

Cargotec Q4 2022 transcript

00:07:35

Aki Vesikallio: Welcome to the Cargotec 2022 Results Call. My name is Aki Vesikallio. I'm from Cargotec IR. Today's results will be presented by our CEO, Mika Vehviläinen, and our CFO, Mikko Puolakka. After the presentation, there will be a Q&A session. Please pay attention to the disclaimer in the presentation as we will be making forward-looking statements.

2022 was a record year for Kalmar and Hiab. Driven by the strong performance of these two business areas, we raised all-time high orders, sales, and comparable operating profit. Our service and eco portfolio sales also reached new records. The year was shadowed by MacGregor's results, and the rationalisation of its portfolio had a significant negative impact on our operating profit.

With that, I turn it over to you, Mika.

00:08:33

Mika Vehviläinen: Thank you, Aki, and good morning on my behalf as well. Thank you for joining the Cargotec Q4 2022 Webcast.

2022 was an excellent year for our core businesses, Kalmar and Hiab. Together, they generated EUR 3.4 billion in sales, which is actually more than the whole Cargotec in 2021, and MEUR 388 of comparable operating profit. Their comparable operating margin for the year 2022 was 11.3 percent, and we are well on our way toward our 12 percent target for 2025.

Driven by the core business performance, we were also the first time in Cargotec's history to break MEUR 300 in comparable operating profit. We also made a step change in our comparable operating margin, as is visible from the slide here.

We were able to leverage our strong order book going into this year, and we had it at the beginning of 2022. The demand remained strong throughout the year, and, actually, our orders grew by 10 percent, giving us a very strong starting point for 2023 with a 24 percent higher order book than we had at the beginning of 2022.

00:09:49

Mika Vehviläinen: Our sales grew by 23 percent. It's especially good to see the good performance in services growing, and our service revenue kept on growing well. In the CMD, in November, we also revealed for the first time the profitability of our core businesses' services, which is very close to 20 percent.

I am especially delighted about the very strong growth in our eco-portfolio. Our eco-portfolio sales grew by 54 percent, driven by Kalmar and Hiab. This comes from the solutions that enable our customers to lower their emissions. Also, sales of Kalmar's fully electric and hybrid solutions grew by over 50 percent from year 2021.

So we saw a huge step change in comparable operating profit and comparable operating margin, but it could have been a better year without the negative results coming from MacGregor. As you know, at the conclusion of the strategic evaluation, the Board decided in November that MacGregor will not be part of the Cargotec portfolio going forward.

Cargotec Q4 2022 transcript

00:10:55

Mika Vehviläinen: The active sales process has not started yet due to the uncertainty of the financial market and the early phases of MacGregor's profitability turnaround, especially in our offshore division. Now, if we were to exclude the offshore wind segment, which is an attractive and hugely growing business opportunity but requires investments and development of our pioneering technologies, MacGregor's comparable operating profit would have been approximately 3 percent, and 5 percent without the offshore division overall. This is despite the very low sales volumes still in 2022.

Now, we are taking all the measures necessary to execute the MacGregor exit. During Q4, we made a thorough assessment of MacGregor's portfolio and the projects. This resulted in one-off costs and write-offs for Q4. Mikko will tell you more in detail about the impact of the MacGregor evaluation. As part of the review, we are planning to rationalise the offshore portfolio, and there are more planning regarding significant cost reductions in offshore business as well as MacGregor's overheads.

00:12:06

Mika Vehviläinen: As a result of these measures, MacGregor will be in significantly better shape for the year 2023. We are already guiding that MacGregor's comparable operating profit will be positive for 2023.

Now, looking at the market activity, we saw a high level of activity with a lot of our equipment working very close to capacity continuing and also the sequential seasonal impact with the very high equipment activity in the logistics industries, with the exception of China, where clearly the COVID restrictions still had an impact during the fourth quarter.

Overall, the market picture, I guess, has turned slightly positive in the last month or so. Overall, when we look at the growth at the moment, there are still significant economic uncertainties in the market as such. When you look at the container traffic, based on the latest estimates, the container traffic declined slightly during 2022, but it's now expected to grow again with slight growth in India during 2023.

