Transcript
CARGOTEC CORPORATION

Moderator Paula Liimatta
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Operator: Thank you for standing by, and welcome to the Cargotec Corp Q3 2014 Interim Report.

At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star and one on your telephone. I must advise you that this conference is being recorded today, Thursday the 23rd of October 2014.

I would now like to hand the conference over to your first speaker today, Miss Paula Liimatta. Please go ahead.

Paula Liimatta: Good afternoon, ladies and gentlemen, and welcome to Cargotec's conference call on September 2014 Report. My name is Paula Liimatta, and I'm Head of the Investor Relations. We today have a presentation by our CEO Mika Vehvilainen and CFO Eeva Sipila, and after that, we will begin a Q&A session.

Let's start with the presentation, Mika, please.

Mika Vehvilainen: Thank you, Paula.

And good afternoon from my behalf as well. I will run through some highlights quickly and then hand over to Eeva.

First of all, orders grew year on year by 15 percent totaling to 829 million. If you look at (the fixed) currencies, the orders actually grew even further, 17 percent. The growth was very much driven by the order growth. In MacGregor their orders grew 61 percent year on year, slight increase in Kalmar and very slight decrease in Hiab, but no material changes in those two.

The sales grew by 12 percent year on year to 840 million, again the acquisitions (accelerated out of that) around 100 million increase the – acquisitions in MacGregor constituted about 60 million of that sales – sales increase. The other roughly 40 million came from the organic or existing businesses.

Operating profit improved into the 48.4 million, compared to 35 million last year or 5.8 percentage points. The cash flow was a delight for me at least, it shows that we are on a track of improving our net working capital utilization and our cash flow improvement (that total) into 63 million on Q3, although there are still plenty of opportunities for us to improve in this front as well.

Also, we announced today a re-organization of MacGregor to drive better effectiveness in the organization. I will come back to that one later in my presentation. Looking over all of the numbers, not much to add on the – on my previous comment, a good development both in orders, as well as the revenues and a 37 percent improvement in operating profit, as well as obviously in the earnings per share as well.

The interest bearing net debt is still relatively high and above our long term target of 50 percent, but is now heading to the right direction with the improvements in the cash flow.

With that one, I'd like to hand over to Eeva, who will cover the business area and performance with more in detail.

Eeva Sipila: Good afternoon, ladies and gentlemen on my behalf as well. Looking first on the group level performance figures, so book to (bill) in the third quarter very even, with a sales growth of 12 percent (was) – 4 percent was organic number and the rest came through acquisitions. Based on the – on the order book we had at the end of June, we were very focused on increasing the delivery speed in Kalmar and were – we were happy to see that come through in the third quarter deliveries and (contribute) to the sales number.

Looking on the right hand side, we have the profitability graph, and our profitability jumped clearly up as was expected, after a very disappointing second quarter. But let's look at the numbers more by business area.

First, starting with MacGregor, there the markets on the merchant side was characterized as stable. If you look at it year over year, obviously quite high growth, (15) percent is the organic growth number in orders, 61 if you include the two acquired businesses. Then obviously, if you look at a quarter over quarter, it was down – we consider (as) the market stable, and this was more related to the lumpiness of the order intake in this business.

However, it’s good to note that we do mention in the report specifically that the market outlook has somewhat weakened, and the market expectations on when supply and demand will balance in merchant shipping have been delayed due to the weaker economic environment, and then that obviously reduces the attractiveness of adding new capacity, i.e. buying new ships. So, we do expect a somewhat tougher market in – going further.

On the offshore side, also a very similar stable situation on the cargo handling side. As we've commented earlier, there is, in the whole industry, a clear push for improved returns and in cash, and that is delaying investments. The recent dip (in) oil price is also obviously (an) additional and uncertainty on the – on the market. However, we do feel that in the deep sea segment, support vessel side where we are mainly active, the increased expectations on production and focus on the returns are actually – will support the business environment going further.

Sales growth was still very much only due to the two acquisitions. And it was actually negative if you look at the organic number. And that obviously is a drag to our margin development as we have said earlier. This quarter, specifically obviously a disappointment, (the) 2.9 percent even if you – if you add the sort of (PPA) numbers of about 100 basis points, it’s still unsatisfactory, very much due to the sort of mix we had in the quarter, lower than average profitability and (we said with) no support on the volumes (that these levels – that the mix) adds a bit of volatility in one specific quarter.

