

Transcript – Cargotec's interim report Q1/2023

Aki Vesikallio: Welcome to Cargotec's first Quarter 2023 results call on this historical day as we announced both record breaking results and a plan to separate Kalmar and Hiab. This is also the first result call for our new CEO, Casimir Lindholm. Welcome. In the first quarter, our comparable operating profit was record high, driven by our core businesses and strong development in sales. Underlying demand for our solutions remained at a good level. My name is Aki Vesikallio, I'm from Cargotec IR. Today's presenters will be Casimir Lindholm, CFO Mikko Puolakka, Kalmar's President Michel Van Roozendaal, and Hiab's President Scott Phillips.

Aki Vesikallio: Please pay attention to disclaimers in the presentations as we will be making forward looking statements. Casimir will start by covering the quarterly highlights and group level figures. After him, Michel Van Roozendaal will enter the stage and cover Kalmar's first quarter, followed by Hiab presented by Scott Philips. Our CFO Mikko Puolakka will go through MacGregor's quarter as well as finances and outlook. After that, Casimir will get back on stage to present our plan to separate Kalmar and Hiab. After the presentation, there will be a wrap up with a Q&A. With that, the stage is yours Casimir.

Casimir Lindholm: Thank you, Aki. Comparable operating profit margin above 10 percent. We started off the year in a very good way. Orders received were also on a healthy level. We'll come back to that a little bit later. Sales increased by 26 percent especially in Kalmar and Hiab. I'm really glad to see comparable operating profit improving in all three business areas. Orders received continued to improve in MacGregor and both Michel, Scott and Mikko will then talk more about the order and the order mix. All in all, we see that the orders are on a good and stable level now especially through looking at 2023 where we find that we have a solid order book in all three business areas.

Casimir Lindholm: We had a strong development in sales, especially in Kalmar and Hiab. There are particular reasons for that, and Scott and Michel will go through it in more detail. All in all, a great start to the year also from a sales perspective, and that was the main driver for the record high operating profit. Service continues on a good path. It's been improving quarter by quarter here. Again, a really strong message here is that service sales is improving in all three business areas. All in all, service share was 32 percent of total sales. The eco portfolio also continued to improve and is on a good level. Overall, the Echo portfolio share is 32 percent of Cargotec total sales in the first quarter. With that, I will now give the word and stage to Michel. Please, Michel.

Michel Van Roozendaal: Thank you, Casimir. My name is Michel Van Roozendaal and I have the pleasure to present the Kalmar result. I'm very happy to present to you a record comparable operating profit. You'll see that also the orders for our strategically important eco portfolio continued to increase and we've also started the production of our electric range, which is a testimony of our sustainability journey. If

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you look in a bit more detail, we see steady demand for Kalmar. The flip side is that some of the larger projects are taking a bit more time before orders are being awarded. However, at the same time we see an order book that's very solid and service orders that are continuing to be very strong. The order book is such that it basically covers, in essence the rest of this year. If you realize that there is no order backlog in essence for the server side and also spreads into next year.

Michel Van Roozendaal: If we then look at the sales side, there's very strong development compared to Q1 of '22, with a 31 percent increase. Service sales, which is maybe less spiky, shows a consistent growth of 18 percent. What's important is that we have our capture rate, which means the part of our own business we capture is gradually and continuously increasing, which is testimony of our ability to basically perform the service business in an efficient and performant way. At the same time, we see on the flip side some persisting tightness and volatility of component availability, which is still a challenge for our output. In general, the improved deficiency in the supply chain means that we have had the ability to reach this very strong sales level.

Michel Van Roozendaal: If you then continue to look at margin expansion, I'm very pleased to show to you the historically highest percentage of Kalmar's 13 percent, which is the highest percentage we've ever had for our comparable operating profit. If you compare that to Q1 of last year, it's more than double and of course, the percentage is from 7.6 to 13.0 percent. Why is that? It's driven by higher sales and also our ability to have good management of inflationary pressures. In general, we're starting or have started our lean journey and we believe we will continue to be able to perform strong on this side. Also, we announced last year and you will recall that the exit of our heavy crane business and the losses which are underlying there were €4 million lower. That has led to this 13 percent profit margin. Thank you. I'm now handing over to my friend and colleague, Scott Phillips. Scott, welcome to the stage.

