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PRESENTATION

Aki Vesikallio - *Cargotec Corporation - VP of IR*

Welcome to Cargotec's Third Quarter 2023 Results Call. My name is Aki Vesikallio. I'm for Cargotec IR. Today's results will be presented by Cargotec's CEO and Interim President of Kalmar Casimir Lindholm; CFO, Mikko Puolakka; and Hiab President, Scott Phillips. The presentation will be followed by a Q&A session. Please pay attention to disclaimer in the presentation as we will be making forward-looking statements. With that, over to you, Casimir.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Thank you, Aki, and welcome also from my behalf to this report and webcast. All in all, third quarter was on a good level, for us it is third quarter in a row and we are performing on a good level. We can see some delayed decision-making around especially more expensive products in our product ranges, both in Kalmar and Hiab, and we'll come back to that a bit later in more detail. We are also announcing an action plan to target EUR 50 million cost savings mainly for 2024, and we'll come back to that, how that is divided and how we are approaching that cost savings programme.

The planned separation of Kalmar and Hiab is progressing according to plan. And with that said, Pekka Ala-Pietilä is now no longer available for the stand-alone Kalmar Board. So we have an ongoing recruitment process regarding both Chairman of the Board-to-be for Kalmar and the CEO-to-be for Kalmar.

As mentioned, we have now 3 quarters in a row on a very solid level regarding our operating profit. Really happy to see the performance in Kalmar, Hiab and MacGregor, both Kalmar and Hiab performing on a very good level, and extra happy to see MacGregor's second quarter now in a row on the positive side, and the turnaround in MacGregor is progressing according to plan.

Sales increased. And then, of course, as expected, our orders decreased by 20%. We are clearly seeing patterns that in the more expensive product ranges the drop is clearly seen, and then we have other product ranges and businesses where we see a very good order intake, also in Q3. But we'll come back to that more specifically in the sections around Kalmar and Hiab.

Orders received, back to the pre-COVID level. So if you compare Q3 '23 with the similar quarters in 2018, 2019, we are back roughly on those levels. And again, we'll come back to how the split is between Kalmar, Hiab and MacGregor and then even within those businesses.

The order book remains on a healthy and good level, above EUR 3 billion, going into 2024. We have a large part of the order backlog securing the 2024 net sales.

Comparable operating profit. Here, you can see on a Cargotec level, this is the third quarter in a row, and we are on a very good level. Kalmar and Hiab close to each other, performance-wise. And then you can see the 2 quarters here that are very positive and a positive change in MacGregor and the market also supporting that going forward.

Service sales continue to grow. And of course, this is an instrumental part for Cargotec also going forward and an instrumental part in the stand-alone companies to be in their strategy for the years to come. And we can see potential here to grow service and spare parts also going forward. But the good development and the trend continues in a positive way.

The same said around the ECO portfolio. It's an instrumental part of the strategy or Cargotec and the stand-alone businesses to be as well. And we have taken steps here to secure that growth also going forward. We'll come back with an example around Kalmar, how we are progressing on the EV side in Kalmar due acquisition.

Then the announcement of the cost savings programme. These steps are taken to secure a good and healthy business also going forward. That means that we're targeting to be above 10% comparable operating profit in the core businesses also in a slower market. And this, of course, requires actions now. So we're looking at 2024 and even partly 2025 in this cost savings programme. And this is, of course, building a foundation so that we can continue to improve, continue to invest in R&D and grow the business on the service side, and this is then giving that platform for the next couple of years.

The cost programme is divided between the group functions, Kalmar and Hiab. So we are targeting EUR 10 million savings on group level, EUR 20 million on Kalmar and 20 on Hiab level as well. Roughly 50% of the cost savings will be achieved from reduction of maximum 350 roles globally.

The estimated one-off cost is EUR 20 million, targeting to get this process through as fast as possible and parts of these costs will be recorded as part of Q4 results. And very important to see the change here that the cost would be booked above the comparable operating profit. From now onwards, we see that when we are adjusting up or down in the businesses, that should be part of our day-to-day operations going forward and get away from these restructuring programmes that we have had in the past.