00:13:15

Mika Vehviläinen: Construction activity has declined, but it's still historically at a very high level, and it's good to remind ourselves that construction is only one segment of the many in Hiab, and also, for example, renovation activity is also a very important driver for Hiab's construction and segment activities overall.

Regarding the vessel contracting, the vessel contracting declined but is still at a considerably higher level, and it's expected to be at a considerably higher level than it has been in the previous years, prior to 2021. This holds well for MacGregor's future development.

Our orders received increased again across all the businesses, and we were especially delighted to see the very good order intake of close to billion euros in MacGregor, which will set us in a very good position for the year 2023-2024 for MacGregor.

The strong order book, as I said, 24 percent up actually y-o-y, and, overall, we have seen a very good market and solid market activity continuing also into this year.

Cargotec Q4 2022 transcript

Revenue develop, well, we are still struggling with the supply chain activities and component shortages and especially Hiab is also impacted by the shortages of the truck deliveries.

00:14:38

Mika Vehviläinen: However, our teams and operations have worked very hard to enable a higher revenue on that one, and that have been driving the sales growth, especially in Hiab and Kalmar. Our core businesses reached the revenue of over €1 billion during the Q4, and operating margin in the core businesses was 11.9 percent during the Q4.

The service's performance continued in an excellent way, and we saw another solid growth and a nice growth across all the three different businesses in the services.

In connection with our capital market day and refocused strategy, we described our strategy going forward. It's driving our growth coming from the sustainability solutions, solving our customers' emission and sustainability issues.

There are four core elements on that strategy: driving fast innovation, delivering new solutions, helping our customers solve the sustainability challenges, and driving innovation faster than any of our competitors can.

00:15:50

Mika Vehviläinen: Secondly, we are driving for increased recurring revenues. A good evidence of that is the great services growth we are seeing, but also further recurring revenues in terms of new solutions combining equipment, services, and digitalisation.

In addition to the excellent organic growth, we plan to also grow more inorganically. We have had a limited number of acquisitions, one again during Q4 in Hiab, but we plan to accelerate this pace going forward.

Latest, we aim to be the highest standard in ESG in our industries.

Evidence of the good progress we are making in our strategic execution is in terms of innovation. We are now moving in our terminal tractor, also beyond the electrification and in our technological operation together with Toyota, to develop a hydrogen-based terminal tractor solutions for the market.

Secondly, there's been great growth in our recurring revenues and services. An example of that one was a five-year agreement with the Swedish steel mill manufacturing. The value of the contract was about EUR 25 million over five years.

00:17:06

Mika Vehviläinen: It's also evidence of how, when we move our Kalmar focus more out of the large ports and into terminals, logistics, and industries, the service opportunities in those segments are significantly better than they are in the very heavy port segments as such.

Hiab concluded one acquisition during the Q4, Olsberg. This is also a technology initiative from our. Olsberg is a market leader and technology leader in high-performance valves and control systems. This will be one of the core competitive advantages for Hiab, and Hiab wants to own that technology going forward.

Cargotec Q4 2022 transcript

As part of the great initiatives and work we are doing in ESG, Cargotec is also able to close a financing of about €330 million linked to revolving credit facilities in the sustainability sector.

A reminder of our financial targets that we have set for ourselves in connection with the November CMD. We are well on the way in here.

00:18:16

Mika Vehviläinen: Our eco portfolio grew by more than 50 percent in 2022. Our emission intensity reduced in 2022, both in terms of emission and reductions. However, due to the high sales of traditional equipment, this is a target we need to keep a close eye on.

Obviously, we grew very fast thanks to the excellent performance both in Hiab and Kalmar, and our comparable operating target in our core businesses during the Q4 was already 11.9 percent.

With that one, I'd like to hand over to our CFO, Mikko Puolakka.

00:18:57

Mikko Puolakka: Thank you, Mika, and good morning also from my side.

As usual, let's start with Kalmar, where solid customer activity continued in quarter four across all Kalmar divisions. Now, with a €1.4 billion order book, we have an excellent start for the year 2023, €100 million higher than what we had when going into 2022.

Despite continuing component shortages, Kalmar had high deliveries during the last quarter. Having said this, it's good to recognise that we still have, for example, several hundred, maybe a couple of hundred, terminal tractors waiting at our factory yard for missing components. So, still quite a lot struggling with the component shortages.

