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TRANSCRIPT

Cargotec Corporation, half-year 2023 earnings call

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PRESENTATION

Aki Vesikallio - Cargotec Corporation - VP of IR

Welcome to Cargotec's second quarter 2023 results call. My name is Aki Vesikallio. I'm from Cargotec's IR. Today's results will be presented by our CEO Casimir Lindholm, CFO Mikko Puolakka, Kalmar's President Michel van Roozendaal, and Hiab's President Scott Phillips. The presentation will be followed by a Q&A session. And please pay attention to the disclaimer in the presentation as we will be making forward-looking statements.

With that, over to you, Casimir.

Casimir Lindholm - Cargotec Corporation - President & CEO

Thank you, Aki. So, before going to the second quarter results, a few words around the planned separation of Kalmar and Hiab. The work is progressing according to plan. All streams are up and running. And as example of that preparation, we have recruited Sakari Ahdekivi as CFO of Kalmar. Sakari joined us on the 1st of July, just as an example of how we are preparing for what to come.

Then to the second quarter. All in all, a strong quarter for Cargotec. Record high comparable operating profit. We have orders that are below the previous quarter and comparable quarter, I'll come back to that a bit later. Sales increased by 25%. And there are some circumstances there that we will explain in more detail, that was a bit higher than we even anticipated. And then really happy to see the comparable operating profit clearly improving in all 3 business areas, and particularly strong development in MacGregor compared to last year's second quarter.

So orders are back on pre-COVID level, and we can see that in 2021 and 2022, of course, we had extremely strong orders. We are back in a more normalized world in that sense, looking at the historical development over the last 5 years.

That said, we are still on a clearly above historical average regarding the order book. And that is, of course, a strong message for the end of -- and the second half of 2023 and give us a good look at 2024 as well.

We will, of course, take actions as we announced in the Capital Markets Day in November last year. We are looking at actions to protect our margins and stay above the 10% margin, even if we see some challenges in the market compared to the strong 2021 and 2022 order intake that we had.

The sales developed, as mentioned before, even a bit stronger than we anticipated. One part of it is that we have semi-finished goods that we were able to deliver. We got maybe a bit more components to those than anticipated, and that improved the sales even above our expectations. And that, of course, then had an impact, and a positive impact on the operating profit as well. Again, here, all 3 business areas contributing in a very positive way to the operating profit.

Service orders -- and this is, of course, strategically a very important area for us -- continued to grow. This is a part where we invest also going forward to make sure that we are improving on the service part, both regarding orders and profitability. And again, here, all 3 business areas performed on a very good level.

The eco portfolio is key for us going forward as well. We'll invest in R&D to make sure that we are also in the future strong in the eco portfolio. We continued to grow eco portfolio sales by 26%, and again, an area where we'll invest more in the future, where, of course, one example is electrification within Kalmar that is key for us going forward.

With that, I will leave over the word to Michel. Michel will go through the results for Kalmar.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Thank you, Casimir, and good morning, good afternoon. My name is Michel van Roozendaal, President of Kalmar. And also from my side, a warm welcome to Sakari, who is going to strengthen the team of Kalmar. I'm really a happy President here to be reporting to you a record comparable operating profit in Kalmar.

Last quarter, we had the highest percentage. Now we have the highest comparable operating profit in absolute euros. The margin expansion is driven in essence, and we come back to that in a bit more detail, by the higher deliveries. But also our commitment to decarbonisation, helping our customers on their journey to make cargo handling, heavy load handling more sustainable was basically underpinned by 2 main events:

We introduced the fully electric straddle carrier at an event in Rotterdam in the Netherlands, and also, we see growing orders for our electric portfolio. So we are basically living up to our commitment towards de-carbonisation.

We did see, however, indeed, some softening in demand. Orders are, in essence, back to pre-COVID level. Let me dive into a bit more detail here.

As said, we see some slowness, and that's mainly because in essence, in the larger project side, people are taking a little bit more time to define their orders. Service orders are, however, stable, which is good. That basically is a commitment to our relationship with our end customer and the fact that our total fleet is being maintained and really people are relying on Kalmar for doing that.

In the comparison period, you'll see a bit of a difference between Q2 of last year. We had a very significant large order, which basically explains the essence of the change there. But we, of course, we like large orders. And again, the order book remains above historical average, both in units and in value. So we see some softening, but at the same time, it brings us back to a more normal pre-COVID situation.