Then on top of this, we have had similar activities in MacGregor throughout 2023. And all in all, that impacts 280 roles in MacGregor, mainly in the offshore business and mainly in Norway. So our offshore business from a net sales perspective is clearly coming down and from a profitability perspective that is a good thing. But we need to adjust here as well. And all in all, with the new cost savings programme and with the ongoing activities in MacGregor, this has an impact of roughly 650 roles within Cargotec, and that is a bit less than 5% of our total personnel that will be impacted or has been impacted by these initiatives. And for MacGregor, estimated restructuring cost approximately EUR 20 million in 2023. So these actions are then impacting Q4 from a cost perspective.

Then I'll give the floor to Scott Phillips. Scott will present Hiab and where we are in Hiab. Please Scott, the floor is yours.

Scott Phillips - *Hiab - President*

Good morning from my side as well. I will guide you through the Hiab results for Q3. I'd characterise the quarter as continued strong execution in our product supply centres as well as our customer support centres. So a very nice job by Team Hiab within the quarter, and that's continued nicely throughout the year. On the side of the orders, I have the same story to tell you that we still experience impacts through delayed decision-making that, combined with 3 other factors that I'll go into details on the next slide, continue to have some impact in our orders as well as the seasonality that we've talked about in the past with regards to Q3. Equipment and service sales improved quite nicely, and that enabled a nice development in operating profit improvement, right in line with our expectations in terms of positive operating leverage slightly below 30%.

I would like to start off with telling you about one of our exciting innovations within the quarter. We've developed a solution through the use of virtual reality technology, and we call this HiSkill. It's a training simulator designed to help customers onboard and provide ongoing training to crane operators in a safe, scalable and cost-effective way. This is our response to the continued challenge that our customers experience in terms of operator shortage and especially skilled crane operator shortage. The solution is designed to help improve certification pass rates. It reduces onboarding cost and helps to ensure all operators have the same base level of knowledge of the equipment, safety procedures and daily tasks.

There are 5 clear benefits that the innovation provides. It allows for safer operations through increased training and continuous improvement. There's less damage to equipment during training and the actual use of the equipment. As a consequence, training costs are lower due to the virtual environment, and it's a much more sustainable method of training, which reduces the overall CO_2 footprint. And last but not least, with the connected fleet insights that we currently have, we can continue to simulate actual operations through the use of machine learning. And we've got some concrete proof points for the benefits case from initial pilots that we've completed and case in point with one of our customers, we were able to increase first pass certification rates from 45% to 95% and we've reduced the onboarding time by 25%. So going from 8 weeks to 6 weeks, and that's enabled a 50% reduction in training costs and a significant improvement in profit per operator, all of which we and our customers are excited about in terms of the possibilities of helping them continue to be safer, more productive and more sustainable with this latest innovation.

So on to the numbers. As I talked about earlier, we certainly experienced our typical seasonality in order intake. And that, combined with a few delays in decision-making, where a couple of orders pushed to the right, which we expect to convert in the quarter, resulted in a year-over-year decrease in order intake to EUR 311 million. Keep in mind, last year's Q3 was a bit of a tough comparable as we had a pre-buy effect from one of our last price increases in October of last year. So that was against a prior year quarter of EUR 425 million.

However, we continue to have quite a strong order book. We're over -- at about EUR 900 million. Now, we still continue to see a significant impact from inflation, combined with long lead times. And of course, interest rates are still causing many of our customers to be in a wait-and-see mode. But we still feel good about the level of the order book that we have within the business.

Then moving to sales, how did we convert the backlog. Sales progressed quite nicely. It's the fourth quarter in a row we're over EUR400 million in sales. So within the quarter, we have EUR 420 million, that's compared to last year's quarter of EUR 378 million. That's an 11% increase. It was a 15% increase in comparable currencies. And services continues to develop nicely. We saw a 7% increase in services sales with a slight decline sequentially in equipment sales. This resulted in 27% of sales from services. So we're quite happy about that. And that's a consequence that I mentioned at the outset, strong operational execution, both in our product supply centres as well as our customer support centres.