Thanks to Kalmar's prudent commercial actions and higher volumes, the industry has been able to protect sales margins and increase profitability in quarter four. The full-year comparable operating profit for Kalmar was €190 million. This is up by 58 percent or €70 million higher than in 2021.

The heavy cranes, which we are currently exiting at the moment, made €20 million in losses in 2022. For this business, we still have roughly a €50 million order book, of which most of that will be delivered during 2023. We expect that we will still have some single-digit million-euro negative impact on Kalmar's result in 2023.

The new Kalmar, excluding heavy cranes, did 12.5 percent to comparable operating profit in the fourth quarter, and 11.3 percent for the full year. This is a clear step change from the past years. It shows that Kalmar is heading in the right direction after refocusing its business from projects and mega terminals toward equipment and services for smaller terminals.

In Hiab's case, the overall demand, roughly €400 million orders, was on a good level in quarter four, and the full year orders in Hiab were up by five percent.

Also, in Hiab, we will have a very solid start for 2023, with €200 million high-order book compared to what we had when we started the year 2022. In Hiab, like also in Kalmar, we still have exceptionally high or long lead times. Hiab's order book currently covers three-

Cargotec Q4 2022 transcript

quarters of sales, and this is a reflection of component shortages as well as the low availability of new trucks. 00:21:58 This is not expected to significantly improve in 2023.

Despite the supply chain bottlenecks, Hiab was able to increase volumes to a new record quarterly level. High volumes were the main driver for quarter-four profitability improvement, and in Hiab's case, the full-year comparable operating profit was €224 million, €58 million better than in 2021.

MacGregor had a paradoxical quarter. A very strong order intake in merchant as well as in services, those two divisions, merchant and services, represented almost 90 percent of MacGregor's full-year order intake. The positive in the order intake is that these orders are coming to businesses that have already been profitable in 2022. These quarter four orders originate from the very strong vessel contracting back in 2021, driven very much by the car carrier vessels. All in all, MacGregor's full-year orders grew by 50 percent to almost €1 billion. This is also a good start for MacGregor for 2023.

On the other hand, MacGregor's profitability was very disappointing. Merchants and service divisions delivered positive results in quarter four and for the full year. The weak performance at MacGregor comes solely from the offshore wind business.

00:23:41

Mikko Puolakka: MacGregor's quarter four comparable operating profit includes €24 million costs related to offshore-wind new technologies. These are costs for additional engineering work and also potential project risks – kind of forward-looking risks that we have taken into account in the quarter's four bookings.

As Mika said, we have also initiated further restructuring measures in MacGregor to make the result more robust in 2023. Let me describe those actions a bit more in detail.

The MacGregor merchant and service divisions delivered solid performance and a clearly positive comparable operating profit last year, despite low sales. Here, we will focus on delivering on those orders and what we have been winning during 2022. The sales are expected to improve, both for merchant and services.

In offshore, we downsized the organisation and also rationalised our product portfolio. We shall exit certain businesses, like fishery and research, and certain MacGregor mooring solutions. These restructuring actions will deliver, on an annual basis, roughly €19 million in cost savings, of which €14 million will be visible already in 2023.

00:25:19

Mikko Puolakka: For these actions, we booked project costs, as discussed earlier, to cover the project risks for projects containing new technologies. Also, due to exiting certain businesses, like the fishery and research, we wrote off €25 million of intangible assets, and then did a €63 million goodwill impairment during the fourth quarter. These are naturally non-cash items in our cash flow outlook.

Looking at a couple of highlights from last year, we started the year 2023 with a record-high order book, almost €700 million higher order book compared to a year ago. In line with our strategy, eco portfolio sales grew 53 percent, much faster than the sales of traditional

Cargotec Q4 2022 transcript

products. The majority of our eco portfolio sales are related to our core businesses, Kalmar and Hiab.

Despite the disappointing result for MacGregor, Kalmar and Hiab delivered a strong year, taking the total Cargotec comparable operating profit 43 percent higher. Core businesses, Kalmar and Hiab, delivered 11.3 percent comparable operating profit for the full year and almost 12 percent for the fourth quarter.

00:26:54

Mikko Puolakka: This is in line with our ambition to take these businesses first to the 12 percent level and then to 15 percent by 2030.