Scott Phillips: Thank you, Michel. Good morning from my side. When summarizing the quarter, we had a strong start to the year and as Casimir had alluded to you earlier, the strong start was largely supported by a big increase in sales year over year. Orders declined year over year and sequentially slight improvement. I'll go into more details about that one. All enabled from the continued excellent operational execution in the business, both in our factories as well as our suppliers. Strong effort from all the team that we have at Hiab. I'm really proud of the job that everybody is doing. Our services business continues on a nice trajectory. Sales are up 21 percent year over year as indicated earlier. Also, at the same time, I'm pleased with very nice positive operating leverage. It's well in line with our target framework.

Scott Phillips: Then going into the orders, we're about in line with consensus. Slight sequential improvement. We still have a nice strong backlog coverage of over 1.1 billion, so we're nicely covered for the year. We did have a year over year decline of 21 percent. Keep in mind it's off of a rather strong comparable as the quarter one last

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year was our third highest quarter in the history of Hiab, but a nice start to the year nonetheless. At the same time, we had continued challenges from really three factors that are pulling orders down. We've had the continuation of long lead times and challenges with certain availability of components. That combined with long lead times of truck chassis, the overall general inflation, and then the interest rates are certainly having an impact on delaying orders, although I must say that sequentially throughout the quarter we see a nice development in terms of order activity. We're really pleased about that.

Scott Phillips: Then moving to the sales side, nice development both sequentially as well as year over year. We had 27 percent improvement on sales at €432 million euros. Our service sales also improved nicely. As I mentioned earlier, equipment sales went up 28 percent year over year. We're really pleased with the strong start to the year. Great execution, as I mentioned from all of our key stakeholders and colleagues within Hiab as well as our suppliers. I must say that a big thank you to our customers as well as we've been able to calculate our net promoter score year over year. The strong services execution and the focus on customers has enabled us to improve our net promoter score by 40 percent. If you go back to the Capital Markets Day presentation, that translates into a strong percentage of repurchase. We're really excited about that development.

Scott Phillips: Moving into operating profit, we have a nice both sequential development as well as year over year as we were up €14 million in absolute value, 29 percent in terms of relative change year over year. That delivered a 14.2 percent result, so we're happy with that. That's well within our target framework and a nice strong start to the year. At the same time, we're still under pressure from the relationship of our pricing as we target to offset inflation. With the continued long lead times, we're still slightly lagging. Therefore, excellent execution with the team to manage the fixed cost base in order to continue to deliver to our target profit framework. We're really pleased with that one. Overall, I'd say it's a strong start to the quarter, strong confidence shown from our customers and of course really exciting news for the day. With that, I'll turn it over to Mikko and he'll talk about MacGregor.

Mikko Puolakka: Thank you, Scott. On MacGregor, this was the fourth quarter in a row when MacGregor order intake was actually developing in a nice way. 80 percent of MacGregor quarter one order intake came from merchant or services related orders in merchant, especially from car carrier type of vessels and container vessels. We start to have a sizable order book in MacGregor, almost €960 million. A very good basis for the coming quarters revenue development. At the moment still, the orders have a fairly long lead time. For example, in quarter one, we did not see a sizable revenue uptake from the order book. This is now expected especially for the second half of the year to contribute then in revenues. Then on profitability, small positive result for the quarter one was very much driven by the excellent performance in services and also the merchant division was performing well.

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Mikko Puolakka: Offshore division was still making a loss and as you recall also from the previous quarters, we're executing the offshore restructuring program and targeting €14 million in cost savings during this year. A couple of financial highlights on Cargotec level as already discussed by Scott and Michel. We have an excellent order book, almost €3.5 billion, and that's mostly covering the full year equipment sales estimate already. Therefore, a good basis for this year's revenues. Our eco portfolio sales are almost €350 million, so almost one third of Cargotec revenues. Quarter one revenues are coming from the eco portfolio. For example, from electric equipment and services. Showing basically the strong development in our sustainability strategy execution. Comparable operating profit like discussed already earlier, €112 million, and an 85 percent improvement there which is very much driven by the core businesses, strong performance of Kalmar and Hiab at 12.4 percent for the first quarter.