Supply chain continues to improve in terms of internal lead times. However, we still are challenged by the occasional missing component. But the team has responded quite nicely to each and every one of those challenges, with good support from our customers.

And then as a consequence of the increase in volume as well as sequentially as well as a year-over-year nice improvement in gross margin, we saw a good development in profitability year-over-year at EUR 62 million compared to prior year EUR50 million. So a 24% increase, and that resulted in 14.7% operating margin against 13.1% in the last year. In comparable currencies, it was slightly higher in absolute terms but similar in terms of relative terms.

So quite a nice job from the team in terms of managing the continued inflationary pressures. I can say that our pricing is roughly at par with our cost development. So we're pleased about that. And so with that, I'll turn it back over to Casimir to take you through the Kalmar results.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

So then going to Kalmar Q3. As mentioned before, a mixed demand picture. On the distribution side of our business, softer order intake, but on the other hand, in the mobile equipment, for example, very strong order intake in Q3. So a very mixed picture. And of course, we need to respond to that as part of the cost savings programme as well. We have been successful in managing inflationary pressures, and that can be seen in the result. And then I'll come back to a bit later what we have done around EV and our EV strategy and strengthening our position going forward in that area.

So very mixed demand picture. Then again, slower decision-making in a similar fashion, as Scott was referring to in our Hiab business, similar patterns can be seen in Kalmar and again, mainly then decision-making slower regarding our more expensive equipment. But in small and midsized terminals, we see good demand and our mobile equipment had a strong Q3. As on Cargotec level, here in Kalmar as well, the order book remained on a good level and covering quite nicely to a large extent next year's sales.

That said, we started to see some impact on the sale side due to the lower order intake over the last quarters. But again, above EUR 500 million in sales in Q3 is still a strong quarter for Kalmar.

Profitability on a very good level here again, several quarters in a row. Some elements were favourable sales make some elements in a similar fashion that we have in the second -- had in the second quarter around that we were able to produce a bit more than maybe expected and could deliver to the customers a bit more than expected towards the end of the quarter. And then, of course, on the positive side, impacting the results is that heavy crane losses, again, going down compared to the historical quarters.

And then last but not least, from a Kalmar perspective, we have acquired the product rights of the electric terminal tractor product line from Lonestar Specialty Vehicles. This will, of course, push our ambitions forward in the EV development. We are continuing our own EV development project as well. And then after rigorous testing, then together with our customers, we'll later come back to when we can launch that part as well. But this strengthens our presence in the EV development now, then that will not have a great impact in 2023, but of course, we expect sales from this transaction then in 2024 and onwards.

With that said, I will give the word now to our CFO, Mikko Puolakka. Mikko will then first go through MacGregor and then after that, our numbers on Cargotec level. The floor is yours Mikko.

Mikko Puolakka - *Cargotec Corporation - CFO*

Thank you, Casimir, and good morning also from my side. Before going to Cargotec financials, let's have a look on MacGregor, which had actually a very solid order intake, like MacGregor has had during the already previous 5 quarters.

We saw a very good ordering activity in the merchant vessels like car carriers, heavy lifting vessels and navy vessels. Clarkson actually has upgraded the 2023 merchant vessel contracting now recently to 1,549 vessels. And the previous estimate was 1,316. So just indicating the good ordering activity, especially on the merchant vessel area.

Demand for services was also very good, both in merchant and offshore. We have been very selective in taking offshore orders, not to take that kind of orders, which would compromise the offshore turnaround, what we are currently working on.

MacGregor's order book is EUR 993 million at the end of September. This is providing, of course, good basis for 2024. But good to remember also that part of this order book will be delivered over 2025 and even year 2026.

MacGregor sales growth came primarily from merchant and service, also supported by the strong order intake during the past quarters. And like we have said earlier, we should now see higher revenues in the second half of 2023, supported by the order book.

