more around why the impact was so great in Hiab in terms of margins. And when you look at Kalmar, which also lost 30 million, the impact seems quite low in 009. So, if I can start with that one, please.

### Mika Vehviläinen

Maybe I'll start, and Mikko can fill in. Kalmar, the miss was larger in Q3, but actually then what happened is some of the Q3 missed was actually delivered in Q4. Then, there was some build-up of inventory from Q3 that we were able to deliver in Q4 that, then, lowered somewhat the gap in Kalmar. That's probably the number one explanation on that one. And as such, the supply chain issues, I think they have been prevalent in Kalmar, actually, through the whole year because a lot of the products are fairly similar to the truck industry, and hence, the component shortages have been well known there.

I think the Hiab situation, actually, as you can see from the numbers quote, it deteriorated slightly towards the end of the year and some of the hydraulic components, but also, a number of different negative surprises there in terms of deliveries. Also, I think Omicron started to have certain impact in there. Even though from a lot of health impact points of view, Omicron looks to be a lighter variant, it still causes sick leaves and absences, and that's impacting some of our own operations, but also, of course, in our supplier operations. And the other thing that is slowing down somewhat Hiab deliveries is the fact that, as Mikko mentioned already, the customers are not getting the truck chassis, so they are, effectively, not necessarily in a hurry to receive our equipment either.

### Aurelio Calderón

I see. Thank you. My second question is around the potential that you have to catch up next year because obviously you've mentioned that you have a very solid order book going into 2022, but you've also been implying that the order book is maybe longer in terms of lead times than it used to be. So, what is sensible to assume in terms of order book conversion? I.e., is the lag that used to be six months now nine months? And the lag that used to be 12 months, now 18 months? How should we think about backlog conversion?

### Mika Vehviläinen

If you look at – it's Mikko - saying that if you would use maybe an average - about nine months right now for Hiab - and we used to be considerably shorter cycles, at some states, as low as three months. At this stage, actually, as such, it's not as large a concern as such because right now, the bottleneck actually is within the truck deliveries as well, and that's like as long as we can match that one, we are OK, but we hopefully start to catch up on that one. But I would say that when



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you look at the Hiab backlog and Kalmar mobile equipment backlog, you would expect majority of those ones to be delivered within this year, a very large majority of that one.

### Aurelio Calderón

OK, that's helpful. And maybe if we can touch again on Magnus's question around the 27 million one-off? I guess, if my maths is correct, that business is around 100 million, the offshore business within MacGregor? What is the confidence that we're not going to see more of this one-off in in other projects in what is going to be a growth area for you, like offshore wind vessels?

### Mika Vehviläinen

This particular project was a very high value project, but also first breakthrough technology, first-of-its-kind implementation related into mission critical construction vessel, and they're deployed offshore wind turbines as such, and we have now gone through that project in very large detail and done the renewed project estimates. And that, of course, resulted to the 27 million losses. But it is a new technology, and the project is not yet finished, but this is our best estimate based on the information we have.

### Aurelio Calderón

OK, thank you very much. I'll go back to the queue.

### Operator

The next question is from Antti Kansanen, SEB. The line is open. Please go ahead.

### Antti Kansanen

Hi. Thanks for taking my question. It's Antti from SEB. Coming back to the MacGregor project still, is there other similar technology projects in the backlog currently? And then, if we look at the impact for MacGregor in '22, what's the sales magnitude? I would assume that that will be now delivered with the, basically, zero gross margin and should dilute the earnings in MacGregor in '22. Could you comment on that, those ones?

### Mika Vehviläinen

First of all, it's a proof-of-concept-project; where a large deal of the cost. I don't think it would have a significant impact. This will be in the low tens of millions, in that sense, at the most, and we do see, of course, that with the current order intake starting to happen, we start to see the order intake as well, the revenue ramp up. The good news, of course, in MacGregor is that the merchant side profitability developed very favourably over the last year, despite the fact that actually



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the revenue still declined in MacGregor, so it's in a very good place for the take-up, the demand coming from the very hot shipbuilding market during the 2021 as well. And also, outside this wind area, we see also increasing activity levels in terms of the regular offshore oil and gas projects, with the high oil and gas prices right now driving the demand in there as well.