Mikko Puolakka: Then also, comparable operating profit, including one off costs of €8 million, which were related to MacGregor. The operating profit improved by 177 percent in quarter one. Our cash flow improved from last year's quarter one, but it was still burdened by the high net working capital, especially by the inventory increase. We still have component availability challenges as described by Michel and Scott, and this is resulting in a kind of extraordinarily high work-in-progress. Roughly €300 million work-in-progress equipment, which is waiting for components. This is still burdening our cash flow, but gradually, hopefully, we also see improvements in the supply chain. Our balance sheet is very strong, gearing 26 percent.

Mikko Puolakka: No major debt repayments during this year and we're also well hedged against rising interest rates with 60 percent of our loans at fixed interest rates.

Then, we reiterate our guidance for this year, we expect Kalmar and Hiab, the core businesses' comparable operating profit to improve from last year, supported by the strong order book. In MacGregor, we expect MacGregor results to be positive this year, very much driven by the improvement in merchant and services and then the restructuring in our offshore business.

I would hand it over back to Casimir for the second big news of today.

Casimir Lindholm: Thank you, Mikko. On top of a strong start to the year and strong financial performance in the first quarter, we have other exciting news.

This morning, the Board of Directors at Cargotec decided that we're going to investigate and plan a potential separation of Kalmar and Hiab. There were other strategic options also involved in that process, but this was the one that the Board decided upon. This journey starts today and it will be going into a planning phase here during Q2 and onwards. At the end we're looking to separate Kalmar and Hiab into two focused world ling standalone listed companies and through that, unlock shareholder value. The technical aspect of it is that we're planning to separate Kalmar through a partial demerger. The listing of Kalmar would happen in Helsinki and is expected to take

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place in 2024. Therefore, we will need this year for planning and execution later on if the board finally decides to go ahead with the plan.

Casimir Lindholm: At the same time, we'll continue to focus on turning around MacGregor and like Mikko was referring to, we see positive things happening, especially on the aftersales service side and merchant business in MacGregor, and then the focus is on turning around the offshore business. At the end, if the planned actions are completed, there would be three separate businesses Kalmar, Hiab and MacGregor, announced already last year. All the actions are subject to shareholder approval and normal local legal requirements, but we do not need approval from authorities in this process. The aim around it and the separation is of course, to support Kalmar and Hiab in their journey regarding growth, both organic and inorganic growth. This would also mean that Kalmar and Hiab would not compete for the same resources, for example, equity or investments.

Casimir Lindholm: The rationale behind it is that by doing this, we will unlock the full potential of Kalmar and Hiab, there will be clear strategies, clear structures and easier governance all the way down from board to management. Focus on one business and there's no real cross-selling or operational synergies between Hiab and Kalmar and they could focus on their own business to 100 percent. Again, as mentioned before, there wouldn't be competition around capital allocations, for example. I fully believe that both Kalmar and Hiab would be more agile. They would be more focused both internally and externally towards customers, but also internally regarding processes, systems and so forth. It would simplify the overall structure and give transparency both to investors and owners and in that sense also accountability to all boards and management.

Casimir Lindholm: It is also a great opportunity for our employees at Cargotec because we, of course, need to develop Kalmar and Hiab to become separate companies and there are a lot of functions that need support and need to be established within Kalmar and Hiab. On top of that, a very exciting journey within this project. As mentioned before, we see no real overlap regarding customers or sales channels between Kalmar and Hiab, and the focus in their own business is a positive one. Again, also giving more power to the M&A journey, especially regarding Hiab going forward. Today, of course, we have Cargotec on top in this conglomerate model and Kalmar, Hiab and MacGregor as business areas. During this transition period, the aim is then in '24 to have Kalmar as a separate listed company.