If I then talk about the sales side, we see a robust execution of both the equipment and the service delivery. I come back to talk about that because execution is really a focus area for us, for Kalmar. Really, we like to sort of execute like clockwork, and we see that happening there.

We see an improved efficiency in supply chain management, basically testimony of the point I just made. But it is true that volatility remains. We still see some challenges with our supply chain with certain components that makes our job a little bit more difficult because every now and then we are surprised by yet another supplier who has shortages, which makes our life a bit more difficult.

But stronger execution has resulted in decreased lead times, and that is also seen by our customers. They now can see that lead times are back to a normal situation, and that also means that they need to no longer order with a view that deliveries are coming in more than 1 year time. So that in part also explains, I guess, some of the softening of the order there.

And then service. Again, we are executing very, very, very strongly on the service side and our service capture rate is growing and it's driving continued growth in service sales. We're getting a bigger part of the pie from a service perspective, and we're pleased with that.

If I then move on to the real, I should say, proud result we have, margin expansion is driven to a large extent by higher deliveries, but we're pleased that we have that, and we have that ability. We are levering up quite nicely, and that has led to this very, very strong level of operating profit. Margin is supported by this deliveries of these semi-finished goods, which we're waiting basically on the yards because 1 or 2 parts were missing. And when these parts were coming, it was easier to deliver those.

But still, we see that our factories, our supply chain, our teams have worked hard to make that happen and have learned to be agile in this very volatile environment, and we're pleased that we are able to deliver those units to our customers who are in need of those units because they rely on that to keep global supply chains going and to have their industrial operations moving on, based and working with Kalmar equipment.

Successful management of inflationary pressure of component availability is important, but also means that we are able to, sort of, like, translate that into a price level to our customers and see our customers also accept those price levels that are a reflection of the inflation, which is real, both in commodities like steel as well as in components, which have also a large labour component. And we all know that labour has come, of course, with wage inflation everywhere. So that we are able to manage in a good way.

And then last but not least, as you might remember -- you will remember, we have discontinued, stopped our heavy crane business and also the losses as a result of that as we are limiting the execution of that leftover portfolio. They have once more been reduced. So in that sense, a solid quarter, not entirely unhappy to use a Finnish expression.

And with that note, I am happy to hand over to Scott Phillips.

Scott Phillips - Cargotec Corporation - President of Hiab

Thank you, Michel. Good morning, everyone, and welcome to the results section for the Hiab business area. Overall, I would summarise the quarter as one in which our teams delivered excellent performance, both operationally and financially, with all key performance indicators improving both sequentially and year-over-year, with the exception of the order intake, which remains at a lower level compared to last year's run rate by 17% for the third quarter in a row due to the continuation of delays in purchase decisions amongst most of our customer segments.

Our focus on operational excellence and the effective collaboration with all of our suppliers has led to a nice improvement in sales, which resulted in improved profitability versus last year's comparable period, which also led to a good sequential improvement in cash flow, which I'm quite pleased about.

Additionally, I'm quite pleased with the development of our eco portfolio solutions, which contributed to 27% of our order intake and 24% of sales in the period. Excellent progress by our teams in developing and commercialising our sustainable offering.

And then, speaking of the offering development, I'm pleased with the overall impact our innovations over the past 5 years are having to our results, as approximately 40% of our equipment sales are coming from innovations within this period, delivering improved safety, productivity and lower carbon footprint for our customers.

And during the first half of the year, we had also a number of new product launches, 2 of which I would like to highlight. One of which is the launch of our new 135 tonnemeter super heavy crane under our Effer brand, so the IQ.1400, offering our customers 39 meters of vertical reach with an all-new power and motion control system operated by our Olsbergs-branded CombiDrive4 remote control, giving the operators unparalleled power, precision and ease of use.

With this solution, our customers will have unmatched lifting and reach capability on a smaller vehicle chassis, enabling lower operating cost and reduced carbon footprint. So we're quite proud of that. The second innovation I'd like to highlight is the new Universal Control Unit for ZEPRO tail lifts, which gives our customers a reliable and an intuitive user control interface to help the operators have smoother, safer and more efficient way of operating the lifting systems.

Now I will guide you through the figures for the quarter, starting with our order intake. We had a 1% decline sequentially and 28% decline year-over-year in our order intake. This is coming off of a tough comparable period. You'll keep in mind that we had 2 important factors. One, we had a number of large orders that we knew would not repeat; and secondly, we had a significant amount of pre-buy effect in advance of a price increase that we had announced earlier in the quarter that materialised in Q3.

