

Cargotec Corporation
Tues, 7th Feb 2012
11:30 Hrs UK time
Chaired by Paula Liimatta

Paula Liimatta

Good afternoon ladies and gentlemen and welcome to Cargotec's conference call on Financial Statements 2011. My name is Paula Liimatta and I am the Head of Investor Relations at Cargotec. Today we have a live audience here in Helsinki and also people on the phone lines. We will start with a presentation by our President and CEO Mikael Mäkinen and after the presentation we will have time for your questions.

Before asking a question please wait for a microphone and state you're your name and company to benefit the listeners on the phone lines. I think we are ready to start, Mikael please.

Mikael Mäkinen

Thank you and welcome everybody. As usual I will go through lets say 15, 20 minutes to the presentation and after that you have a possibility and hopefully have some questions.

Highlights for 2011 – markets activities were healthy, very happy about that and it is in all segments and all geographies. Based on that our order intake grew by 18% year-on-year, out of that 74% came from I&T and 26 from Marine, so again a healthy development there. In Q4 the sales grew by 11% year-on-year, also that is according to our expectations.

Then the next line – if someone would ask me, am I happy or unhappy with 2011? I am very happy with the development we have done. I am not very happy with the results. We are not there where we should be, but the development has been in the right direction, we have done the right things. On the fourth bullet point you can see the R&D expenditure was 60 million compared to 2010, 37 million. I think this is worthwhile noting that we got the permission from our Board to spend a lot on R&D during 2011 to develop new products. Really there were times when we didn't have the financial possibilities to develop products, but I think that when you look at the result you have to remember that this very, very big effort that we made on new products that will come online 2012, after that related to Solutions, related to Marine, mainly related to I&T, meaning Terminals and load handling. Q4 operating profit margin, 5.8%, not a great figure of course. We are going towards 10%, but we still have a way to go. I will come back to that a bit later. Marine again high profitability, we have been guiding that it will drop and yes it will drop one day. I will come back to that as well a bit later. Risk activity in Terminals – I think that when we acquired Navis we came into another league. We are a player someone who has to be taken into consideration every time when there is a bigger project. We have a subset, we have even customers who are asking us – how can they become our preferred customers. I think we have changed the game a bit here. Earnings per share doubled in 2011.

Market environment during the year – load handling not very surprising grew at the beginning of the year, softening towards the end of the year, particularly in Europe. But luckily as you will see later we have a fairly good part of our business outside of Europe. We are not totally dependent on Europe, no, and I think that is where we are pushing the other regions of the world. The Company has changed a lot during the year as you will see a bit later in this respect. Container handling grew – forecast is that it will grow 2012 as well, more and more products as I have said many times before are being moved in containers, things that were not moved in containers earlier. At the same time the big mega-ships are coming on stream. You know about the big mega-ships, lets say more than 13,000 TEU, those ships require new types of ports; bigger cranes, because the ships are wider, new equipment ashore, so that is driving the business, and also they require bigger feeder vessels to move the containers from the mega ports to ports around that. There is actually only one totally ready, two semi-ready ports to take those mega-ships today.

On the Marine side – bulk handling still at the beginning of the year, but then dried out towards the end of the year, but on the other hand we have seen positive activities on RoRo ships and containerships.

Service – beginning of the year we saw a slowdown in the Marine service but now it has been growing towards the end of the year as well.

It is fairly interesting that we had a good market environment in all segments, all geographies.

Order book grew by 3%. We have to remember we are now eating of the very, very long, too long Marine order book coming to a healthier level and I am very happy that we can build on Industrial and Terminal order book with the a shorter delivery time, more important for us in the short run to see that we have a healthy order book there.

As I said 5.8% for the fourth quarter, not a great figure, but bearing in mind a few things, Navis which due to the accounting principles doesn't show a very good operating profit, actually shows a loss for the first year. It is an accounting issue. 23 million more in R&D and then we have a component problem which cost us – main part of it came in Q4 but 10 million we had reservation over the year, so of course we are not manufacturing the components, so of course we are talking to the insurance company, we are talking to the component manufacturers – how to solve it over the year, but the prudent way is that we have to see it to that our customers are not suffering. We take the cost right now, we will see then what will happen during 2012.