But then going – looking at Kalmar, a very – I would say, stable market there, as well on (the) equipment side, healthy in the services side. We clearly see that container throughput numbers, the global growth supporting the replacement and the service business. Geographically, North America has been very strong, and in this industry actually, which may be a surprise for some of you, Europe is actually also in this healthy category, whereas in Asia and South America are more unsatisfactory part. But as said, order intake of 4 percent is very close to (the) container throughput growth expectation for the year.

We are most happy about the profitability improvement, 8 percent margin, finally, an almost clean quarter for the business, and that obviously now helps to show the real result level of Kalmar, which has been hidden under the project overruns in the past quarters. We still had an additional 3 million (cost) in the final projects, this is due to the fact that during this quarter, we have – we received new information on how long it takes for us to be at the site to support the customer. And that lengthening goes further into next year than originally planned and the 3 million is the provision for that expected cost.

Overall, profit improvement program is proceeding. The 40 million run rate improvement, we have as a target for the end of this year is on track, and work continues in – on the profitability arena in that sense.

Moving to Hiab, steady profitability, here we've actually had the – had the pleasure of already showing for a couple of quarters a new profitability level. And despite the seasonally – seasonal weakness in the third quarter, we are happy obviously to show a continued strength in the margins. (As said), year over year comparison (in orders sales) very much flat. You should note if you're comparing quarter over quarter that in the second quarter, we had a very sizeable military order that hiked that number up, so that’s maybe just good to remember.

Overall, as said, profitability improvement program is proceeding (with) – as you can now very much see from the numbers, we are ahead of schedule, like we've said already for sometime. And we will – we are about to reach the 40 million run rate. And that's – but obviously some still work to be done in – under that program.

Looking at the group cash flow, this has been obviously a big focus area for us. Post the two acquisitions made, we are very determined to deleverage our balance sheet. And the main medium for that is obviously the cash flow from operations. Still, as our CEO mentioned, a lot of room for improvement on the inventories and accounts receivable side, (but) we are seeing progress and traction of the – of the – of the improvement actions we have – we have been working on. So, that's good to see.

Going in to the portfolio, no real big changes, I think maybe just to highlight on the – on the right hand side, so – the very strong market situation in North America that we are benefitting from, both in Hiab and Kalmar is also showing coming a bit through on the group level numbers with an increased share from the Americas continent.

But I think that pretty much up – wraps up the numbers. And I'll hand the floor back to – back to our CEO.

Mika Vehvilainen: Thank you, Eeva.

(Few words on) the MacGregor before I talk about the specific measures we are taking (and) I'd like to elaborate maybe on the market situation bit further.

As you know we have gone from the 2008 boom year into a very low levels until the sort of summer of 2013 where we had a sort of mini boom going, in terms of the (merchant ship orders). That ship order peak lasted till roughly summer of 2014, but if you look at the underlying market, it's good to make the note that the order – they're very much driven by the bulk ships. The bulk ship orders now have started to come down, and the expectation for the bulk ship market for the next year is lower than it was in 2013 or 2014.

However, we had developed a sizeable order book in that area. That order book is not yet visible in our revenues. That's good to note again that the cycles are long in this industry. And as Eeva was saying the – actually the revenue on the organic business was still slightly down on Q3, so the order book that we've been developing coming (from the) bulk ship orders is not yet showing in the – in the revenue.

However, in the container ship, the actual – the expectations for the next year are more in the growth (or) nearly doubling the sort of number of deliveries in there, and also the ship sizes are increasing there. So, it's still a relatively mixed picture in the overall shipping (marketing) there. However, we are clearly not happy with the MacGregor results, 2.9 percent operating profit in this quarter, (both really caused) by a mix of some deliveries that (they're) clearly below satisfied profitability, and as such, don't characterize the result level that we expect in MacGregor over this year either.

So – but however, we are still far away from the profitability levels that (the) MacGregor had enjoyed a few years ago. And we need to take measures to (drive) that profitability level up in these uncertain market conditions. And as a result of (that one), we are re-organizing the MacGregor. We have set up a new organization consisting of six new product divisions that tare actually organized by the customer (or) ship type. And then we have also formed a new global single integrated services or lifecycle services division as well.

We believe that there are upsides, actually, by organizing this (one) in terms of our cross selling capabilities, looking at our portfolio and offering, by ship type and by customer type, and thus driving better topline performance (that we have said and so far than) product based organization.