Additionally, the underlying run rate is still driven by 3 factors that I talked about last quarter, and that's lead times for truck chassis, which still remain well over 1 year with unstable delivery precision, if you will, at still more than double the period before 2021.

Acquisition costs remained much higher due to inflation and the interest rates are, of course, 4 to 5x higher. So these factors continue to lead our customers and channel partners to delay purchase decisions. I highlight again that the quote activity in the quarter remained at a good level in all geographic regions. So overall sentiment remains the same amongst customers we serve compared to the prior quarter.

So turning your attention to the sales. Our team of more than 4,000 colleagues together with our partners delivered a solid result in the quarter of EUR 485 million, which is our highest quarter to date, representing a 12% improvement sequentially and 20% growth versus last year's second quarter revenue of EUR 404 million, with all divisions contributing to the positive variance. The volume growth, much like we reported last period, is a combination of unit volume and price effect with each contributing about equally.

I'm really pleased with how our sourcing and supply chain teams together with our suppliers are executing on our plans to build flexibility in our end-to-end processes, enabling our divisions to continue to perform well in converting the backlog, despite the fact that we continue to experience unexpected component shortages.

Now wrapping up on the operating profit side. The team delivered a strong result as our sequential earnings improved by 33% on 12% growth in revenues and 31% year-over-year on the 20% sales growth I talked about in the previous slide. The change in profitability was mostly due to sales, also helped somewhat by slightly improved gross margins.

So all in all, a solid quarter. Really proud of the execution that our teams, our channel partners and our suppliers have helped enable this strong result.

So that wraps it up from my side. So I'll hand it over to you, Mikko.

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

Good morning also from my side. If Kalmar and Hiab performed well in quarter 2, so did MacGregor with the EUR 10 million comparable operating profit for the second quarter. In quarter 2, about 90% of MacGregor order intake was related to merchant ships. Service orders grew almost 17%. We continue to see very lively merchant vessel market, especially in car carriers, heavy lifting and container vessels.

However, as many of us know, many shipyards are full at the moment, offering delivery times for 2025 or even beyond. And therefore, some merchant customers of MacGregor may not always see the urgency to place the orders with MacGregor immediately. This is very visible in merchant division quarter 2 order intake.

Offshore wind market is also active and on a good level. However, we have been very, very selective with the offshore orders as we want to first stabilise that business's financial performance.

MacGregor quarter 2 sales growth came from merchant and services supported by the past quarters, I would say, 4 quarters' orders. Offshore sales was flat. The quarter 2 profitability was very much driven by the service and merchant sales growth as well as favourable product mix, especially in the merchant deliveries.

Offshore was still loss-making, even though the loss was slightly smaller than year ago. We estimate that most of the loss-making projects in the offshore business will be completed this year, some tails still going to 2024.

MacGregor first half comparable operating profit margin was 3.4%. If we would exclude the offshore wind business, that margin would have been 9% in the first half. We continue with MacGregor offshore restructuring, and our target is to reduce costs by EUR 14 million on annual basis during this year.

A couple of highlights of our financial performance. As you saw already earlier, we have a very solid order book, where the larger share of orders are now reflecting the price increases what we have been making during 2021, 2022.

Even if MacGregor offshore is loss-making, it's good to remember that offshore division order book represents roughly 4% of Cargotec's order book. So it's a fairly tiny portion of the overall order book.

Eco portfolio equipment and the services sales has continuously grown and was 30% of our total sales now in quarter 2. Our first half comparable operating profit increased by 90%, driven especially by strong performance in our core businesses, Kalmar and Hiab.

In addition, MacGregor first half result improved by EUR 24 million and also the heavy cranes, which we are exiting as we speak, heavy cranes profitability was EUR 9 million, better year-on-year in the first half.

Kalmar and Hiab 24% -- 23% sales growth took the core business's profitability to all-time high level, 14.7% in the second quarter. And Cargotec quarter 2 operating profit was EUR 151 million, all-time high. This is 12.5%. We had in our operating profit EUR 8 million items affecting comparability. Out of this, EUR 6 million was related to the planned separation of Kalmar and Hiab.