Casimir Lindholm: Then over some period of time Cargotec would continue with Hiab and MacGregor as business areas. Then we're heading and trying to find a solution for MacGregor in '24 and at the end, there would be the targeted structure where we have Kalmar and Hiab as separate companies. The structure as such listing like mentioned before listing happening in Helsinki and then ownership of Kalmar and Hiab would be that the Cargotec shareholders would be owners then in Kalmar and Hiab going forward. There's also another strong message here that we do not need

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do you see this level going forward? Can you please talk about it? How did it become so good and what do you see going forward?

Michel Van Roozendaal: Thank you for the question. We were pleased with the margins. There's no extraordinary element, but we had a favorable mix at this stage for the slightly more profitable units. At the same time, it's testimony of our ability to execute and perform on the margin expansion operational excellence. At the same time, we see some challenges ahead of us more around the volatility of the components, availability and the mix. At this stage, we won't make any statements as to how sustainable that would be going forward, but we were pleased with the quarter.

Panu Laitinmäki: Okay, thanks. Then on the planned demerger, I understand that you're going into a planning phase now, but any kind of initial thoughts on what the companies would look like or how would you split the group costs into these new companies? Then did I understand correctly that Hiab will remain as the Cargotec and then Kalmar spin off? Is it so that MacGregor will remain in Hiab up until it's divested and or how does it play out?

Casimir Lindholm: Thank you for the question. Yes. Like in the last pictures there, they were describing that yes, MacGregor will stay within Cargotec and of course, Hiab as well when we enter into '24. We haven't come that far in the process that we would be able to talk about how fixed costs will be split going forward. That is, of course, an exercise that we need to do as part of also building the functions within Kalmar and Hiab so that they can be stock listed companies and have listing readiness on their own. That's exactly one of the key parts of this process, how we plan the organizations and of course, there will be both internal and external recruitment processes during this time if the plan as such is approved later on.

Panu Laitinmäki: Thank you.

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

Johan Eliason: Hi, it's Johan at Kepler Cheuvreux. I'm sorry I haven't been able to see your presentation. There seems to be some technical issues for me. But I was just wondering about one wording about this demerger. You say partial demerger, but it's pretty clear that the Kalmar business will be handed out to Cargotec existing shareholders. It's not like the Cargotec holding will partly remain with Cargotec just to make that clear.

Mikko Puolakka: Yes, you're correct. It's a partial demerger, meaning that basically

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Kalmar related assets and liabilities are carved out from the current listed Cargotec Oyj and there will be a new listed company with the new company identity code. Current Cargotec shareholders would own with the same proportion the newly established Kalmar listed company. Therefore, yes, partial demerger.

Johan Eliason: Good. Do you plan to keep the same share structure with high voting and low voting shares?

Mikko Puolakka: This is something that will be evaluated also as a part of this planning process. Once we have more clarity on the planning, this will then be opened more.

Johan Eliason: Excellent. Just timing wise, you want to sell MacGregor, but you weren't able to do that last year. Is the merger of Kalmar dependent on the fact that you have somehow secured a potential buyer of MacGregor before you do this? Otherwise you would be risking Hiab sitting with this not so well-performing unit. Then the follow on that one is that presumably you will get cash for the MacGregor divestment and will those only go to the Hiab shareholders one day when the MacGregor part is divested. How timing wise is it linked in any way?

Casimir Lindholm: Thank you for the question. It's not linked in any way. All the three processes here are going on their own but the aim is to find a solution for MacGregor in '24. That, of course, requires that we're able to turn around MacGregor in '23, and it was a good start in Q1, especially then in service and merchant businesses. It's not linked. If we wouldn't be able to find a solution, for example, in early '24 for MacGregor, that doesn't stop the Kalmar process.

Johan Eliason: Good. Then just on the operational numbers, order and revenues obviously deviated in the quarter for obvious reasons but I was just wondering, how much of the growth in orders were price related and how much was it in the sales development that was price related to the growth there? Thank you.