Cash flow as you saw over the quarters you will see it on one slide, it didn't look that great at the beginning of the year, but the end result was anyhow good, it was good in Q4.

Industrial and Terminal order intake grew by 36% year-on-year. as I said we are one of the players in all big projects and that is why you see that the biggest project was of course London Gateway and that is in Europe, Middle East and a few other bigger projects in EMEA; that is why you see EMEA is still a very important part of this business.

Marine – if you look at the trend line you could say that it is going down. It is still on an okay level, and I think that this is the level that we will see – our forecast is that this is the level we will see on quarter one 2012. The way we track it is of course when ships are being ordered, what types of ships are being ordered, how far after that do we normally get an order. My estimate is that we will see a lower Q1 2012 and then it will grow again after that.

Offshore – signs of recovery. We have seen many offshore ships being ordered, not that many orders for us yet, but it is in the pipeline. Sales we were talking about that, healthy development.

If you then go to Industrial and Terminal operating margin – yes you can well say that quarter four was a disappointment. Yes it was a disappointment, I mean taking away one of the quality problems of the components, it would have been a flattish figure, if we would have then added almost 20 million on R&D that we spent more, then it would have been a healthy development. But we thought that for the long run this is still the right way to do it, invest now, take the benefits later. Many new products – you know that when you move products from one production site to another, you would like to have a new generation and so on. We need more products for the developing markets, with simpler products, where there is a huge market and so on. From that point of view, development has been good, but nobody can be happy with that figure.

Marine as I said continues very strongly. We still maintain our guidance that over the years it will level out to a healthy double digit number, which is of course somewhere between 10 and 15.

The operating model in Marine is very good so even when the market is going down we can keep the profitability at a very good level, and of course that is an area where we try to learn terminal business to take after that operating model.

Gross profit development – yes you can say that it dropped in one quarter, but one quarter's drop it is a question of mix and so on, nothing that I am particularly worried about for one quarters drop. Of course it is a continuation then something has to be done. Cash flow didn't look that great for the first three quarters, but as we already guided at that time, it will be fine. We know that we will deliver in December and that is what happened.

Service sales – 11% growth year-on-year. We are doing a lot on service and my ambition is still to have a kind of a step change in this. As long as it is a steady business it will grow like this.

Not a very big change in geographies – small changes quarter-to-quarter, but Asia and Europe are the biggest ones and the Americas after that.

I have a few new slides – one of them is this. Here you see a world map and you can see that our five biggest countries represent 50% of our sales. I think it is very, very interesting that we have managed to build a company so that our biggest sales to one country is China today. 15% of our sales go to China. Very close to that – 14% of our sales comes from the United States. The third one is South Korea at 10%, then we have Germany with 6% and Japan with 5%. If you would take the next five countries then we

will be talking about Norway, Belgium, Holland, Sweden and Russia, and they are in the level of 2-4% of our sales, so a very good – in my opinion – development that we are not totally dependent, and not very much dependent on for example South Europe. There is the fact that we also have a big market in the United States.

Another slide that I added was the fact that we always get the question of – how about the number of employees? It has been growing by about 1,000 over the year. It sounds like a lot. Why do you need to grow by 1,000? Let's have a look at the list of what is happening. 129 new positions in Poland. That is our main factory, very well according to our strategy. 270 new people in the USA; that is the Navis acquisition. 153 in China; that is our multi-assembly unit in China. 254 new employees in Malaysia; that is a company that we acquired that is doing big crane service. We were a majority owner, now we own the whole company, a very exciting development when you talk about the lifetime of total solutions. Next India – that is Navis, after that it is going down, 109 positions in Sweden, 62 in Norway, 37 in Australia. You can see that there is a very big shift. We are lowering the number of people in certain countries, very much focusing on Asia and the developing world. Then of course this other 211; that could be a few new in Finland, something new in Germany, they are small numbers compared to our 10,000 employees. But that gives you a waterfall diagram of how we are changing the total company.

Earnings per share - €2.42 and then a dividend proposal by the Board of €1 per share.