A clear disappointment was our net result, which was burdened by the weak MacGregor performance and then one-off costs related to reshaping the business portfolio. All in all, the one-off costs were €210 million. It's good to also note that less than half of this is cash effective.

Our cash flow improved in the second half of 2022, driven by higher profitability as well as reduction in inventories, especially during quarter four. Our total cash flow for 2022 was €231 million. This is €62 million better than a year ago.

We have a very strong balance sheet, gearing continue to improve, driven by higher profitability and cash flow, and also our net debt to EBITDA is now 1.2, which we consider to be a good level. We do not have any major debt repayments coming up. Approximately €50 million in interest-bearing loans will mature in 2023. So also from that point of view a good liquidity situation. Our loan portfolio is also very well hedged against raising interest rates: about 60 percent of our loan portfolio is with a fixed interest rate.

00:28:42

Mikko Puolakka: When going to the dividend proposal, our Board of Directors is proposing to the Annual General Meeting a dividend of €1.35 for each of the B shares. This is in line with our dividend policy of a 30-50 percent payout ratio. When we eliminate one of the costs from our 22 results, our EPS would be €3.37. Against that number, the dividend payout would be 40 percent. The dividend would be payable on 4th of April 2023.

Then, our guidance for 2023. As mentioned earlier, we have a record-high order book of €3.5 billion, and this gives a good basis for this year in all our three business areas. We have also initiated additional actions in MacGregor to make the offshore business more robust. Based on this, we estimate the core businesses, meaning Kalmar and Hiab, will improve comparable operating profit from €384 million in 2022.

00:30:03

Mikko Puolakka: Furthermore, we estimate MacGregor's comparable operating profit in 2023 to be positive. MacGregor's sales are also expected to increase, driven by the strong order intake in 2022.

Please note that we are also changing our comparable operating profit definition for 2023. We include the PPA amortisation in comparable operating profit, as we had it in 2020 before the intended merger with Konecranes. The impact of PPA was €4 million in core businesses

Cargotec Q4 2022 transcript

last year and approximately €12 million in MacGregor. We will publish our restated 2022 figures, meaning this PPA change before our first quarter 2023 results.

I'll then hand it back over to Aki.

00:31:07

Aki Vesikallio: Thank you, Mikko, and thank you, Mika, for the presentation. With that, we are ready for the Q&A operator.

00:31:19

Q&A Operator: If you wish to ask a question, please dial *5 on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial *5 again on your telephone keypad. If you are using speakerphone, please make sure your mute function is turned off. The voice prompt on your phone line will indicate when your line is open. Please state your name before your question. The next question comes from Massimiliano Severi from Credit Suisse. Please go ahead.

00:32:01

Massimiliano Severi: Yes, hi. Hi, everyone. A couple of questions from me. The first one would be clearly on MacGregor. We have talked before about the offshore project and the restructuring costs that were related to the restructuring costs of last year to be delivered in late 2020 to early 2023. I was wondering, do you have an updated schedule for the commissioning of this offshore project, on which there have been quite a lot of cost overruns.

00:32:35

Mikko Puolakka: Thank you, Massimiliano, for the question. The largest offshore projects that we are currently delivering, are, I would say, 90 percent ready from the construction point of view. The installation for that project will happen this year, and the sea trials will take place at the beginning of 2024.

00:33:01

Massimiliano Severi: Okay, thank you. My second question would be on the sales growth. I was wondering if you can help us understand, in Hiab and Kalmar more or less, what is price versus volume in terms of sales growth? And, how much is left in terms of higher prices in the order book versus what we are seeing now in the top line?

00:33:29

Mika Vehviläinen: Good question, and it's not that simple. I'm oversimplifying maybe in my answer, but overall, when I look at the price levels that the customers were able to buy new equipment [with] at Q4 2022, they were roughly 20 percent higher than they were at the beginning of 2021. Now, with the long lead times, the price realisation comes in slower than one would expect. So, I would say [that] a rough number perhaps for the sales growth coming from the pricing would be around 10 percent for 2022. It's good to note that a significant part of the equipment that was ordered at 20 percent price increases is to be delivered only in 2023.