When looking our cash flow, despite the strong quarter 2 EBITDA, which was EUR 179 million, the quarter 2 cash flow was only EUR 41 million, slightly better than year ago. Cash flow was still very much burdened by the high net working capital. The quarter 2 net working capital growth was EUR 136 million. Now this time in quarter 2, the net working capital growth came mainly from accounts receivables, due to the high revenues in the quarter 2. Inventories grew by EUR 30 million compared to over EUR 100 million growth in quarter 1.

Despite the high net working capital, we continue to have a strong balance sheet and liquidity. Our gearing was 32%. The increase from December was mainly driven by the EUR 87 million dividend payment, which we did in April. We have been able to keep our cost of debt at a low level. 60% of our interest-bearing debt is with fixed interest rate. And our current average interest rate on liabilities is 2.7%.

During the next 12 months, we have roughly EUR 300 million of bank loans and bonds maturing, and these maturities we plan to cover from existing cash, future cash flows and then also partially refinancing with new loans.

And our guidance for this year is unchanged. We have our guidance in 2 parts: the core businesses, meaning Kalmar and Hiab minus the group costs, we expect to improve from 2023. And after the first half, these businesses are 96% -- EUR 96 million better year-on-year. This improvement is very much coming from the volume growth and then also the measures to mitigate the inflation impact.

And then the second part of our guidance is related to MacGregor, and we expect MacGregor result to be positive and the profitability drivers here are mainly the volume increase in merchant and services, as you have seen in the first half of this year, and then also the ongoing restructuring of MacGregor offshore business.

Aki Vesikallio - Cargotec Corporation - VP of IR

Thank you, Mikko, and thank you also, Casimir, Scott and Michel. And I would like to welcome you back to the stage to join Mikko for the Q&A session. Operator, we are ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The next question comes from Antti Kansanen from SEB.

Antti Kansanen - SEB - Analyst

First on -- well, basically, both Kalmar and Hiab, if you look at your backlog situation and your delivery schedules, how long is the lead times? How much would you expect that you kind of realise into revenues in second half? What I'm trying to get is that, now that we are seeing the order patterns perhaps normalising, when do you expect that to hit your production volumes and the P&L metrics in both of those divisions?

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Yes. A valid question. For Kalmar, I would explain that as follows. In the past, we saw, and that is during the difficult time with these supply chain disruptions, we saw lead times being north of 12 months between 12 and 18 months. And now it's normalising back to a pre-COVID situation of, say, 6 to 12 months from an order backlog. And of course, you have to realise logically that there is no backlog for service in essence because that is mainly spare parts, which are book and turn mostly in the months, if not faster.

But for the new build, we are covered to a very large extent for the rest of 2023, but we have a backlog that basically stretches into 2024 and for some specific projects, even a little bit later than that. So we are quite well at that stage and with a solid backlog over the rest of the year and then stretching into the next year.

Scott Phillips - Cargotec Corporation - President of Hiab

Yes. And from the Hiab side, Antti, we have a little bit over EUR 1 billion of backlog. That also takes us into 2024. We certainly have some of our factories where we will adjust production levels through the balance of the year. So we expect those to materialise with, should have a relative, similar impact to the P&L as we've seen in the prior months periods up to this year. So we're well covered.

In terms of lead times, we're still a bit constrained by the truck lead times, which, of course, I mentioned as an impact to our order intake, still a slight impact in terms of our ability to convert. Our internal lead times are back to pre-COVID levels, so we can go as fast as the truck chassis availability would allow. So we're well positioned in that regard. But with the truck OEMs still at well over 1 year of lead time, it'll still remain, we expect that to remain throughout the balance of the year.

Antti Kansanen - SEB - Analyst

You were referring overall that the order levels are now back to pre-COVID levels. Obviously, pricing is much higher today. So I'm just thinking where you see the underlying demand in the market and the sales funnel at the moment? I mean, I guess there's now a negative impact that people are waiting for those lead times to show it then and are postponing decision-making. So would it be a fair assumption that the underlying demand is perhaps a bit higher than what your order intake indicates right now?

Scott Phillips - Cargotec Corporation - President of Hiab

Yes. That's absolutely correct from the Hiab side. The underlying demand factors still are quite strong. Quote activity still remains on balance, at a good level. But of course, the word amongst all of the geographies that we serve and customer segments, or the decision-making is delayed to a large extent.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

And yes, from a Kalmar perspective, Antti, I would simply concur with how you answered your own questions. So yes, I agree.