A few words about the key priorities in 2012 – I have listed up Asia as number one. We still have the strength in our positions in Asia. We have to be a real player, and remember that Asia is not only China, Asia is also South East Asia, it is India, it is the Asian part of Russia. Those are very dynamic markets, very interesting markets. The second point – strengthening the market position in load handling. That is an area where we are working a lot, we have very interesting, exciting projects on how to strengthen our market position, how to build a strategy and the building blocks for load handling. The positioning in heavy cranes – you know about the joint venture with Rainbow. It will start up during 2012. The first cranes have been manufactured by Rainbow, not in our joint venture facilities which are not ready yet, but that will be our real base for all components that requires a lot of steel. Growth opportunities in Marine – we have a very, very good high market position in many of our marine products. To grow there we have to look at organic growth, new products, we have to look at acquisitions, also a bit bigger acquisitions to be able to grow in Marine and that is the plan. Further development of service – as I said we have to build a base so that we can take a mega step there, it is a long project. ERP projects – now in how many countries do we have it there? We are now in three. The rollouts have started. You have to take it slowly first to see that you roll it out, see that everything is fine, and now the real rollout is starting. The building blocks in terminals – talk about that, I added one more slide here and that is what we have done in terminals. I would like you to understand that this is the way we are looking at load handling also. We have to find the real building blocks to change the dynamic in the market.

What we have done in Terminals is of course beginning of the year we acquired Navis, during the year we started our Technology and Competence Centre in Singapore, at the same time we made an agreement joint venture with Singapore Technologies which is the big technology company in that country to develop some very exciting new types of products for terminals. The Technology and Competence Centre in Tampere will be the biggest competence centre in the world, biggest area where you can test new types of

navigation systems, automation systems, new type of terminal products. I think that this will help us very much in introducing faster new technologies into the market. Repositioning in heavy cranes – referring to as I said Rainbow Heavy and to see that we can be a real player in this market. I think we have the tools now, we know what to do; we know how to do it. Last but not least – winning with products, projects and services. Why do I have all this? I think it is very important, even if you are talking about big projects, big solutions, we still have to have very competitive products; that is still the bread and butter for us in Terminals, is to sell products; terminal tractors, reach stackers and so on, so very exciting developments in Terminals and of course as I have said a few times before, we managed to do it a bit faster than I had anticipated; that is why we were ready to take out Terminals or split Terminals and Load Handling. Now we have to do the same with Load Handling, we have to find a very good growth path for Marine as well.

2012 – yes of course if you look at the newspaper it should be a really lousy year, everything should be bad, but on the other hand we have a good healthy order book in Marine. We have a very good order book in Terminals, we have good order intake in Load Handling as well. No I don't know what the two last months of 2012 will look like, but we expect our sales to grow and operating margin as well. That is in line with what you saw there earlier, so not only operating profit but operating profit margin as well will grow during 2012.

I think I will stop my presentation here and if you have any questions or concerns or comments I am happy to take them. I have here my colleagues as well, so thank you.

Questions and Answers

Tom Skogman – Handelsbank

I have got a couple of questions, so I think it is best to take one by one here. First of all the R&D spending increase in 2011 – was that like a step change? Will we just see the same level now continuing or will it go down this year or next year or will it continue to go up?

You have to remember a part of R&D spending is of course coming when we acquired Navis, so it is a different type of business. That is part of it and the rest is really a step change. You will see it in the coming years as well, until we have a newer product portfolio.

It will continue up into 2012 compared to 2011?

No it will continue on the higher level.

Then about I&T, we continue on the same theme that we have seen the last quarter. Sales continues to go up very nicely, up 12% quarter-on-quarter now and still no margin improvement. We have of course explanations in component prices and increased R&D spending, but I think there is still something lacking there. Typically companies have much better margins when the volumes go up.

Yes and no. I think you have to remember the step change in R&D – you have to take into consideration the component 10 million. You have to remember as we have spent quite a lot of time and money in China and the joint venture. Those are kind of one-offs, but in addition to that, yes that is why I wanted to increase the R&D spending, because some of our products they are small products in terms of volumes, and there you don't get the operational leverage. There are things like that, yes definitely.