MacGregor's comparable operating profit was EUR 9 million. This improvement came from merchant and service volume growth. And then also MacGregor has been working on fixed cost savings coming from the ongoing restructuring programmes. The offshore business is still loss-making. However, we made in quarter 3 EUR 2 million smaller loss in that business compared to the previous year. Without the MacGregor offshore business, MacGregor comparable operating profit in quarter 3 would have been 10%. So even with fairly modest revenues at the moment, MacGregor, without the loss-making offshore business could make a 10% comparable operating profit.

You saw also in our interim report that we released the EUR 18 million provision, which was related to the U.S. export control legal case. And due to that reason, MacGregor's quarter 3 operating profit was EUR 24 million.

As Casimir also already mentioned, MacGregor restructuring programmes are continuing. We are targeting in overall over EUR 20 million cost savings compared to 2022 cost level and EUR 14 million is expected to materialise already this year.

A couple of highlights on Cargotec's overall financials. We have still exceptionally high order book, almost EUR 3.1 billion. In Kalmar's case, we are still talking about 6 to 12 months delivery times. In Hiab's case, the order book is covering over 6 months of sales. So still longer than kind of normal situation. The eco portfolio sales grew by 13%. This is twice as fast of the -- compared to the total sales. So nice in line with our long-term sustainability strategy.

All-time high quarterly cash flow, EUR 184 million, and also our year-to-date cash flow is the highest in Cargotec's history.

Our core businesses, Kalmar and Hiab continued to deliver very strong profitability in quarter 3, supported by the volume growth and then actions to manage the inflationary pressures.

And also, our ROCE was now at the end of September 14.8%. Here, we are still, to a certain extent, burdened by the quarter 4 last year MacGregor's significant one-off bookings, but showing the nice improvement, supported by profitability improvement of all 3 business areas.

Like I mentioned, all-time high quarterly cash flow. There were basically 2 main drivers for our high cash flow in quarter 3: very strong quarter 3 EBITDA and then we were able to reduce EUR 96 million from accounts receivables. Our inventories are still on a high level, approximately EUR 1.1 billion. Inventories went down by EUR 12 million during the quarter. But for example, in work in progress and in goods in transit, we have still over EUR 400 million, indicating the supply chain situation.

Our financial position is very, very strong and has continued to strengthen. The gearing improvement came from very strong quarter 3 cash flow. With the current EBITDA generation, we could basically repay our interest-bearing debt within 8 months. Our average interest rate is 2.8%. It was 2.1% when we started the year. This increase is coming from the market rate increases.

Our committed liquidity is EUR 780 million at the moment. It consists of EUR 450 million of cash and then unused committed revolving credit facility of EUR 330 million.

And we reiterate our 2023 financial guidance. As a reminder, we expect the core businesses, meaning Kalmar and Hiab minus the group costs, to improve from last year's EUR 384 million. And then MacGregor comparable operating profit, we expect to be positive.

So with that one, then I open the floor for questions.

QUESTIONS AND ANSWERS

Aki Vesikallio - *Cargotec Corporation - VP of IR*

Thank you, Mikko. So welcome Casimir and Scott, back to the stage. And with that, operator, we are ready for the Q&A.

Operator

If you wish to ask a question, (Operator Instructions). The next question comes from Antti Kansanen from SEB.

Antti Kansanen - *SEB, Research Division - Analyst*

It's Antti from SEB. Thank you for taking my questions. I'll take them one by one. First is a question on the fact that you referred that on the more expensive product categories where you are seeing some hesitation. Is this more kind of related to the interest rates that clients are hesitant to do any bigger CapEx investments? Or is there a feeling that these product categories, the pricing is a bit too high and the steel prices falling over and so forth. And in relation to that, are you seeing on the input cost side, something that would allow you kind of to lower your prices going forward while maintaining solid gross margins?