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

And then in MacGregor's case, like I said, it's very much that the overall market activity is actually on a good level, but due to the congestion in the shipyards, customers don't necessarily see the urgency to place the order with MacGregor as the vessel delivery times are longer than what MacGregor's delivery time is.

Antti Kansanen - SEB - Analyst

The last question from my side is on pricing. And I mean now that there's a bit of hesitancy to order, is there any pressure on price realisation? I mean, I guess, you're seeing still component prices not falling, but some of the raw materials have come down substantially. So is there a pressure to maybe correct your prices downwards going forward?

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Yes. From a Kalmar perspective, I would say, commercially, there's always been price pressure. None of our customers liked it when we had to adjust prices. So that is a constant reality in the outer trenches, if you like, for our sales force. At this stage, we don't expect that we need to reduce prices so that we are holding. But indeed, the upwards development is basically tapering up or has tapered off.

Scott Phillips - Cargotec Corporation - President of Hiab

Yes. And from the Hiab side, I'd echo the same thing that our customers would, of course, love for pricing to come down. I think that there is a bit of a wait-and-see mentality in that regard as component pricing, just as you alluded to, Antti, has not come down to a level that matches some of the commodity price indexes for various factors. Energy logistics as well as labour components are significantly up. Now logistics have come down if you compare year-over-year, but still at a much higher level as compared to pre-COVID levels.

Operator

The next question comes from unknown caller from number ending in 8457.

Panu Laitinmäki - Danske Bank A/S - Analyst

It's Panu Laitinmäki from Danske Bank. I have a few questions. Maybe continuing on the previous topic on pricing, how much roughly was pricing impact on the order intake in Q2? Was it already flattish or was there an increase?

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

What we would say, if I widen that, we've roughly seen over the last 2 years a price increase in total of about 20%. And of course, that's a bit of a mix, if you like. It's not all across the board, a solid 20%. So that's how I would answer that question.

Scott Phillips - Cargotec Corporation - President of Hiab

Yes. Sequentially -- From the Hiab side, sequentially flat year-over-year about 10%.

Panu Laitinmäki - Danske Bank A/S - Analyst

And then I have a couple of questions on Kalmar. I mean, can you in any way quantify what was the impact from this semi-finished product deliveries on margins or revenue in Q2? And also, I mean, I recall that previously you commented that the heavy cranes should make a single-digit million loss this year. Is this still the case? And what I'm trying to get is the underlying margin in Kalmar, if you strip these 2 factors out.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

I commence with the latter. Indeed, the losses of the heavy cranes are in a single-digit area and are improving in the comparable, should I say, quarter -- second quarter of last year. So that is getting better. We have, if I remember correctly, about EUR 4 million less compared to what we had about 1 year ago. So that is basically being executed according to plan.

Then, indeed, it is true, and that was also the headline, that the bulk of the margin expansion is related to our ability to have these semi-finished goods basically being transferred into finished products, if you like. So that's been helpful. I think that has been a trend for total of Cargotec.

At the same time, of course, we are working to make our supply chains more efficient. But in this case, we would clearly see that the big explanation for our good quarter 2 result has been our ability to have a very, very strong execution of our backlog, and our customers are happy with that.

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

On Cargotec level in quarter 2, we were able to deliver roughly EUR 90 million more than what we anticipated in the beginning of the quarter, and this is mainly related to Kalmar and Hiab. If you remember, couple of years ago, we had a development to other direction. We were thinking that we deliver a certain volume, and we were not able to deliver that because of the component availability. Now it's going a bit to the other direction, like happened in quarter 1, reflecting the very volatile supply situation still, the truck chassis availability as well as then component availability, as elaborated by Michel and Scott.

Panu Laitinmäki - Danske Bank A/S - Analyst

A final question on the working capital. Cash flow didn't really increase as much as the earnings, and I would assume that the working capital will be released when you are able to deliver. So like what are your thoughts on this? When should we see the cash flow released from that?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

The expectation is that we should start to release some cash from the net working capital in the second half of this year. As also mentioned in my section, actually, the inventory growth in the second quarter was already smaller than what we saw in the first quarter when it was more than EUR 100 million. And that in the second quarter, it was, well, only EUR 30 million, still growing. But the biggest growth in the net working capital in the second quarter was in accounts receivable, of course, which will then materialise as cash in the latter part of this year.