It is not a constant weakening of the pricing power. There is no continuous worsening of the gross margin in that business.

No.

Then on the Marine order intake outlook – you said something about it, but is it like a serious threat that orders could go down by lets say 30% this year, because that would really risk your 2013 earnings given Marine made up 85% of 2011 earnings.

Let me take the Marine – where did I have the Marine order intake. What I said was that I believe that quarter one 2012 will be under quarter four 2011 level, and then it will grow after that. Of course our order book – you are talking about the second half of 2013 then. You are not talking about 2012.

But you don't see any major risk, but that I what I need to get confirmed.

I don't see any major risk, no, but you have to remember also that at the same time and I am saying that the Marine margin will go down, of course implicitly that says that the I&T or Load Handling and Terminal market has to go up. I am quite confident that we know how to do it.

Then my final question would be about the environmental retrofit in the Marine industry. We see some companies expecting a bright future. Do you have any products for that space?

You have to remember that environmental retrofits are mainly related to engines and so on, but there is of course more and more of our Marine products are electrical instead of hydraulic, hatch covers, cranes. Maybe not retrofits, but you will see a bigger part of them being sold as electrical because hydraulic oil in our products is the environmental hazard. No, you won't hear a big retrofit boom.

Question

A couple of questions – first just a clarification. How large a chunk of the current Marine order backlog will be delivered this year?

A big part of it.

Then about these one-offs – we remember a few back there was this one-off in Kalmar and I was just wondering whether there is something to be corrected in your operating model, if these turn out to be more repetitive by nature.

First of all you have to remember that these two problems are totally unrelated. The previous one that you saw that was actually a much bigger one; that was related to welding and it has to do with our welding process. This was a component. Yes and of course we have changed it, but when you have a reputable sub-supplier of a component you actually, at least you believe that the component is correct. Yes we have changed the process there as well, so we have to inspect the components more in detail. This is nothing that you can see on the face of the component, it is something that comes up during the utilisation of the product.

A quick follow up if I may. Was this linked to some of your Polish subcontractors that you had to replace?

No.

Elena – Evli Bank

A question on Marine – if Chinese ship building starts to increase a lot, are you currently delivering to them? Would you benefit if the Chinese start building ships in a bigger way?

We have to remember the Chinese shipyards depend on the quarter. They are already number one or number two in ship building in the world, but if you would see a mega increase – our market share is fairly healthy on all shipyards. I don't think that would have a big effect.

About Load Handling – could you talk a bit about what you have seen during the end of 2011 in terms of order intake, the activity in the market and what you are seeing now?

The activity is on a good level. Actually if you also read about the truck manufacturers reports – it is not very bad. It is actually fairly good.

Still a follow up on that – in the US market what kind of development are you seeing there? I think you said that the markets stayed on a very low level after the financial crisis and it hasn't really recovered. Are you seeing a recovery there now?

Yes we are seeing a recovery and the recovery on the US market is replacement recovery. There is now two long times since replacement of some of the equipment. It is the big fleet operators, whether it is Coca-Cola or Wal-Mart. These are the customers now that are saying; now we haven't invested in five or six years.

Still a final question on the components – what components are there, what products are affected by the problem?

You mean the quality problem? We haven't gone into detail of that because we are talking to the supplier of those components, so we won't go into any detail. It is under control now, yes it cost us and it created a lot of cost because you have to replace those components, you have to check all the other ones and that is something that we...our feedback from the problem we had with () was that actually our market share went up after that, because were considered a very, very responsible supplier. We will change this, we will correct this and now we are doing the same.

Question

...from Carnegie, still on your () – does it actually mean improving margin in both divisions?

Of course in 2012 we have three divisions, so we have Marine, you have Load Handling and you have Terminals, so yes on Load Handling and Terminals yes.

Could you elaborate your current pipeline in Terminals?

We took some big projects towards the end of last year. Now I don't think that you will see any mega project being ordered during the coming quarter, but you will see smaller projects. I am talking about 10-40 million projects, but these mega ones are not coming that often. Of course everybody is full now with the mega projects, so the next delivery for a mega project is far ahead, so the customers are also thinking about who can take the next project. How can it be done? When can it be delivered and so on?