Secondly, it's very clear that (especially to) organic service business in MacGregor is not at the level, in terms of profitability (nor) the revenues, that this kind of business should be, and by organizing into a new global life cycle support division, we believe that we have good possibilities to drive better services business, moving forward.

We also see opportunities to exploit and explore synergies more effectively across the different product divisions by investing into the common (marketing sales), sourcing, engineering and R&D functions that it will be also formed as a part of the re-organization. We believe that the new organization will be more effective and enable us to do faster business closer to our customers and be more business focused.

We will drive these changes and the improvements through dedicated program structures similar to the program structures that we have already had in place for a while, both in Hiab as well as in Kalmar, where they already are yielding results today. That's (on the) MacGregor. And then last but not least, no changes in our outlook. We still expect the sales to be growing from last year and to (help our operating) profit to exceed last year's (limit).

Thank you very much.

Paula Liimatta: Thank you, Mika.

Now, we are ready to take your questions. And in addition to Mika and Eeva, we have the Head of (High Up) Roland Sunden here in Helsinki to answer your (High Up) related questions. Today, we could start with the questions from the conference call participants.

Operator, please.

Operator: Thank you.

As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. That's star and one on your telephone. If you wish to cancel your request, please press the hash key.

And your first question today comes from the line of (Anti Kotalen) from Danske Bank. Please ask your question.

(Anti Kotalen): Yes, hi. This is (Anti). Shipping and MacGregor related question, we all have seen this area, I would say dramatic weakening of overall ship contracting over the past few months. Now, when will this start to hit MacGregor orders? Yes, that – that's my question, please.

Mika Vehvilainen: (OK), first of all, one is to maybe look at by ship type. So, it's absolutely true that when you look at the bulk ship orders, we have seen a clear slow down in order intake, sort of from the summer 2014 onwards. As said, we don't actually – we have seen the order intake going up in that we still actually expect further orders in that category, moving forward. But if that slowdown continues for that particular segment, I would say that we will probably see a slowdown in order intake in six to nine months from the slowdown of the ship orders.

On the other hand then if you look at the estimates from the (analyst like) (Clarkson), there is an expectation that they actually will see further growth in the container shipping segment, going to next year. And if I remember the (Clarkson) numbers, roughly we expect nearly doubling of the container ship deliveries in (the) 2015, compared to the 2014. And many of the companies have actually announced fairly heavy investment programs and they're really driven by the efficiencies that the larger container ships can drive.

Also, good to remember that these new ship types are considerably larger than the old ones, so the order and delivery (sites) per ship will be also growing. In the offshore side, there is a (certain) – uncertainty related to oil prices and the increasing cost in offshore, however we actually see a fairly stable market activity there at the moment. And it's good to note that our sweet spot is the deeper sea exploration and production, and that's still expected to grow at the much faster rate (that the) overall offshore segment as such.

(Anti Kotalen): So, it's kind of – wow you know I (mean) – I just – you know the numbers are down sort of like 70 percent year over year, all ship types combined. And you know I'm surprised to hear that you don't see much impact on (a) (Cargotec) and you remain – you remain fairly confident and positive about MacGregor business.

Mika Vehvilainen: As I said, this is a question of cycles. It's very clear that (when the) bulk ship orders are now – the ship orders are now going down, (that will) start to hit our order number for that equipment that go for the bulk ship. It's primarily cranes from our side and then the hatch covers, and that slow down will be visible in our order intake in that segments (then into six to nine months). At the same time, the expected increase in container ships is probably going to increase our order intake in the – in the (container latching) systems again, so a mixed bag.

And then, you combine that one with the sort of length of the cycle and how the revenues are (lining up). The impact of this one will be more prolonged and (hardy). Again, good to remember that even though we saw a very hard peak in the ship orders (around the sort of) mid 2013 to mid 2014, our revenues are still organically down in Q3 2014, just showing how long the cycles are in this industry. The shipyard capacity has gone down during the hard times in the last few years. And that has also meant that the existing shipyards are now actually some (capacity) constraint, and that will also further lengthen the cycle. This is (from) our point of view, not necessarily bad thing because it also (smoothen) some of the impacts of these ones.

(Anti Kotalen): OK. Thank you. And other question, fourth quarter margin for MacGregor is – will it be you know some magnitude – same magnitude as in third quarter or should it be – should it be somewhat better?