Scott Phillips - *Hiab - President*

Yes. I can start on the Hiab side. What I would say is that it's definitely much more to do with the interest rates. And so therefore, the cost of financing and then the time frame, of course, has stretched out. In terms of the cost side, the second question, as we've stated before, what we see is that, yes, commodity prices came down somewhat. However, that was offset by an increase in energy cost, which should be easing. It looks to be easing over time and then now under pressure again with the latest events and what's occurred in the Middle East. But labour rates more or less offset the commodity price deflation, so we haven't yet seen the cost side come in as we originally anticipated coming into the year.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Yes. Thanks, Antti, for the question. From a Kalmar perspective, I mean, similar topics are there. And plus, in some areas, for example, in terminal tractors, we can see some destocking from the high orders and high deliverables that we have seen over the last quarters. So that is slowing down a bit the activity. But the main part of that is the interest -- the high interest rate compared to the history that is slowing down decision-making. So that's the main one.

Antti Kansanen - *SEB, Research Division - Analyst*

All right. Very clear. Then the second question is on MacGregor, and thanks for providing clarity on how the ex-offshore business is doing. But how much -- can you give some numbers on how much offshore business you still have left in terms of share of backlog or revenues that you expect to book in '24/'25. Any colour on that would be appreciated.

Mikko Puolakka - *Cargotec Corporation - CFO*

Overall, of course, we are not discontinuing the whole offshore business, there is still opportunities to develop that business further. But we have been very restrictive with the orders in order to make sure that we take only in orders where we are kind of technically on a solid ground and where we can see that project margins are on a sufficient level. There is still tens of millions of euros of order book in the offshore business. The offshore business made EUR 8 million comparable operating profit loss in quarter 3, EUR 2 million smaller than a year ago. And we continue to work on further improving it, ultimately taking it to the positive side.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

And we have earlier referred to, we have roughly 20 projects of, let's say, midsized projects to a large extent, those are produced during this year, a handful of them next year. So in that sense, our risk in the offshore is gradually going down quarter-by-quarter.

Antti Kansanen - *SEB, Research Division - Analyst*

All right. And then the last one for me was a bit of a technicality regarding to the savings programme and the EUR 10 million that you are targeting on a group level. I mean, one would also assume that given the demerger plans, there's a bit of a need to add corporate functions because of the listing of Kalmar and so forth. So is this a gross or a net number? And it seems a bit high given that the group costs have been ranging between EUR 40 million and EUR 45 million. So how should one think about the net impact?

Mikko Puolakka - *Cargotec Corporation - CFO*

Basically, this is our group cost as-is. So this does not assume any kind of hirings if there would be hirings, and there will be some hirings as the Kalmar demerger process continues, but those hirings will be then in Kalmar costs. We have not disclosed yet any dis-synergy number, but we are quite confident that we can manage the dis-synergies in a good manner going forward. So this EUR 10 million is purely related to the group cost as is today constructed. This is coming from various activities we are putting on hold or stopping at the moment, due to the ongoing demerger process.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

And we are 1st of January entering into a holding company mode regarding Cargotec. So there are activities that we have taken out from our future in that sense that we are not on Cargotec level any more actively investing in development, for example, on the IT side and so forth. And otherwise also the activity level has been taken down and where we're going into a holding company mode more and more of the functions and the work around the functions and development of function is happening then in Kalmar Hiab and MacGregor. So it's partly taking down the level of activities and investments on the Cargotec level and performing as a stock-listed company, all the duties continue at normally, but in a holding company mode.

Antti Kansanen - *SEB, Research Division - Analyst*

Okay. And then the final technicality regarding the savings, is this EUR 50 million fully in '24? I mean all these equally, your EBIT is EUR 50 million higher or is this some kind of a run rate number and the full P&L impact is then kind of '25?

Mikko Puolakka - *Cargotec Corporation - CFO*

This is -- this will be visible in '24 in full. So it should be a cost level, EUR 50 million lower compared to this year's cost level. Everything else kept unchanged.

Antti Kansanen - *SEB, Research Division - Analyst*

All right. Very clear.