### Antti Kansanen

If we look at your backlog or even your sales pipeline, is there now similar type of activity that you need to revisit the price level, the margin assumptions that you are entering in those projects? Are there any broader implications of this one going forward?

### Mika Vehviläinen

This particular project that we took to large hit, it's one of a kind, it's the first of its kind. We do not have any similar projects at the backlog. We still expect that market to be actually attractive for us. But obviously, we need to take the lessons learned on that one. Thankfully, that's the only of its kind that is in our backlog at this stage.

### Antti Kansanen

OK, thanks. And then, the second question is on Hiab, and I want to clarify something that you said. The lead time is currently around nine months. So, I would assume that the current backlog should be delivered in Q1 to Q3, but then you also mentioned that the price increases will hit the P&L not until the second half. So, am I interpreting right that perhaps the first half, two thirds of the backlog is coming at perhaps a lower price level, maybe slightly lower margins, and we will need to wait until the second half to see how you are getting back to those mid-teen margins that we've seen historically?

### Mika Vehviläinen

I think the first half, I think what you most likely will see this year is probably a fairly larger than normal deviation between the first and second half. And the first half is really impacted by two factors, and this is true both for Kalmar mobile equipment as well as Hiab. One is exactly as you prescribe that some of the deliveries still, especially in Q1, will be actually at the lower side of the price range, coming primarily from orders on Q1/Q2 last year. The other issue is that I don't think that these supply chain issues are magically going to disappear over the new year, and with Omicron still being very present in the market as well and within the supply chain as well, I do think that the supply chain situation is going to continue to be the bottleneck, at least for the first half of the year.

### Antti Kansanen

And I guess on MacGregor, it's also the orders that you have taken will gradually start to provide revenues and profits, so it's a quite backend-loaded year for all three divisions. Am I assuming right?



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### Mika Vehviläinen

I think that's our assumption as well.

### Antti Kansanen

OK. Thanks, guys. All from me.

### Operator

The next question is from Johan Eliason, Kepler Cheuvreux. Please go ahead. Your line is now open.

### Johan Eliason

Hi, it's Johan here. I must come back to the MacGregor project miss; we've discussed this in and out, obviously remembering that when you arrived, Mika, there were a lot of project overruns in those days, and you promised that the project structures and similar should be straightened out, so we shouldn't see this again, and 27 million is still a pretty big number. Have they forgotten it, or what's really going wrong in this case? You mentioned new technologies, but I guess there will always be new technologies coming. Should we expect that these things can happen again going forward?

### Mika Vehviläinen

I guess there's always the first time. We haven't had anything on this magnitude in MacGregor in the past, and we did have a number of issues, especially in my early years, in Kalmar. I'm actually quite satisfied on the progress we have done in project management side in Kalmar, and as Mikko was discussing, the Kalmar automation and project business actually had a nice profit improvement actually from '20 to '21, and the project's cost estimates there were in a pretty good shape throughout the whole year. This is clearly a risk when you venture into the new technologies, and obviously, a - how would I say - education fee we ended up paying on this one. The complexity of the project was underestimated by the organisation. We need to take the lessons learned on that one and improve from here on.

### Johan Eliason

Is it in any way related to the TTS acquisition, with a different project background, or is it the old, traditional MacGregor business?

### Mika Vehviläinen

I wouldn't make a difference any more between TTS and MacGregor. The units are nowadays pretty well mixed up and reorganised, so it's really a combination of capabilities from both companies that is participating in this project.



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### Johan Eliason

Good. And then, on MacGregor, obviously, with all these big container ship orders some time ago, would you say that you have now seen most of it in the order intake in MacGregor? Or should we expect more to come in 2022?

### Mika Vehviläinen

No, I don't think we have seen most of that today. Again, it's good to remember, it takes about six to 12 months from the ship order to the MacGregor order. And actually, one indicator, you can always a little bit look into is that the way that when ship is ordered, the shipyard actually placed the orders for different main components of the ship in the different time. And usually what happens is that one of the first parts that is ordered is actually engines. So, if you look at the ship engines and you probably can look at Wärtsilä, for example on that front, that probably gives you an indication, and they tend to be three to six months, usually, ahead of us, and deck equipment and loading solutions tend to be the last part of the ship that is ordered, so we tend to be at the tail end of that order intake coming from the particular ship.