Mika Vehvilainen: As I said, the number in the Q3 is not reflecting the (profitability) level we see in the business. It was a combination of some of the deliveries that sort of (cost of provisions) against, so we have guided the MacGregor profit margin to be down from the last year. And our view on that has changed, but the 2.9 – you should not take 2.9 as an indication there (we are landing either).

(Anti Kotalen): So, you – Q4 shouldn't include any of these bad deliveries that you had in Q3?

Mika Vehvilainen: No, it should not.

(Anti Kotalen): OK. And final question on Hiab, we saw there is a profit warning from (Palginer) a few weeks ago, citing weaker demand in Europe, (would you – would you) comment, how do you see the situation?

Mika Vehvilainen: Actually, when I look (at the overall Hiab) market, my views have not changed from (the) previous quarter. It's a – it's a market there, the U.S. demand is quite strong and the European demand has been fairly flat. But actually, I'd like to hand over maybe to Roland Sunden, who started as President of Hiab in May, and he can talk a bit more in detail about how we see the market situation at the moment.

(Anti Kotalen): Yes, thank you.

Roland Sunden: Overall, we see Europe market being flat, maybe somewhat softer and with a little bit more uncertainty in it. But if I speak for Hiab, we – I'm quite impressed (of the) resilient order intake and sales we are performing as we speak. So, Europe is big, so in some countries like in certain Scandinavia countries, if I exclude Finland, is doing well. We are doing well also in the Western Europe, a bit soft in the (Central) Europe, and as you know (Southern) Europe is considered very, very big downsize since the financial crisis, but we see some signs of picking up from a very, very low level.

(Anti Kotalen): I guess the concern is that this weakness (started) to hit in September, i.e. late in the third quarter, and now the question is how does Q4 demand look like in Europe?

Mika Vehvilainen: I would say overall, (when) I look at the market, as Roland was saying it's fairly stable in Europe. And even if I look at order inflow in October at the moment, we don't see any changes in the overall market situation.

(Anti Kotalen): OK. Thank you.

Operator: Thank you.

And your next question comes from the line of (Johan Eliason) from (Caple Chevreu). Please ask your question.

(Johan Eliason): Yes, hi. This is (Johan). Just following on on this (Hiab) thing, do you think you're taking market shares currently in Europe?

Mika Vehvilainen: Roland?

Roland Sunden: Yes, it’s – market share in Europe is hard to talk about, because there – as you know there is very few countries where (it’s) official statistics. But I'm positive. I think – I think we (certainly) defend our market positions and in some markets we are gaining. So …

Male: One of the …

Roland Sunden: … sorry if I may continue, (that one) is – our focus very much has been throughout the year on improving our profit margin, so (we've) been pretty hard in terms of pricing. (Certainly) I'm not proactively looking for market share. Our priority very much has been on the – on the margin and profitability at the moment.

(Johan Eliason): OK. Great. So, you haven’t given away anything from this cost savings in any (of you) you would say?

Roland Sunden: No, on contrary. I think we have had a fairly good price realization. We have introduced a much more strict price management tools and so forth. So, we – like our CEO was saying is that we are really, really focusing on the bottomline and not pushing on the topline (and end up) with a lot of inventory sitting out there that you have to discount later on.

(Johan Eliason): Right. Then a question on MacGregor and this re-organization you're launching own, is this sort of more dynamic effects you're expecting to sort of adjust to (the market) situation? Or can you give any numbers on what sort of EBIT improvement you would be expecting from this going forward?

Mika Vehvilainen: (We) probably come back, in terms of the impact on the MacGregor in connection with the (capital market) there is in November, but the – this is not about efficiency. So, the re-organization as such, is not aiming to reduce the cost. (And) MacGregor actually is, generally speaking, fairly – and highly efficient organization. This is more about effectiveness. I see that we can better leverage the synergies between the product divisions and ship types by re-organizing different (base) driving, better cross sales, (larger) sales by ship types, having more effective services organization, and then taking some of the synergies better into consideration in R&D, engineering and sourcing across the divisions.

(Johan Eliason): OK, great. And then finally, reverting to your ongoing programs in Kalmar and Hiab, are you now satisfied with the manufacturing set up and the cost structures you do have in these two manufacturing divisions?

Mika Vehvilainen: I think one can never be fully satisfied with the cost structures, the manufacturing set up. One big step of course, has been taken with the run down of the Swedish production facility for Hiab, and (effectively) I believe (rollover credit) is coming (today to end of) the production this month in Sweden, and then the Polish factory has been now ramping up. But obviously, we are continuously re-evaluating our current production footprint and looking for further efficiencies as well.