Operator

The next question comes from Tom Skogman from Carnegie.

Tomas Skogman - Carnegie Investment Bank AB - Analyst

Congratulations on a good set of numbers. I wonder about the dollar impact in this quarter and also all your exposure to the dollar changes, I assume that deliveries in the second quarter came from orders booked and the dollar was very strong. Is that right?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

Overall, if we look what was the currency impact or if we look orders and revenues in comparable currencies using the last year's currency rate, we had approximately 2 percentage units headwind in orders and in sales.

Tomas Skogman - Carnegie Investment Bank AB - Analyst

But that wasn't really the question. The question is, I mean, when you hedge your orders and they were booked last year, it's very favourable dollar rate and now you delivered on those?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

Yes. When we hedge, then we don't take any view on the currency. Meaning that, when we hedge, then basically we lock the currency rate. That's the idea of the hedging. The currency impact is coming from the translation impact, meaning that when we are converting the U.S. dollar revenues and profits into our home currency euros, and that impact was roughly 2 percentage units negative in the second quarter.

Tomas Skogman - Carnegie Investment Bank AB - Analyst

But isn't it the case that when you hedge the orders booked at very favourable dollar terms last year, and now you have delivered and bought components in euros, and you have also had manufacturing costs with a lower rate in euros now. I mean, doesn't that have a positive impact on the EBIT?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

The hedging basically makes sure that we don't have a positive or negative impact on the margin, what we are planning to deliver in the future. The currency impact, as mentioned, is coming from the translation impact, and it was roughly 2 percentage units negative impact in the second quarter.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Tom, if I can give a little bit of colour from the Kalmar side. One of our significant product streams, not the only one, has a natural hedge because it is products that are being produced in the United States for customers in the United States. So in that case, and these are our terminal tractors, the essence, the vast majority of the cost components are actually in dollars. So we are neutral in that sense. And then we go back to the translation for our home currency, reporting currency in euros, but there is no cost delta there.

Tomas Skogman - Carnegie Investment Bank AB - Analyst

Do you have any guidance on the additional head office costs when you have 2 companies instead of one company?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

Not at the moment. As mentioned, we are progressing with the Kalmar and Hiab separation planning. When then the plans are mature enough and presented to the Board of Directors, then we would come up with more details about the separation, including also the standalone cost development.

Tomas Skogman - Carnegie Investment Bank AB - Analyst

Would you say that you are running faster than initial plans or a bit slower than initial plans? Or is the best guess still that there will be 2 companies from the 1st of January 2025?

Casimir Lindholm - Cargotec Corporation - President & CEO

We are progressing according to plan: the separation, the planned separation of Kalmar and Hiab is according to plan, and what we announced on the 27th of April is valid.

Operator

The next question comes from Tomi Railo from DNB.

Tomi Railo - DNB Markets - Analyst

Coming back to the drivers in the second quarter, profitability improvement and maybe also for the forecasting purposes. I'm trying to get the sense, and if you could comment maybe by ranking, what are the main drivers in profitability improvement or expansion? Volumes, pricing, the sales of the semi-finished goods, supply chain improvement, execution, cost management? Basically, trying to get the sense that when pricing starts to fade, when you have less semi-finished goods sold, et cetera. So, again, what are the normalised profitability levels?

Casimir Lindholm - Cargotec Corporation - President & CEO

Maybe Scott you can start.

Scott Phillips - Cargotec Corporation - President of Hiab

Sure. On the Hiab side it's pretty straightforward. On the volume side, most of the profit was driven from an increase in volume, as I alluded to on, I think, the sales revenue slide. That is comprised of a couple of components, that's actual unit volume, and the other half of that story is pricing. We had a slight improvement in gross margin, as I talked about on the same slide or on the next slide in the profitability piece, and that comes primarily from a couple of our divisions making significant improvements, nice mix in the services part of our business, recurring revenues are up. So we had a record level of profitability in that division as well. So mostly volume. Volume is 2 pieces, actual volume and pricing and slight gross margin improvement.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Yes. And from a Kalmar perspective, I would give a very similar answer. As I alluded and repeated later on, we had the benefit of these semi-finished goods. So that led to a volume increase. And of course, we are delivering then on the backlog, and that helps the top line. Of course, there is a pricing component, we alluded to it as well, and I would say that's number two. Clearly, what we then refer to as our ability to manage the inflationary pressures. We've been doing that successfully. As said, and an earlier question was indeed that we are now seeing that sort of tapering off.