Mikko Puolakka: I would say that overall if we look at quarter one order intake, there's a certain element of price increase as we have been basically increasing throughout 2022 year prices every quarter to a certain extent. We have not disclosed specifically by the business areas, but I would say that the price element is getting smaller and smaller as we proceed now with the quarters as already quite sizable price increases were made last year.

Johan Eliason: What about the revenues?

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Mikko Puolakka: In the revenues, I would say depending a bit on the business, the price increase impact is ranging from one third to two thirds.

Johan Eliason: Okay. This is valid for Kalmar and Hiab, I suppose?

Mikko Puolakka: Yes.

Johan Eliason: Excellent. Thank you.

Operator: Please state your name and company. Please go ahead.

Antti Kansanen: Hello, this is Antti Kansanen from SEB. Thanks for taking my question. I'll start from the operational side and follow up on the previous question on profitability and margins. We've seen a very strong margin development now in Q1 for many of the industrial companies. Should we be a bit cautious going into the back half of this year? You've done a lot of price increases, now you're seeing a lot of deliveries going out and perhaps the inflation is moderating. However, how will accelerating labor costs and things like that impact the delivery margins going into the second half? I mean you're not raising your prices any more. Should we be a bit cautious on how this trend continues throughout the year?

Mikko Puolakka: Yes. In general, you're right. There's some moderation in the inflation. On the other hand, there's labor cost increases. What we have seen, for example, in the component prices is that in some areas the raw material costs have been declining but on the other hand, the energy costs as well as labor costs have been offsetting. All in all, one could say that actually the component prices have remained fairly stable. We need to keep an eye on our own labor cost development and in some areas we have done some moderate price increases still during this year in order to offset the inflation impact. Overall, we're keeping a close eye on the margin development and are doing our internal development actions designed to cost activities in the business areas to reduce the cost of raw material while keeping an eye on the prices.

Michel Van Roozendaal: Antti, allow me to give a little bit of flavor. I agree with your statement about caution, but let me add one element which is relevant for Kalmar, and that's the freight cost, which is a non insignificant component and we see that actually coming down at this stage. However, I do agree that we will be cautious for the back half of the year.

Antti Kansanen: I imagine your clients are always asking for lower prices, but is this something that is starting to pick up now that we're seeing this moderating inflation

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and perhaps some of the end demand is cooling off as well? Is there a pressure of lower prices?

Michel Van Roozendaal: There's always a pressure of lower prices because we have competitors there. At the same time, there's still an element of demand. At this stage, we're at equilibrium between supply and demand with the price level which is currently being quoted and being accepted by customers.

Antti Kansanen: Then a couple of questions on the demerger plans. I just want to clarify something regarding any shared resources between Kalmar and Hiab, especially on the production side. There's nothing that would trigger any extra CapEx for either of the businesses as the demerger has been executed.

Scott Phillips: Speaking from high upside and I think I can talk for Michel as well, the answer to that one quickly would be no. There's no need for additional CapEx and at this time, there are no issues with shared operational facilities.

Mikko Puolakka: Remember that--

Antti Kansanen: Basically, you're just--

Mikko Puolakka: It's good to remember that from the manufacturing point of view, we don't have shared factories, but there are certain shared platforms like IT systems which would need to be separated for this demerger purposes. We have shared service operations, of course, where we need to also see how to arrange that to support the demerged Kalmar.

Antti Kansanen: Okay. Then perhaps just a couple of technical questions helping to value the businesses individually. Mikko, maybe you can remind me what has been the maintenance CapEx levels of the two businesses, work, sustained working capital levels, cash conversions, returns on capital and so on for Hiab and Kalmar separately if you go back, let's say five years.

Mikko Puolakka: I would say we have not disclosed the business area specific CapEx numbers but overall on Cargotec level, we're talking about 80 to €100 million CapEx as we're in the Assembly only operations. The CapEx as such is a fairly small amount in our business. The cash conversion described also in the Capital Markets Day has been typically for Kalmar and Hiab at 100 percent or in some years even above 100 percent. However, due to this component availability situation at the moment, cash conversion for both businesses has been below 100. However, in a more normal situation, it's expected to be a strong cash generating businesses.