00:34:20

Massimiliano Severi: Okay, thank you. It's very clear. Just related to that, a quick follow up. Do you expect to be able to pass on even higher prices in 2023? Have you gone ahead with

Cargotec Q4 2022 transcript

your usual price increases at the beginning of the year, or do you expect to keep prices stable or maybe decrease them on your orders?

00:34:45

Mika Vehviläinen: We still see the inflationary pressures coming through at the component level. We know that some of the raw materials and steel qualities are having a lower prices for 2023 than they were in 2022. However, overall, I would say that the inflationary pressure is still in the product cost coming from the component and pricing as well, and then from the labour inflation, and energy, although energy is not directly a big item for us, but for some of our suppliers it is.

Overall, I think there is still pressure for price increases. Having said that, one, it's very clear that in our last pricing increase in October, there was probably more pushback on the pricing than we have seen in the past, but we are still planning, or we have partly started to execute, the pricing increases now at the beginning of this year.

00:35:37

Massimiliano Severi: It's very clear. Thank you very much.

00:35:38

Mika Vehviläinen: Thank you.

00:35:43

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

00:35:54

Antti Kansanen: Yes, hi, guys. It's Antti from SEB. Maybe a follow-up on the previous question. I'm looking at the guidance for the core divisions on earnings growth. Could you maybe talk a little bit about how you see that split into delivery volume growth, pricing growth, and perhaps a margin expansion that you have in the backlog? What's really driving earnings growth at Kalmar and Hiab in 2023?

00:36:19

Mika Vehviläinen: The primary driver would be the increased deliveries and revenue growth coming partly from the built-in pricing increases in the backlog. I would not bet at this stage, and we are not counting on the potential margin expansion on that one. It's still very hard to predict the component and product cost pricing, even though we've seen some pricing relief in some of the steel quality. As I said, at this stage, the pricing pressures and inflationary pressures clearly continue throughout the whole second half and Q4 as well. We are not making any assumptions yet on capability or margin expansion at this stage.

00:37:07

Antti Kansanen: Then, maybe, if we think about the order growth in Q4 for those divisions, the volumes are down as you have made price increases. Just thinking, you have your workload covered for the first three quarters, should we be concerned that if the volumes continue to trend down that at the end of this year, there will be a negative impact on your fixed cost absorption or overheads at the factory floor and so forth? How would you assess and what type of demand decrease can you handle and maintain strong earnings in the back half of this year?

Cargotec Q4 2022 transcript

00:37:45

Mika Vehviläinen: Well, maybe I'll start with the one cost item that has been hitting us throughout the whole year, and that's the indirect cost. As a result of large supply chain challenges at the moment, our production is not running very smoothly at the moment, and we are forced to take almost ready equipment out of the line, waiting outside for additional lacking components, bringing them back online again, et cetera. If we assume that the market starts to slow down slightly and the supply situation starts to stabilise, there are real opportunities to take out some of the cost that is coming from the very unbalanced situation at the moment. That will certainly help us. However, overall, I would say that what we see from our equipment activity, from our pipelines, we do not necessarily see indications on any slowdown on the market.

However, it's also clear that today's situation is not healthy. 00:38:51 The fact that customers are forced to place orders 12 months in advance is not a situation I think that can stay there. If you look at the truck deliveries and Hiab deliveries, typically before the COVID and supply chain constraints, we were talking about 2-3 months of delivery lead. At some stage, we need to be able to stabilise the situation that we get back to those more reasonable and healthy lead times. The same is true for the Kalmar equipment. I do expect that some stage that the book-to-bill would need to be negative for that situation to start to stabilise as well. But we saw no signs of any particular weakening in the market at this stage.

00:39:35

Antti Kansanen: All right.

00:39:36

Mikko Puolakka: Yes, I would add that, as we discussed on Capital Markets Day, we have also done a lot of activities in order to improve our resilience and agility, what comes to the cost base as well. So, from that point of view, we are also well equipped in this environment.

00:39:58

Antti Kansanen: Okay. Then, maybe a bit on MacGregor in a sense that, how should we, if the guidance of positive earnings very back-end loaded in a sense that the savings will most likely kick in late in the year? Could you talk a little about how you expect to convert the container backlog into revenues through the year, for example H1 versus H2, how the dynamic will work?