Finally – what is your current tax rate expectation for this year?

We would guide on something between 25 and 30% to be on a cautious level. Obviously we have had a track record of being slightly below that now in the past couple of years, but that maybe a good estimate to use.

Jan Kaijala – Nordea Markets

Just on the development during the last three, four months – how would you describe any change in sentiment of your clients in terms of number of projects out, in terms of how do they think of the future, what kind of signals are you getting from them? Has your mood or your view of the coming future changed a lot in the last three months for one or the other direction?

Yes and no, but in general no. But on the other hand of course Load Handling very short business cycle can drop very quickly. At the other end of the scale Marine – in Marine you see less speculative ship building orders being placed. That is maybe a change. Those big ship owners they don't get financing today. The interesting thing is that order in take might go down, but so was very much the cancellation risk as well. It is a healthier market from that point of view. It is a bit of a change to the marketplace.

Of course we are lucky that we are a worldwide company. There are still a lot of pockets where the market is growing. The market is growing in Africa. The market is growing especially in Asia outside of China; it is a very interesting market at the moment. As I said the United States as well, and Brazil. I think we are very European centric and think about that this is the whole world, the European market.

This would apply to Marine and Terminals or were you speaking more specifically about the Marine?

I am speaking specifically on the Marine. On the Terminal side we haven't seen any projects being postponed due to financing or uncertainty by the customer.

...dwell on this quality issue – you are saying it is under control. Does that mean that all the faulty parts have now been replaced and compensated for and we cannot expect anything more from this line anymore?

We have very few of those machines that actually have broken down. We have to test everything. It will take a few years to test them; we just have to take the cost now. We know that now we have tested so many, we know the percentage of those have to be replaced, we know the cost of that now, we take the cost, but it takes a few years just technically to do it.

This booking that you made – this 10 million – how much would that cover? You are making a guess of the percentage how many will breakdown because of the problem and then you assumed the 10 million will cover for that. But if you made a wrong assumption...

We have tested so many of those machines worldwide, so I think the statistics that we have we know very well. I think that the figure is accurate. My guess is that it is more conservative than aggressive.

Question

I would like to ask about the cost side, cost inflation – have you seen cost inflation levelling down or are the prices still rising. Related to this question – what is the pricing situation? Have you the possibility to improve your prices in the current situation?

We have been able to improve our pricing; of course it is more difficult when the market is not at a peak. We have been able to increase the prices to cover the cost increases. There are cost increases and I don't think it has changed from last quarter. The cost increase funnily is higher than it should be in this market situation. It totally runs all the time – can you find other component manufacturers? Can you do something in a lower cost country and so on? The cost increase is an ongoing battle. We are happy when we have our big factories, like the one in Poland and in China. They are a very cost efficient way of doing it, but it is not easy. In this market situation and we are at an 80% level of a peak, it should be a bit easier. I think that as I said last time, many of the component manufacturers disappeared from the market during the last crisis. We also see today some component manufacturers that have problems in getting financed. That is where the banks are squeezing first. We have to be very careful who we go to, how we go and so on.

If I continue – what about the wage inflation, especially in China? We have seen quite high increases there?

We have seen quite high increases in China, but you have to remember that when we talk about the high increases, they come very often in – we are talking about the middle management and management where the big, high increases are. If you then go really to – it is increasing, but not that dramatically on the lowest level. There even if you increase it a few percentages, we are talking about the very – it is very different from Europe. One manager in Asia his salary is 100 times or a 1,000 times the work, even if we increase the workers a bit, in the total picture it is not that dramatic as in Europe.

But the interesting thing is of course that if you look at the Chinese manufacturers of any type of industry, they are now moving inland China, and they are moving to Cambodia, they are moving Vietnam, but then we are talking about really base products.

Question

...from Sberbank again. Load capacity utilisation at your Polish factory used to be a problem in the past. Now you have got this big order intake. Where do you stand now and what is the outlook with that.

I don't think that the load utilisation on the Polish factory has ever been a problem. The problem has been how fast you can ramp it up. You saw here that we had a few hundred new employees there, so that is the ramp up. I don't know what could be a good figure today.