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Antti Kansanen: Am I correct in remembering that Kalmar has a bit more favorable working capital versus Hiab where you perhaps hold more inventories or am I wrong here?

Mikko Puolakka: I would say that in Kalmar's case in history, it has been so that we have had the heavy cranes where we have had the advance payments and that has been bringing additional cash in Kalmar. Otherwise, I would say that the cash generation profiles for the new Kalmar and Hiab would be very, very similar.

Antti Kansanen: The returns on capital employed, I remember maybe you had the number for the core business on CMD, but does that differ materially between the two?

Mikko Puolakka: In Hiab's case, it's somewhat higher than in Kalmar's case due to slightly higher rolling 12 months profitability. However, very strong ROCE numbers for both businesses.

Antti Kansanen: All right. Thanks so much. That's all from me.

Operator: Please state your name and company. Please go ahead.

Tomi Railo: Hi, this is Tomi Railo from DMB. A couple of questions. Firstly, Casimir, you mentioned that other options were involved with regards to potential split. Can you just share a little bit on what you meant with other options?

Casimir Lindholm: Thank you for the question. There were options where there were different roles that Cargotec could play in the future. Those were the main discussions being at the holding company or then the separation we're seeing today. Those were the main discussions that were part of the strategy process. That what would be the potential role of Cargotec?

Tomi Railo: You're not suggesting that there has been approach from outside the company or industry private equity or so?

Casimir Lindholm: No. This was purely around strategy of the organizational setup. Internal discussions from a strategy point of view. That what would make most sense going forward. This one is the one that we and the board feel that this unlocks the potential on a market cap valuation point of view. The best way forward for Cargotec.

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Tomi Railo: Thank you. Then maybe operationally, Hiab orders down 21 percent. We know the comparison but then can you just explain a little bit geographically, where you saw the weakness and then by end markets, where was the weakness coming from?

Scott Phillips: Yes. In terms of the geographical piece. Thanks for the question. A little bit weaker in Europe versus the US. In terms of end markets more impacting on the heavier side of the business versus the smaller equipment solutions.

Tomi Railo: As a follow up, would you pinpoint that building, for example, weakness was visible?

Scott Phillips: Can you repeat the question, please?

Tomi Railo: In terms of like construction or building related activities, did you see weakness there?

Casimir Lindholm: Not driven from the end user activity levels. Actually, sequentially through the quarter, there was improvement in activity levels there. It's much more the three variables I talked about earlier. The combination of high inflation, long lead times, interest rates are four to five times higher. It's creating some delays in decisions around certain equipment solution purchases. Less to do with the end user markets.

Tomi Railo: Then final question, if you can say anything about the April activity. Are we trending similarly in Kalmar and Hiab demand point of view?

Mikko Puolakka: Overall, if we're looking at the activity levels, whether it's an equipment utilization activity or what we see from the customer side sales funnel point of view, there's similar activity levels as to what we have seen throughout the quarter one, overall. No changes in that area.

Scott Phillips: Just as a follow on, I wouldn't talk about what type of activity we're seeing so far within the corridor that we're not yet reporting. However, as I stated earlier, sequentially throughout the first quarter, we did see a nice uptick of overall quotation activity. We're a bit optimistic in that regard, but too early to talk about the current period.

Tomi Railo: Great. Thank you.

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Johan Eliason: Sorry Mikko, but I don't really understand this in the offshore. When you have this big provision in the fourth quarter, what does it mean for the margin going forward for the offshore when you did this clean up in the fourth quarter?

Mikko Puolakka: We still have loss making projects in offshore and those continue to burden the offshore division result until those projects have been finalized there.

Johan Eliason: Then I wonder whether it has been a consideration that Kalmar and Hiab, if they get a greater valuation on the stock market, we could see a chance to use their own share in acquisitions? Has it been a problem for Cargotec that you have been forced to do all acquisitions with cash given the low valuation?