00:40:25

Mika Vehviläinen: Yes, I would say that the service is, first of all, the underlying performance is excellent, and that will continue for fairly steady throughout the year. We've been building up a significant backlog on the merchant side. I would expect that start to deliver already better results in the early part of the year, but again, probably a little bit more back loaded on that one. After the measures we have now taken in the offshore segment and some of the overheads in MacGregor overall, I do expect that offshore should turn to the more healthy numbers fairly early overall. I would expect that we will enter the year already in a good situation, but I would still say that the results are probably more back-weighted, in terms of that you should see a continuous improvement throughout the year.

00:41:15

Antti Kansanen: Okay. Then just a short specification in the 14 million of annualised savings

Cargotec Q4 2022 transcript

for 2023. This is not a run rate number, this is an actual year-to-year EBIT bridge improvement?

00:41:27

Mikko Puolakka: Yes, correct. That 14 million relates to costs this year versus costs last year. For the 19 million, it means that the additional five million would still come in 2024.

00:41:43

Antti Kansanen: Okay, great. Thanks, guys.

00:41:46

Mika Vehviläinen: Thank you.

00:41:51

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

00:42:00

Panu Laitinmäki: Yes, thank you. I had a couple of questions, maybe along the same lines as those already asked, but just on MacGregor: Your guidance for positive EBIT and the consensus were expecting a margin of 4.6 percent for this year. It's a bit of a range, if it's like zero, or is it almost five. Can you give any indications, what are your expectations? Do you think MacGregor's growth could go to three percent, would you comment what's the underlying without these losses, or any comment on what should we expect?

00:42:34

Mika Vehviläinen: Well, I don't think we are going to give any particular number here, but it's obvious that the willingness to guide for positive results, we would take certain safety or cautionary measures to make sure that we are able to deliver on that number.

00:42:54

Panu Laitinmäki: Okay. Then, did I understand your previous comments correctly that you would see breakeven already from the beginning of the year?

00:43:01

Mika Vehviläinen: We'd like to be on the positive side as soon as possible. Let's see how that pans out. That really depends. The biggest swinger, in a way, is the merchant ship equipment deliveries because of the strong backlog. That's the sort of how much of those deliveries we are able to get out on Q1 versus the rest of the year is still a question mark.

00:43:24

Panu Laitinmäki: Okay, thanks. Then, on demand, you already commented on that but you said that you see no signs of any particular weakening in the market at this stage. Was this referring to Hiab, or both Hiab and Kalmar?

00:43:37

Mika Vehviläinen: Both Hiab and Kalmar at the moment. If you look at the sales pipe, you could say that, in volume terms, especially in Hiab, the market is stabilising already. In volume terms, the 2022 in Hiab is even or slightly down from 2021 numbers already. The pricing is, it's going to be a relevant factor moving into the 2023. We don't see a particular weakening the demand: underlying demand and activity, both in Kalmar and Hiab, as well as the sales funnel we are seeing, are looking very solid.

Cargotec Q4 2022 transcript

00:44:13

Panu Laitinmäki: Good. Thank you. The final one, if I may, is on the FX impact of US dollar in Hiab. I think we have previously discussed that you should get some margin benefit going into 2023. Do you still see this happening, given what has happened in the FX rates?

00:44:31

Mikko Puolakka: Yes, I would say that definitely in 2022, we did not get a significant tailwind, but in 2023, now that we are able to deliver that kind of an order book, which was hedged earlier in 2022, we expect that there should be some tailwind. Of course, we cannot predict the FX rates any better than the others. However, assuming the current environment, there could be a small tailwind.

00:45:03

Panu Laitinmäki: Okay, thank you.

00:45:05

Mika Vehviläinen: Thank you.

00:45:11

Q&A Operator: The next question comes from Axel Ekros from Adrigo. Please, go ahead.

00:45:19

Axel Ekros: Hi, I'm Axel, from Adrigo. I have two questions. The first one is, how do you think this spare part capture rate will change when you sell more electrical equipment in Hiab and Kalmar?

00:45:32

Mika Vehviläinen: Yes, obviously less spares, but we expect that our capture rates are significantly higher in there. The way we approach the technology deployment in electric vehicles consists of a number of components that we are putting together. There are two factors. First of all, in terms of the availability of those components compared to, say, a diesel engine, if you use today a Cummins or Volvo diesel engine, which has a multiple different ways of getting the spare parts. There will be a more restrictive supply of those ones.