(Johan Eliason): But nothing you have decided on yet?

Mika Vehvilainen: Nothing that we have decided (yet).

(Johan Eliason): OK. Many thanks.

Operator: Thank you.

And your next question comes from the line of (Simon Sikvardsen) from DNB. Please ask your question.

(Simon Sikvardsen): Yes hi. It’s (Simon) here from DNB. I had a question on Kalmar, where you have said before that – well, you maybe saw a risk of late penalty costs coming in. I was just wondering how that is developing and yes, the discussions with the customers.

Mika Vehvilainen: No changes on that one. I think what we have said at the moment that is that we have made provisions against those late delivery penalties. And if there would be any surprises, those surprises would be at the maximum, at the sort of single digit million level. And that situation still remains the same.

(Simon Sikvardsen): OK. That’s great. Then in MacGregor, are you able to quantify how much, in (Euro) terms, these deliveries how big (a negative) effect that was in the quarter?

Mika Vehvilainen: No, we have (not to go into) that detail.

(Simon Sikvardsen): OK. But (mostly) it's the execution related issues? Or was it completely a (mix) related issue that there was specific a segment that had more deliveries or something like that?

Mika Sikvardsen: Yes, I think (there were certain) specific deliveries and contracts that were executed. Of course, the times have been hard, and some of the estimates were probably not as accurate as they should have been. And we have now – (whilst I took over) the MacGregor, we have of course re-evaluated the business and sort of gone through the existing order (backlog) and the deals in there, and this came as a result of those reviews.

(Simon Sikvardsen): All right. Then on the integration in MacGregor (hub flap and put this), how is that developing? And these businesses contribute positively or do they have a loss in the quarter?

Mika Sikvardsen: No losses. The – if I start with the (push dev) side, it's actually developing pretty much according to our business plans, and it's – the profitability level is satisfactory, pretty much in line what you have seen that being (as apart of it). (Archer) business (earlier) in the (hub flap) aside, the merchant marine side has been I would say, somewhat disappointing, not because of the (perfomite) sales, but because of the cycles in there. But the offshore part of the (hub flap) was acquired also, is actually doing well with very strong order intake.

In terms of the actual synergy realization, we are on or ahead of the target in terms of synergistic orders that we've been able to book from the business and cross sell opportunities. And we are also ahead of the target, in terms of the procurement saving realization, material cost, but again, because of the cycle, (like for example base) savings in the material costs are not going to be visible in this year (EBITDA). The deliveries will only take place in the (inter coming) year.

(Simon Sikvardsen): All right. Then (the) final question on the cash flow and balance sheet, what exactly (are doing), and what kind of actions relates to the cash flow? And also, what your target is for the next (year end of this year), and also going into next year?

Mika Vehvilainen: Just maybe (a start of the target), and we have said our target is to be actually below 50 percent in the (gearing), and also that we would expect to reach that target by the end of the next year. So, that's still the case. And a lot of hard work going in there, (primary) focus is in the front line inventories and there we still have room for improvement, but we are working hard on that one.

Accounts receivables without (customers) is another (particular focus), for example our running) weekly cash calls with all of our sales companies and sales forces to sort of make sure that we are on top of that one. The large projects we have had in Kalmar have also tied in the net working capital, so as I said, I'm satisfied with the number, but there is still a lot of opportunities there to drive forward that reduction in our net working capital.

(Simon Sikvardsen): OK. Thank you very much.

Operator: Thank you.

And your next question comes from the line of (Jagen Seebuck) from HSBC. Please ask your question.

(Jagen Seebuck): Yes, good afternoon. Question (on comment high up) and you had a good margin (here in) Q3 in both divisions, to what extent mix has helped potentially in this regard? And another question on Kalmar, you mentioned here the container (through output), so from that side, you seem to be relatively positive. Is there any help or support for (port) investments, especially in the U.S.A from canal extensions? Could you elaborate on that issue (at all)? Thank you.

Mika Vehvilainen: (Thanks for joining the call, Jagen), so actually the container (throughput) activities are at (the) healthy level. The forecast is also around 5 percent (with more than) 5 – 5.6 percent if I remember (correctly – growth in there). We actually see a healthy level in activity in Europe as well at the moment. Many of the (container ports), even in Southern Europe like in Italy, actually, there is a decent growth in the container traffic at the moment.