Casimir Lindholm: No. That's part of the journey going forward and the planning and financial structures balance of Kalmar and Hiab going forward plus the financial solution at the end that with what kind of balance sheet and what kind of equity they go forward that is part of the planning phase as well. So far, that has not been a burden or a problem for Cargotec to do M&As. However, as stated before, when you have three businesses competing about resources, then you, of course, have to prioritize during the journey. If this plan goes through, then they're on their own and then the focus is only on one business out of one valuation and one balance sheet in the respective companies. It clarifies things and I think it improves decision making going forward.

Johan Eliason: Do you have any early estimate on how large the new head office costs will be that we should add and perhaps R&D?

Casimir Lindholm: No. We don't have any estimates that's part of the planning process. Look at the organizations in Hiab and Kalmar, parts of those needs to be strengthened to become listed companies in the future, especially regarding the functions. It is part of the planning process to look at the headquarters on Cargotec level today and there will be a lot of opportunities for our employees in new and interesting roles and responsibilities within Hiab and Kalmar.

Mikko Puolakka: When it comes to R&D expenditure, we do not at the moment have any more R&D expenditure on group level. After the latest operating model change, which we implemented last year, basically all R&D types of activities have been moved to the business area so roughly €100 million that we've had in the past, is basically in all three businesses.

Johan Eliason: Reading your statement, it sounds like one alternative is also to spin out MacGregor's independent company and not sell it. Do I understand that right?

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Casimir Lindholm: I think it's a bit early for that conclusion. We will continue to focus on the business and that goes for all three business areas. That is the most important thing to drive our day to day operations. The functions in this case will focus on planning of things that are to come. Regarding MacGregor, we're looking for a solution in '24. It's too early to go in any direction on that one. First of all, we need to turn MacGregor around and have a good '23 and then we take it from there.

Johan Eliason: Okay. Thank you.

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

Panu Laitinmäki: Thank you. I just wanted to come back to the demand topic. Basically, you said in Hiab that you saw an improvement sequentially during the quarter. I'm wondering what the magnitude might be, how big was the improvement at the end of the quarter compared to how it started? Basically, the same question for Kalmar. What did you see there? Was the trend weakening towards the end of quarter or otherwise?

Scott Phillips: Basically, I'll comment the same way I did earlier. Thanks for the question again. The quotation activity increased nicely through the quarter. The magnitude is what I can't comment on, but a good strong development in terms of the quotation activities. Nevertheless, the decisions are being delayed due to the factors that I shared earlier.

Michel Van Roozendaal: Comments from Kalmar, and I made that comment in my brief pitch is that notably the slightly larger projects take a bit more time to be decided and awarded. That means that some of the demand is basically pushed a little bit backwards. That's the only comment to make.

Panu Laitinmäki: You're basically seeing that things take longer, but the pipeline as such remains fine or how do you see it?

Michel Van Roozendaal: I would agree with that. Of course, there's a mix between some of the various vehicles we sell and there's slightly more complex projects. The comment is basically referring to the slightly larger projects.

Scott Phillips: Just to reiterate again. The underlying demand drivers remained quite healthy as we laid out on the slides earlier.

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Panu Laitinmäki: Maybe finally, how much would you describe that out of Kalmar's demand as something that's replacement for the customers?

Michel Van Roozendaal: A fair bit. I won't give you any numbers, but we got a 65,000 total vehicles out basically all over the world. Many people come back to Kalmar and there's a very natural economic life cycle. There's an underlying demand, if you like, which basically doesn't mean that there's a growth in the application. It's basically the replacement cycle. Given the strength of Kalmar and given the fact that we got 65,000 vehicles out there, that demand for replacement is quite substantial and gives a strong underlying continuous demand which is less affected by the cycles.

Panu Laitinmäki: Thank you.

Operator: Please state your name and company. Please go ahead.

Antti Kansanen: Hi, this is Antti from SEB. Thanks for taking a follow up and apologies, Scott, if you already mentioned, but could you talk a little bit about what you're seeing in terms of the truck maker's production and delivery volume improvements? I guess that's been curtailing the growth in your business. Is that improving? Is it impacting the industry lead times or your own lead times positively? How do you see that playing out throughout the year?