Secondly, in terms of installation and service, the high-voltage electric equipment also requires specific certification. So for services capture rate as well, we expect that we will be at a considerably higher level than we have been in the traditional equipment. We expect that to offset the actual spare part demand by vehicle. The other thing is good to put this way: despite the very strong growth we are seeing there, we have a huge installed base of tens of thousands of equipment. And before that then transfers into the electric equipment will take, one should expect about a ten-year lead time before it will be significantly visible in the spare part demand.

00:46:54

Axel Ekros: Okay. All right. Thank you. The second one is, do you see any risk in order cancellations in Hiab, or especially Hiab, when you have such a large order book?

00:47:07

Mika Vehviläinen: We see no signs of that one. First of all, because of the inflation equipment, people like to hold on to their orders because they know that if they come back

Cargotec Q4 2022 transcript

to the market and reorder, you have to do it at a higher rate. Hiab overall is in a very particular situation because the primary driver for Hiab deliveries and lead times is not the industry's own manufacturing; it's truck lead times. And 2022 was a very tough year for truck deliveries. That has built up the lead times in Hiab as well. For Hiab to be able to claw back some of the lead times etc. that requires that the truck manufacturing and situation improves.

00:47:51

Axel Ekros: Okay. Thank you. That's all from me.

00:47:59

Q&A Operator: The next question comes from Tomi Railo from DNB. Please, go ahead.

00:48:09

Tomi Railo: Hi, this is Tomi, from DNB. I've got a question on Hiab. The orders are down two percent, probably in volume terms closer to 10 percent. Can you talk just a little bit about the regional or geographical performance: where did you see most of the weakness, and maybe also from the end market point of view, construction, logistics, recycling, military, et cetera.

00:48:37

Mika Vehviläinen: Let me maybe start with the military. We see a lot of activity coming up there. It's not yet particularly visible in our numbers. As you know, the military procurement and the cycle times are relatively long. However, in terms of the actual activity and upcoming procurement, we see quite a very significant opportunities coming through from the military side. I think, overall, the military revenue for 2022 was only about 100 million. I think there are significant upsides to that one going forward, but again, the cycle times are quite long. In terms of the other specific segments, we haven't seen a particular softening on any of the segments, and sometimes it's slightly difficult to also directly read on those ones because the truck might be deployed in multiple segments.

Overall, the US activity has remained at a good level at the moment, and we see from key accounts and have understood demand continuing. The weakest spot maybe we saw in the European market was France is during the 2022. I can't exactly explain that at this stage. Then, again, a lot of the other middle-European countries continued at a good level.

00:49:58

Tomi Railo: Okay, that's fine. Thank you.

00:50:05

Q&A Operator: The next question comes from Tom Skogman from Carnegie. Please, go ahead.

00:50:14

Tom Skogman: Good morning. I have two questions. First of all, I wonder about the risk level in the Kalmar heavy crane order book. Secondly, I wonder whether you have some discussions regarding the divestment of MacGregor at the moment, or is everything postponed in one area where you highlight that the margin improvement will come in the second half of 2023 in MacGregor.

Cargotec Q4 2022 transcript

00:50:42

Mika Vehviläinen: Maybe you take the first one.

00:50:45

Mikko Puolakka: Yes. On Kalmar heavy cranes, actually deliveries last year. Kalmar heavy cranes' margin has remained very stable, actually improved in 2022 compared to 2021. I said earlier that Kalmar heavy cranes made roughly 20 million losses, and this loss is more or less on the 2021 level, due to the fact that the delivery volumes have been fairly small. Overall, the project execution has progressed well. As you saw, we have booked in quarter two and quarter three roughly €35 million of Kalmar heavy cranes exit-related project risk reservations for the event that there would be some hiccups in the projects. But so far, it has been progressing well.

00:51:43

Mika Vehviläinen: In terms of the question of MacGregor, there are no active discussions going on at the moment, and we have not initiated the process as such. There are two things we'd like to see happen. The first one is the capital market and the financing situation to ease off effectively, to put it straightforward. We'd like to see that private equity has better access for capital and can be part of the equation in terms of starting the process. Secondly, we'd like to show that there is a clear track record of the MacGregor measures that we are now taking to deliver profitability during this year.