The third component, I would say, not really visible, but aligned with what Scott was just saying, is that we are working on our lean transformation, making our supply chain more efficient. But of course, that's a longer term game plan, basically underlying transformation of Kalmar to make it ready for our separation. That is basically what the team is working on to make us more robust and more able to manage the cycles of the business, the natural cycles of demand.

Tomi Railo - DNB Markets - Analyst

And question on the demand side, if you could talk a little bit about the end markets, construction building, trucks, ports, et cetera. Where are we in terms of activity hesitation, which we have already seen for some quarters?

Scott Phillips - Cargotec Corporation - President of Hiab

I can start on that one as well. In the Nordics, I think, as you're well familiar with, the new construction piece of the business is down. So that's probably where much of the pressure is coming from there.

Having said that, defence is significantly up, and we see the opportunity funnel growing there as well. Waste and recycling still remains quite strong. The quote activity is quite robust. Of course, we see a number of delays in decisions there as well. Some of that's tied into what's going on both at the local and the national level in terms of the politics and the regulatory environment.

Our last mile and retail piece is holding up quite nicely, and we see strong quote activity as well as order growth there as well. So it's a bit of a mixed bag for us overall. But I'd say where we're most under pressure is probably construction.

Europe is a little bit softer as compared to North America, and that shows up in our connected machine activity levels as well. Activity levels in Europe were above expectations, but slightly below the positive variance in the North America side of our business.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Yes. And this allows me to basically come back to one of the changes in Kalmar. As you will recall, we have discontinued our heavy crane business. That means that we are less dependent on the large port, large terminal business than we were before. So at this stage, we see that a little bit more than half, we typically tend to say 55% of our business is port-related.

And then within ports, you see a shift from the larger ones to more activity at the medium size and the smaller terminals. What you see at this stage is that, after the supply shocks of COVID, et cetera, that there is a slowdown, some sort of rebalancing on the large ports, and we do see some softness on that one. But at the same time, we are less reliant on that one. In contrast, we see continued robust demand from industrial segments, which are many. We can talk about metal industrial activity, we can talk about logs, et cetera, forestry, we can talk about windmill erection, and then, of course, also inland activity, which are more driven by e-commerce, warehousing, et cetera.

So these segments are doing very well. The large ports are a little bit rebalancing, and you'll see some softness in that. But as said, we are shifting the dependence of Kalmar towards more industrial sectors, and we are less dependent on that maritime supply chain.

Tomi Railo - DNB Markets - Analyst

And any comments on development during the quarter and maybe at the beginning of the third quarter in terms of the activities? Was there a slowdown towards the end of the quarter? And is this EUR 1 billion order intake level of a fair assumption, or is there typical seasonality in the third quarter? Any comment on that?

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

It's a typical quarter. It's very, really early. It's very difficult to say anything intelligent about that at this stage.

Scott Phillips - Cargotec Corporation - President of Hiab

And then from our side, as we've talked about in several quarters in the past, we tend to have the seasonality effect in Q3 where we have less working days as we have a heavy holiday period in the Northern hemisphere.

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

And then in MacGregor case, it's a very similar pattern what we saw in the first half of this year: overall, good customer activity, but then customers or the shipyards are constrained by the capacity and that may delay customers' activity in placing the order with MacGregor. But overall, good activity on the vessel contracting.

Tomi Railo - DNB Markets - Analyst

Final question from my side. Any plans or needs for, let's say, immediate capacity adjustments or cost actions? What do you see to adjust for potentially slower demand?

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

In those places where we have seen weakness, we have taken actions, for example, limiting the usage of external workforce, changing the shift patterns and this kind of activities. So, observing the situation on daily and weekly basis.

Operator

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

Aki Vesikallio - Cargotec Corporation - VP of IR

Okay. Thank you for the great questions and great answers from Casimir, Mikko, Michel and Scott. Our third quarter results will be published on the 26th of October. So, stay tuned and see you on the road during the upcoming quarter. Thank you.

Casimir Lindholm - Cargotec Corporation - President & CEO

Thank you.

Michel van Roozendaal - Cargotec Corporation - President of Kalmar

Thank you.

Scott Phillips - Cargotec Corporation - President of Hiab

Thank you.

Mikko Puolakka - Cargotec Corporation - Executive Vice President, CFO

Thank you.