Scott Phillips: Thank you, Antti. The way we're seeing it is you've seen a few reported results so far from the truck OEMs and you see a decent year over year improvement in overall sales volumes. It's a mix with regards to the lead time. The lead times still are an issue and from two dimensions, not only the overall time, but then also the precision or the variability around when the chassis arrive. It varies by markets. I can't comment or I'd prefer not to comment at rural granular level by country, but we do see a different situation depending upon the geography. We've yet to see an overall improvement enough that will allow us to maximize the potential that we would have given our inventory position and the order backlog to be able to convert further the inventory and the backlog into sales. We look forward to a continued positive development on the truck OEM side.

Antti Kansanen: What's currently your own, let's say, average lead time that you can now promise to your clients if they are ordering in the second quarter?

Scott Phillips: Well, our lead times in terms of being able to recognize let's say, invoice the unit is still the controlling factor is the truck lead time. From a product line perspective as well as each of our factories, we're actually well within our target code or being able to deliver according to our plan, lead time. If we were to see truck

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chassis lead times, get back to, let's say pre Q3, Q4 levels of 2020, then we would be able to adjust quite quickly to accommodate those improved lead times.

Antti Kansanen: Would you imagine that this would encourage more demand from our clients? Is this a big pain point regarding actually firming orders and so forth, or is everybody just used to the new situation and ordering with long lead times?

Scott Phillips: It's a mix depending upon the product line. In some cases, you're exactly right and in others, again, it depends as of course, Mikko and Mika talked about in previous quarters, there is a level of demand that was driven by securing manufacturing slots in the future. That has materialized in some of our sequential and year over year development order intake and past periods. Overall, I would say it would be a favorable development from a customer side if lead times were to continue to improve over time. As I mentioned earlier, the underlying demand drivers are still at quite a good level.

Antti Kansanen: All right. Very helpful. Thanks so much.

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

Erkki Vesola: Hi guys, it's Erkki from Inderes. Just to make sure, are there really no operational synergies whatsoever between Hiab and Kalmar, for instance, in the Poland factory and the linked supply chain? Linked to that, how will the manufacturing structures evolve after the demerger or what will the changes be if there are any changes in the manufacturing setup?

Mikko Puolakka: If you look, for example, our Polish factory, the Stargard factory, we have separate buildings. Hiab is a separate manufacturing or assembly operation from Kalmar. We have some joint sourcing activities, but at the moment it's difficult to estimate what kind of possible negative synergies there could be? Expectation is that no major negative synergy is expected. Otherwise, the manufacturing operations, as discussed earlier, are business area specific and then we have certain common platforms like the ERP system and the shared services operations, which are to be separated should the demerger be approved.

Erkki Vesola: We already talked about the headquarter functions, but so that you are not at all concerned about the potential negative synergies by doubling the headquarter functions, establishing HR, IT and other counter functions.

Mikko Puolakka: This is something that needs to be evaluated during the planning phase and then of course, we need to be careful in the sizing calculations for Kalmar

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and then, of course, the remaining Cargotec headquarter functions. Ultimately, of course, splitting one into two might increase to certain extent the costs as we need to duplicate certain competencies. However, on the other hand, like Casimir said, there are multiple other synergies like agility, transparency, capital allocation, which in our opinion outweighs the possible moderate cost increases.

Casimir Lindholm: For example, regarding systems, it's not guaranteed that when you have many businesses under one umbrella that it makes it cheaper. That is not always the case. I think there are opportunities in the other direction as well to simplify all the way from the governance to running the business processes, interfaces and so forth. I think there's a lot of opportunities as standalone companies to be specialized and more focused and more agile.

Erkki Vesola: Looking forward to further information probably in the coming months. Anyway, thank you so much, guys. That's all from me.

Operator: There are no more questions at this time, so I hand the conference back to the speakers.

Aki Vesikallio: Thank you for the great questions and for your interest today. Thank you, gentlemen, from the great answers. We will come back with our second quarter results on the 20th of July. Until then, stay tuned.

Casimir Lindholm: Thank you very much.

Scott Phillips: Thank you.

Mikko Puolakka: Thank you.