And overall, I would say the activity in the ports in terms of the – not just the operational activity, but in terms of the inquiries and investment preparations has continued at – on a good level. So, on that one (the) U.S. also doing well in there. And some of that is visible of course, or having as a result of that (but) generally, I would say almost a bigger driver for us in U.S.A is the replacement cycle of the equipment now that we see causing a healthy demand for us, (and the) (East Asia) Pacific demand is satisfactory, so it's not growing at the rate that it used to be in the past, but it's fairly stable at the moment.

And in terms of the profit margins – sorry, (you – there you were) breaking up during the question, would you mind repeating that one?

(Jagen Seebuck): Yes, on (Kalmar and Hiab), the margin development, to what extent mix (for example other things) and more efficiency has been – have been drivers behind the development in those two divisions?

Mika Vehvilainen: The – if I start the comment and Roland can then take (Hiab) question. So, the mix actually on overall level is not helping us there. Actually, it's more a question of bottom up improvements in all product areas across the board. If I look at the mobile equipment (fits) together with the services, it's almost – or roughly 60 percent of (the relevant) Kalmar revenue.

The gross margin mix actually has been negative in a sense that, for example, the terminal tractor demand in U.S. has been particularly strong where the margins are somewhat of lower (and then – in some) of the other mobile equipment. Higher (but they need) product category (use them) one by one be – have been able to drive the improvements, in terms of procurement savings designed to cost them operational efficiencies and manufacturing setup, so it's not really coming from the mix. It's more coming from actually improvements on each single product line per say.

And, Roland, if you wouldn't mind commenting on the Hiab side?

Roland Sunden: Yes, Hiab it's fairly straightforward to explain (too). It's certainly to focus our offering to profitable products and have a good mix and focusing on the profitable segments out in the markets. But in particular, it's also to be better on price management. And we (haven't) increased prices for many of our products, including also on the service side, so that have contributed (well). And then we had done a great job on procurement cost reductions and (design) to costs efforts, so those are basic areas, classical profit improvement kind of activities and areas.

(Jagen Seebuck): OK. Thank you.

Operator: Thank you.

As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. That's star and one on your telephone. If you wish to cancel your request, please press the hash key.

And your next question comes from the line of (Alina Rute) from (Everly Bank). Please ask your question.

(Alina Rute): Yes hello. This is (Alina Rute) from (Everly) Bank. A question on MacGregor profitability first, is this a question of projects taken in weak market conditions being delivered now? Or are you seeing cost overruns on projects?

Mika Vehvilainen: I would say overall, if you look at the profit margin (on) MacGregor this year, it's down from last year. It's (primarily) a factor of still low volumes. Again, one needs to remember that we are still going downhill in organic growth, so the 2013 deliveries, they're down from '12 and the '14 deliveries are down from '13. So, the volume is impacting that one.

Then you're absolutely right of course, also that deliveries that take place today have been taken at very tough market conditions, so that's certainly one (impact, particular dip) in the profitability in the Q3 was of course a result of the performance (8 plus 10) through unfortunate deals and deliveries there, (that they were) sort of, as I said, unsatisfactory profit margin, especially related to those ones. And they are not representing to (the typical) level (BRM) at the moment.

(Alina Rute): OK. Thank you, but you don't see a risk of kind of escalating (costs) in any of the projects that are being delivered?

Mika Vehvilainen: I mean there's – obviously (the) MacGregor (usually) deliveries (or projects), and there is a – most of the MacGregor deliveries are actually single deliveries. The project accounting is generally not having a big share of the MacGregor pot. And they tend to be much more (insights) and the (short term) in time limitations compared to the sort of (compared to) the large projects (you're) doing in Kalmar (side), so – and (effectively), a system deliveries rather than project deliveries.

(Alina Rute): OK. Thank you. And then one more question on Hiab, how much double costs are you still incurring because of (the moves) in production?

Mika Vehvilainen: Well, this year, of course, we have seen a double cost. (They've) been running now effectively two factories in parallel, and there are two factors in here, (there always the) factory overheads (where they are, effectively) going to have zero costs on the (Swedish factor) next year. Then the other issue of course, is that our manufacturing costs are obviously clearly lowering in Poland that they have been in Sweden.

We are not yet hitting those numbers that we aim for in Poland. They are of course, already much better than we will be able to ever (achieve in Sweden), because of the lower cost base, but there is a learning curve in (ramping up) the (factory). But overall that the impact roughly would be estimated to be in the neighbourhood of I think, 5 million for the year.