Operator

The next question comes from Mikael Doepel from Nordea.

Mikael Doepel - *Nordea Markets, Research Division - Equity Analyst*

Good morning, everybody. Just start off with a brief follow-up on the cost savings. So just to be clear there, these are not really related to listing of Kalmar? So any dis-synergies that you get from that will be covered by additional cost take outs? Is that the way to read it, just to be clear on that.

Mikko Puolakka - *Cargotec Corporation - CFO*

Yes, I would say that this is just, if we look Cargotec as-is, this is a cost saving to address the lower order book and low order intake what we have now seen. And then, of course, when we have the dis-synergies, we are looking additional measures to offset that dis-synergy.

Mikael Doepel - *Nordea Markets, Research Division - Equity Analyst*

On that topic of Kalmar spinoff. Just if you could give an update on how that project is proceeding now? And if you have any updates on the timetable would be great.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

I mean, as such, the whole project is proceeding according to plan, and we are earliest coming back to this topic then as part of Q4 and 2023 release early next year with any updates earliest then. But all in all, regarding the IT streams, legal streams, listing readiness streams and all that we are preparing is progressing according to plan. And all in all, very happy with the performance of the full team. We have roughly 200 people involved in the project. So it is, of course, a complex exercise with a lot of work streams, but very pleased with the performance and everything going according to plan so far.

Mikael Doepel - *Nordea Markets, Research Division - Equity Analyst*

And then just a final question before I get back in the queue. So just in terms of demand, how do you see that demand environment evolving in Q4 overall across your business segments? Any incremental slowdown in size? I think you mentioned destocking in some products. Is that going to go to you -- any reads that are sticking out? Any colour you could give there would be helpful, thanks.

Scott Phillips - *Hiab - President*

Yes, sure. In terms of Hiab, I don't -- we don't expect to see significant sequential changes in those 3 factors that I've talked about each of the last 2, 3 quarters that are impacting the order intake. We still see those valid. I think in the prior quarter, I was asked about the difference in the demand patterns that between, let's say, Europe and North America. That still on balance remains unchanged as well, slightly more negative in Europe, slightly more positive in North America about unchanged for us in APAC. So we expect to see that relatively speaking, continue forward sequentially into the next quarter.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

On the Kalmar side, we expect a similar pattern as here in Q3. So again, we expect that the good order intake will continue on the mobile equipment side. And we foresee a similar softness in the market in the more expensive product ranges going into Q4. So on that level, that's our expectations, then how it will look like in early next year is too early to say.

Mikko Puolakka - *Cargotec Corporation - CFO*

MacGregor's case, very similar kind of picture. So merchant market continues to be active. We have -- we continue to see good demand in services, and we will be selective with the offshore orders.

Mikael Doepel - *Nordea Markets, Research Division - Equity Analyst*

Yes. A brief follow-up on the destocking you mentioned. I mean, how do you see that evolve? Will that be an issue for you still in Q4? I think you may mention terminal tractors, right? So will that still be a headwind for you in Q4 or even into 2024? How do you see that?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

I think as mentioned before, I think that situation will remain in Q4 in a similar way as in Q3. So we don't see any changes as such to that. But it is in that business, the order intake is clearly on a lower level than compared to the past.

Operator

The next question comes from Panu Laitinmäki from Danske Bank.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

I have a few questions. Firstly, starting from the orders. How much was the price change in Q3? And if we think about kind of volume terms, how much did they change compared to 1 or 2 years ago?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Thanks for the question. We -- as communicated before, over the last 2 years, we have increased prices by roughly 20%, and we haven't made any adjustments to those prices here during 2023.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

So I mean, that implies quite a significant volume decline to the past 2 years' level. So do you think this is like the trough in demand? Or do you think it's too early to say? I'm thinking that the kind of year-on-year trends were a bit less negative than in Q2. So do you see stable at a low level or further declining or made kind of some improvement?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Scott, do you want to comment that from a Hiab perspective?