I think what we can say for this year is really that we are expecting a significant increase in the volume output from Poland this year, based on as Mikael was saying on the successful ramp up and increase of personnel. Internally it will have a bigger share and be a bigger importance as a factory.

If we look at the different scenarios, we have the more optimistic scenario for this year; that is something that the Polish factory cannot do. They cannot employ so many new people; they cannot find them and so on. The utilisation rate is fairly high. We start to be on that level that when should we start to think about the second and third phase there, but that depends on the market, and remembering that our factories are fairly simple assembly halls. The main issue is – how can you employ and train people.

You see that your current subcontractors can feed the factory to a full extent?

Yes that is how we see it.

Tom Skogman – Handelsbank

I am trying to get a feeling for the risk level in your guidance and this is how I am thinking that the Marine order book is down quite a lot and we know that you have quicker delivery times than you had won a year ago in the Marine order book. In the Industrial and Terminals you have not had any margin leverage for many, many quarters. It is quite fair to assume that you will have some sales decrease and some margin pressure in the Marine division. That gives a lot of pressure to the Industrial and Terminal division to improve and in that division we have not seen any margin improvement despite much higher sales, the last two or three quarters compared to the quarters one year ago basically.

What will drive up the margins that much in Industrial and Terminal next year when it didn't happen in 2012?

We have of course a mix of products. We have the fact that we have changed the organisation. There is not one big thing that will change, but I think we have analysed it very much in detail. In this market situation, we say that next year is flat. I think that we know that this is the case. We know the remedy for that. It consists of many, many small things here and there. What products should you not sell what products should you sell, where should they be manufactured and so on, plus a good base load?

But it is right to assume that how you think is that the Marine orders will go down a beat at least, and that has to be compensated by a much better performance by the Industrial and Terminal division?

That is how we see it today.

Christer Magnergard – DNB, Oslo

Hello, three questions. I will take it one-by-one, firstly a follow up on Tom Skogman's question on the guidance for next year, and also related to the one-offs you had in 2011, since you had quite much. Can you specify the one-offs you had except for just component cost? You also mentioned time and money related to one-offs in the JVs, also cost related to Navis. Can you specify that?

Of course we had the one-off cost for the component problem. We have the R&D step change. We have China where we have a lot of activities around the JV setting up of that, and Navis yes, but Navis is of course question of...

If you read in the notes part of the report we have indicated that the deferred revenue treatment in Navis affects our results and sales by some €10 million. We have some tails of that still in the first quarter, but the majority of that came in 2011, and then maybe good to remind everyone that we had close to 2 million in acquisition related costs which we announced separately earlier in the year, so those would be the areas of the one-offs. As you obviously can see we have reported them as part of our earnings, they are operational issues in that sense, but maybe if you look at 2012 estimates you can think of them as one-offs in that sense.

You had roughly €20, 25 million in one-offs in 2011 that will not come in 2012. Is that correct?

Yes in that range yes.

The second thing – you talked about these mega-ships and the ports that there is one port ready for the mega-ships port today, and two seem ready. Can you give me a number of roughly how many big ports there will be in the next coming years, so I just get an understanding for the potential in that segment.

For the mega-ships to have a global system, I think that you need 10-12 ports. Some ports might also decide...and of course the new London Gateway, those ports are ready for the mega-ships, so lets say ten more and some of them can manage buying a few ship-to-shore cranes. They are not very efficient after that and so on. Ten projects, investment then from a small one until a mega investment.

Finally just on the margins bit between Industrial and Terminal in Q4 and 2011 if you can say anything about that? The split between Industrial and Terminal, you said you are going to break out the divisions in 2012.

We are working on providing obviously the exact pro forma figures which will then help your work, but what we said in conjunction with the capital markets day was that if you take the Industrial and Terminal average and assume that Terminals is a bit higher in Load

Handling, a bit lower that would be the sort of ballpark where we will be. But as I said if you can wait a while we will provide obviously the exact information.

Closing Comments

Thank you operator. Do we have any more questions here in Helsinki? No, then I think it is time to thank you, all the participants and I wish you to have a good day. Thank you.