### Johan Eliason

Good, unfortunately for Wärtsilä, they don't sell engines to the big container ships anymore, but we can look elsewhere. Then, on Hiab, I think we have been on this subject already, but listening to your Southern competitors' profit warning, they seem to allude to that earnings for their business, at least in 2022, should be flat over 2021, basically implying that the first half will be down a lot, and then they will regain it in the second half. You talked about probably more a H2-tilted marginal profit level in Hiab as well, but are you rather talking about flat earnings year over year? You think that's a realistic scenario? Or is Hiab also part of your overall guidance for earnings to grow in 2022?

### Mika Vehviläinen

The guidance we have given is that we would expect as a Group to improve from 2021, but I probably would go as far as to say that I would expect actually that the improvement comes across all of the three businesses. At the same time as well, it's good to remember that when you look at Hiab, we have invested, I think, quite successfully on the pricing management there for the last 18-24 months, and Hiab was fairly aggressive at the forefront of the pricing increases. So, a number of pricing increases. Typical normal price increase in January, then we did another round in March timeframe. And by summer time, our price were double-digit up from the early part of the year. And I don't think that our competitors have necessarily followed us, so there is a catch-up to be done with some of them in terms of the pricing.

### Mikko Puolakka

And if we looked at Hiab's full year results, €166 million profits at 13.3% operating profit margin. So, good development there.



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### Johan Eliason

Now, one of the issues, the profit warning from your competitors also included, was that they blame these delays on deliveries leaving them unmatched between the price and the cost inflation, seemingly indicating that the hedging had run out when they finally delivered those products. That is not an issue for you?

### Mika Vehviläinen

Mikko, maybe you can say a few words about the currency impact on Hiab.

### Mikko Puolakka

In Hiab's case, we are, of course, fully hedging the net cash flows. And actually, we have not seen a major negative currency impact there. We saw some something smaller, a low single-digit impact in quarter four, but on the full year level, I would say that, in our case at least, currency impact was rather minimal in Hiab.

### Johan Eliason

I don't think they were referring to the currency hedging. It was more on the steel prices and that sort of thing, that their contracts had run out when they eventually manufactured and delivered the goods.

### Mika Vehviläinen

I'll get that one. Obviously, same for us as well. We are not immune for the increase in cost. And also, in our case, of course, the old contracts, they're running out, and the new contracts in many cases are at the higher prices, but at the same time we've been also very diligent and fairly upfront with our own pricing developments. And overall, we have increased our prices. By mid '21, our prices are up by double-digit percentages in Hiab, so that certainly helps us to take that hit coming from the increase in component and material costs as well.

### Johan Eliason

Excellent. Many thanks.

### Operator

The next question is from Erkki Vesola, Inderes. Your line is open. Please go ahead.



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### **Erkki Vesola**

Thank you. Hi, Mika, Mikko and Aki. Same question that Antti did, but regarding Kalmar. Is it so that Kalmar price increases you have recently made, they will gradually have an impact from the second half of '22 onward? And do you expect this to fully neutralise the margin impact by component price increases as we reach the end of the year? Is it a rolling impact, and a year from now we should be back to normal margin levels at Kalmar, or am I missing something?

### **Mika Vehviläinen**

No, I don't think you're missing something. The exact timing, of course, depends on our capability to deliver. And again, there are a number of uncertainties still in our delivery capability within this year, and especially, I think, the early part of the year is still going to be quite a challenging environment, if you look at what's happening in supply chains and also with Omicron beating down sick leaves and others in our own operations and our supply chain as well.

But I think I would say that certainly, but when you go to the start of '23, those variants have been matched on that one. How that pacing goes through this year has a certain level of uncertainties. I think Hiab is proportionally somewhat in better proportion in terms of the pace of the pricing increases, and also with somewhat shorter delivery times compared to Kalmar mobile equipment, better delivery times are getting close to 12 months in average.

### **Erkki Vesola**

OK, that's perfect. Thank you.

### **Operator**

The next question is from Massimiliano Severi, Credit Suisse. Please go ahead. The line is now open.