(Alina Rute): OK. Thank you.

Operator: Thank you.

Your next question comes from the line of (Johan Eliason) from (Caple Chevreu). Please ask your question.

(Johan Eliason): Yes hi again, just a follow up. I was wondering if (you could say) anything on how much remains of these bad projects in your backlog after this quarter in Kalmar?

Mika Vehvilainen: About 20 million.

(Johan Eliason): So, you only delivered 10 in the – in the quarter roughly?

Mika Vehvilainen: Yes. I mean (the effects) of most of these projects are now towards the end, so you have this kind of typical tails (being there). And as Eeva was already saying earlier, some of the customers have decided to sort of delay the opening of the terminals, which means that our (our people) need to be on site (to) support that (one but it's kind of the) construction processes (are start) to be over the costs related these ones are considerably smaller.

You have a lot less people inside, and (they) just need to be maintaining and ensuring some of the integration and final assembly kind of things. The 3 million cost was again – it was not a cost override (as) a provision for the cost by the fact that we now take a view that (the) people need to be on site longer than we originally estimated.

(Johan Eliason): Yes, so these 10 million, they were actually delivered on sort of a (CRO) profitability now (as you have already) taken the related charges to them previously?

Mika Vehvilainen: Absolutely yes.

(Johan Eliason): (Yes), great. Thank you.

Operator: Thank you.

And your next question comes from the line of (Tom Scogman) from SHB. Please ask your question.

(Tom Scogman): Yes, hi. (Looking) at the order book (in) MacGregor of course you get a bit fooled by the acquisitions, but the (reported) number is up 48 percent year on year. Perhaps (it could help) to tell how much it's up organically – or you know when you compare apples to apples. And then on the (back of) ship orders already placed, I know that you earlier have said that you're confident you will show (safe) growth in 2015, but also that the outlook for 2016 is very promising. (Could you), kind of you know update what your stance is on this?

Mika Vehvilainen: (Sorry), we have some problem in the line. Would you – would you mind – sorry about that, (but there's) – for some reason, I think the problem is in this end, but you were breaking up.

(Tom Scogman): Right. So, what I want to know is the order book, how much is up when you compare apples to apples in MacGregor year on year. And then also on the (back of) ship orders already placed, you can probably be very confident to show sales growth in MacGregor next year, but it's been hard to understand with these long lead times what the outlook is for 2016, so could you update that just on how it looks, based on what you know today?

Mika Vehvilainen: Yes, OK. You know first of all, not that (easy math) there are many variables on that one. If I look first of all – so again, the orders they're up 64 percent if I now remember correctly. The organic order growth was (50) percent – (David) (did I) get it right here? (Yes), thank you. I did – 50 percent up and the other part was coming then from the acquisitions.

So, how this is then going to lay out on the '16, so as I said, the order peak in ship orders that (we saw) from '13 to '14 is still probably going to be visible in our orders, also going to the next year. If the (things) will remain the same, (then that) will mean that bulk ship related orders would go down on (then moving) into the '16. If the market doesn't recover in there, (then) expected growth in the container ships in next year, would mean that there would be some orders booked into the – into the container ship related equipment deliveries in '15 and further orders booked on that ships type on '16.

And again, this is sort of if you – if I put some rules of thumb, (year one would) expect from the ship order in the direct (order) a six to nine month sort of time line, and then another six to nine months into the deliveries in that one, (so one) sort 12 to 18 months from the ship order into the revenue recognition. From our point of view, this has been slightly longer cycles actually this time around. (It) is of course visible in our revenue as well as (as I said) as the shipyard's capacity has gone down compared to the capacity situation couple of years ago. That has led to the sort of capacity constraints in there and that's pushing back the cycles somewhat.

(Tom Scogman): Does this mean for MacGregor that you see sales growth in 2016, even if ship orders remain at the current low level?

Mika Vehvilainen: I think we (are) – first of all, I would say that (with) the current order backlog, one would expect the revenue growth on ’15. And the ’16 revenue growth is still partly depending what will happen in the first half of ’15 as well. So, I wouldn’t sort of go and hazard a guess on the ’16 revenue level at this stage.

(Tom Scogman): OK. Thank you.

Operator: Thank you.

As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. That’s star and one on your telephone.

And your next question comes from the line of (Johan Edwardson) from ABG. Please ask your question.