00:52:22

Tom Skogman: Does that mean that we should not expect the divestment this year? To be fair, it's rather likely to be in 2024, and not to have wrong expectations.

00:52:32

Mika Vehviläinen: I think it's good not to have the expectation that anything happens, at least in the early part of the year. We probably want to create a track record and monitor the financial market. Unless there are any surprises, I would not expect that process to be initiated until towards the end of this year.

00:52:54

Tom Skogman: Okay. Thank you.

00:53:01

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

00:53:10

Antti Kansanen: Yes. Hi. I've got two follow-up questions. The first one is to Mikko, and perhaps you already mentioned this earlier, but regarding cash flow in 2023, and especially working capital, where you have been tying up money for two years, what should we expect from that in 2023?

00:53:27

Mikko Puolakka: First of all, we have guided improving results in the core businesses as well as in MacGregor. The expectation is that the EBITDA should contribute positively to this year's cash flow. Secondly, as you said, also, we have been tying up basically, now for two years quite significant amounts in our net working capital, especially in inventories. Our inventory days have been roughly 130 during 2022. This is highly dependent on supply chain development: should the supply chain get a bit more normal, for example, from a truck

Cargotec Q4 2022 transcript

availability point of view, for example in the second half of this year, then we could also start to release some cash from the net working capital. So, highly dependent on supply chain development, still, the net working capital.

00:54:34

Antti Kansanen: Okay. Then the second was a follow-up on the MacGregor divestment question from Tom. You've been talking about the external conditions and the M&A market and private equity not being as active. But to be fair, how much do you think it's due to the fact that MacGregor is not profitable? I mean, if you were making, let's say, three to five percent EBIT margin today or late last year, would that situation be notably different? Is it just more about turning it around than waiting for external issues to improve?

00:55:07

Mika Vehviläinen: I think it's both, and it's not either or, because the combination, especially at the moment, is tricky. You have a lower-performing business and a higher risk attached to the financing at the moment. If the business would be a higher performing, probably the financing wouldn't be such an issue, and then again, if financing would be easier, maybe the performance wouldn't be such an issue. It's the combination of those two at the moment that is making it difficult. Our view is that in order to try to maximise the value, we'd like to see both of those develop into a favourable direction.

00:55:43

Antti Kansanen: In a sense, you're doing the dirty work now with the restructuring and the write-offs and things like that, that should improve the situation, right?

00:55:53

Mika Vehviläinen: Yes, absolutely. We are taking very harsh measures at the moment, which unfortunately were very visible in the Q4 result as well. However, those measures will now be starting to deliver a very clear financial impact on MacGregor already during 2023.

00:56:10

Antti Kansanen: All right. Thank you.

00:56:19

Q&A Operator: The next question comes from Massimiliano Severi from Credit Suisse. Please go ahead.

00:56:26

Massimiliano Severi: A quick follow-up from me. You mentioned that the project in Kalmar heavy cranes exit is going well. Do you expect, given where you are now, to maybe be able to release some provisions during 2023, or is it very much in line with what you expected when you took the provisions in the first place?

00:56:50

Mikko Puolakka: At the moment, I would say that it's too early to say. As I said, we have roughly a €50 million order book, €47 million to be exact, and most of that will be delivered by the end of this year. Toward the end of the year, we should have better visibility about the final project execution. Then, we can also review the remaining provisions that have been made for this exit.

Cargotec Q4 2022 transcript

00:57:18

Mika Vehviläinen: Yes. Overall, what we did in Q4 that was then visible was that we went very thoroughly through the whole process of the existing project portfolio. As a result of that one, we took further reserves and cost increases on some of those projects, to be able to make sure that we are conservative enough in terms of expectations for the ongoing project implementation in MacGregor.

00:57:49

Antti Kansanen: It's clear. Thank you.

00:57:55

Q&A Operator: There are no more questions at this time, so I'll hand the conference back to the speakers for any closing comments.

00:58:03

Aki Vesikallio: Thank you for the great questions and great answers. Our first-quarter 2023 results will be released on 27th of April. See you then.