### **Massimiliano Severi**

Hi. Thanks for taking my questions. I have just two. The first one would be on the mix within Kalmar. I appreciate the comments on the eco fleet, but as we go into 2022, how should I think about the split between mobile equipment and the project businesses? Should I expect similar to 2021 or some change between the two?

### **Mikko Puolakka**

If I comment this. If we look the order intake in Kalmar this year and the order book composition, it's definitely, I would say, more weighted towards the mobile equipment. So, a quite high share of the mobile equipment business in the total Kalmar order book as the Kalmar automation and project orders have been growing, but the growth rate has been much lower than in the mobile equipment.



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### **Massimiliano Severi**

So, because if I'm not wrong, also in 2021, sales were tilted towards mobile equipment more than usual. So, for 2022 it's even more than 2021?

### **Mikko Puolakka**

Yes.

### **Massimiliano Severi**

OK, thank you. And my second question would be on the price increases that you did before the summer when you got to double digits. First question would be: in January and March, did you do low single-digit increases, or were they higher than this?

### **Mika Vehviläinen**

In the early part of last year, we did low single digit. It was more our typical pricing increasing policies. Those decisions there of course done at end of '20 already, and in '21, we did what we would recover, a normal pricing increases round. It became obvious for us very clearly fairly early already on that year that that's not going to be enough. We did another round roughly in March timeframe, and then clearly seeing the inflation still coming strongly, a third pricing round roughly in June/July timeframe, this time considerably higher hikes almost across all the product portfolio.

### **Massimiliano Severi**

OK, perfect. So, the first price increase, you are already seeing the benefits in Q4, I guess, in Q4 sales.

### **Mika Vehviläinen**

Some of that one was visible towards the end of Q4, but it would be visible in the Q1. But then again, our cost situation is different than it was in Q1 previous year as well. Clearly that component prices are also going up soon.

### **Massimiliano Severi**

Clearly. No, perfect. That's all. Thank you very much.

### **Operator**

The next question is from Magnus Kruber, UBS. Please go ahead. Your line is now open.



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### Magnus Kruber

Hi. Thanks for taking my follow-up. I just wanted to ask you if you could quantify how large the total - it was a year today - accumulated overhang from undelivered orders is in Hiab and Kalmar at the moment? Is it fair to say it's the same as we saw accumulating in the fourth quarter: 30 million for Kalmar, and 50 for Hiab? Is that what remains to be delivered, shall we say?

### Mikko Puolakka

Yes, that's correct. Those delays we reported in quarter two and quarter three, those we have been able to deliver during 2021. And this 80 million – 50 for Hiab, and 30 million for Kalmar - those where the overhangs or deliveries which will flow from quarter four to first half of 2022.

### Magnus Kruber

Perfect. Thank you so much. I think maybe it's the final one on here, but you have had very solid order growth here in 2021, obviously for various reasons, but how do you see the outlook for demand into this year, given the end market remains healthy, but dynamics are a bit different in '21, obviously not a normal year?

### Mika Vehviläinen

It hasn't been a normal year for a while, and who knows what '22 will bring with us as well. The early part of the year has been continuing with the same strong pace, so we see the demand so far continue at the same pace. Obviously, there are a number of uncertainties regarding '22, so it's really difficult to estimate where we will end up, but looking at the customer activity, looking at the key indicators, construction activity, e-commerce, general material deliveries, the underlying market environment remains strong.

### Magnus Kruber

Got it. Thank you so much. And maybe just one final one. What do you expect in terms of labour inflation for this year? What have you budgeted for?

### Mika Vehviläinen

I think it varies considerably from market to market and from position to position. We have seen fairly strong labour inflation, especially in blue-collar-type of manufacturing and services technicians, and I would say +/-5%, really depending on the market. Some markets clearly above 5% as well.



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### **Magnus Kruber**

Perfect. Thank you so much.

### **Operator**

Thank you. There are no further questions at this time. I hand back to you, speakers.

### **Aki Vesikallio**

OK. Thank you for the great questions and for the great answers, Mikko and Mika. So, with that, we can conclude the call. Cargotec's Q1 results will be published on 27th of April. Stay tuned.

### **Mikko Puolakka**

Thank you.