(Johan Edwardson): Yes, hi. I've just got a question on the cost saving progression in next year, how should we think about that? (You said a) 20 million this year roughly, per business area and 20 million next year. We're already at the current run rate and (then) how much (should) we think in a year on year comparison in the second half of next year?

Mika Vehvilainen: (That is exactly) the 40 million run rate improvement, and what we have also said is that we are ahead of that (curve) in Hiab, and hence, we would expect to arrive there faster. And in regarding (in) Kalmar, we are actually (all) exactly on target regarding that one. And this (the services have been our first time) visible because the project cost (overrun been for) sort of (masked the) underlying improvements that we actually see happening in Kalmar.

(Johan Edwardson): (So, how) should I think I guess it’s not the full 40 million profit improvement year on year next year then, but closer to 30 perhaps. But still in Kalmar, that would imply 10 percent (margins) in the second half or something like that. Is that your target?

Mika Vehvilainen: I think in terms of capital market they will of course come back more into the targets and potentially also a little bit longer term targets, and generally the guidance for the year is given in connection of the annual results, so early part of the next year.

(Johan Edwardson): OK. But the 8.8 percent that you get when adjusting for this extra 3 million in Kalmar this quarter, that's going to increase from your point of view?

Mika Vehvilainen: Well, I think the quarter number you saw was a sort of first cleanest quarter you've seen for a while for Kalmar I mean such an indication of (the) profitability level (the downline) business has.

(Johan Edwardson): OK. And how much is that impacted by the mix of mobile equipment being much higher today than one year ago, for example?

Mika Vehvilainen: Obviously the underlying mix helps in the terms that you have less project deliveries, (a less) project cost overruns and – in there as well. So, (sure that) helps (on its) part as well. But really, when we look at that profitability improvement, we are again trying to look at that from the (nail top) point of view in terms of the topline, so we are not counting on any specific improvements in the mix or volumes whilst driving that (one).

(Johan Edwardson): OK. And just finally on MacGregor, I mean if adjusting for these special issues that you have this quarter, where would you say the current run rate margin is for MacGregor?

Mika Vehvilainen: Well, we haven't said anything other than the – as I said, they will be lower than last year, (although) that should be pretty obvious by now, (we're going to) – first three quarters plus the – I think the (second) quarter there is more probably representative of (then – roughly) of the levels we are seeing now than the third quarter (said it was).

(Johan Edwardson): OK. Am I to assume that (with) some sale growth next year, you would expect (more just to) improve still in MacGregor?

Mika Vehvilainen: The dynamic should of course play in that way (on part) considerable delays in deliveries and the order backlog is such that one would expect that to drive the volume increase for next year, because again, we've been going down organically, even this year. And with the improved volumes, one would expect to have a slight improvement in the margins.

Again, the challenge in the MacGregor is that – (I mean) I talk about the improvements coming through, the re-organization and some of these ones, especially in the product businesses, the time lag on realizing those are of course considerable. If (are able) to drive down the – beside the cost initiatives say during next year, they will not be visible until the deliveries (hits the – hit the radar in) then ’15 or ‘16 and but then again, one of the improvement (they asked for us) I mean moving forward is – as in any part of (really cards and keys) services business, and one will of course, (as services in a better business) in that sense that the cycles are shorter and there you can actually drive the improvements faster.

(Johan Edwardson): Yes. And just if you look at the mix, it sounds like in the outlook, that will continue to be a burden with offshore increasing perhaps even more as share of revenues and deliveries going forward. So, is that correct or?

Mika Vehvilainen: Actually, that was a good point that we did not mention, but the current situation is that (Dofleur) is not tracking down the results any more. Actually, we see our offshore profitability now starting to exceed our profitability merchant marine. We've been getting the required scaling offshore.

We've been able to leverage some of the operational capabilities we had in the merchant side into the offshore side now, for example our deep sea crane production is now in our joint venture in China and that’s a competitive factor for us, so the merchant marine, now clearly suffering from the low volume and the pricing pressure there as the offshore situation has been somewhat different. So, at this stage and moving forward, I would actually expect the offshore business to be more profitable than the merchant marine business is.

(Johan Edwardson): OK. Thanks a lot.

Operator: Thank you.

You have no further questions at this time. As a final reminder, if you do wish to ask a question today, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. That's star and one on your telephone.

And you have no further question…

Paula Liimatta: (There are) no further questions from the people on the phone lines. We would like to thank you for your attention today and wish you nice end of the October.

Thank you.

Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may now disconnect.

END