Scott Phillips - *Hiab - President*

Yes. Just to reiterate what I had replied earlier question. We don't expect to see significant changes to demand in terms of the factors sequentially. I think too early to tell at this point whether this is the bottom or not. But we see actually quite a good level of stability in the first 3 quarters of this year and even back to third -- or the fourth quarter last year. So I think too early to call on our side.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Similar in Kalmar, too early to say anything around Q4 and Q1 as such. But in different businesses we can see some stabilising levels, even though they differ quite a lot from each other within Kalmar.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Okay. Then on the order book, can you give an indication how much of the order book will be delivered in '24, like how much of that carries into '24?

Mikko Puolakka - *Cargotec Corporation - CFO*

Let's come back to that when we are publishing our quarter 4 results. Like Casimir said earlier, out of this close to EUR 3.1 billion, still, it covers a very good part of next year's sales expectations. So definitely a good basis for next year.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Okay. Maybe a final one just on the timing of the cost savings announcement. I recall that you have previously communicated that you have plans to keep the margin at 10% even in a downturn. And it seems that you are now taking action. But I mean, was this more like you saw the Q3 orders were down, so now is the time to do something? Or just, thinking of the timing, like, why do you do it now and not earlier or wait a bit later?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Thanks. Very good question. I mean, we, of course, have somewhat of a luxury in the business that we can see so far ahead regarding the order backlog for next year. Then, of course, now when we see the patterns more clearly that we have, order intake softer in some divisions in Hiab and some in Kalmar. And then we are, of course, working on a turnaround in MacGregor offshore. Those are the bases that we have had, taking these actions. So I would say, clear signs that there are differences between the order intake between different divisions. And this was now maybe the second quarter where we saw those differences and then we react early enough so that we can be on above 10% operating profit in the core businesses also going forward.

Operator

The next question comes from Tomi Railo from DNB.

Tomi Railo - *DNB Markets - Analyst*

Hi, this is Tomi from DNB. Also trying to get a little bit your assumptions in terms of the order activity or demand levels connected to the cost savings actions. Is this EUR 900 million quarterly level, is it a bottom? Or are you preparing for lower levels, EUR 800 million per quarter? Or what's the sort of the big, high-level assumption behind the cost savings, in terms of activity?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

We have taken the decisions based on the cost saving based on the order intake that we've had over the previous quarters. So we're responding accordingly. And again, important to show that we take actions early enough so we can stay on a healthy and good level regarding the profitability also going forward. And again, for the core businesses, the target is to remain over 10% operating profit going forward.

Tomi Railo - *DNB Markets - Analyst*

And based on your divisional commentary earlier, Hiab and Kalmar, similar to their third quarter levels, it sounds that the EUR 900 million is a stable level, what you see for the fourth quarter. If you can comment any backing there in terms of pipeline? Or how has the fourth quarter started also?

Mikko Puolakka - *Cargotec Corporation - CFO*

I mean, overall, if we look at our sales pipeline also what Scott and Casimir commented, the customer activity, RFQ activity is on a good level. So we do not necessarily anticipate a worsening of the situation from the current level. It's a very similar kind of behaviour what we have so far seen also in quarter 4 compared to the previous quarters. Of course, it's good to remember that our comparison periods to last year have been on a very high level. So -- but if we are looking at the sequential development of orders in our core businesses, that has been on a stable level.

Tomi Railo - *DNB Markets - Analyst*

And then maybe a question on the guidance. You are already actually tracking above last year's full year clean EBITDA on the core businesses for the 9 months. Any comment or visibility you have for the fourth quarter? Should we anticipate a seasonal -- typical seasonal improvement from the profit levels going into the fourth quarter?

Mikko Puolakka - *Cargotec Corporation - CFO*

Overall, if we look at the quarter 4 from a core business point of view, it's good to remember that we start in the core businesses the quarter with a lower order book than we started a year ago. So like in Kalmar's case, that impacted quarter 3 revenues and the starting order book is important for the quarter 4. Why we have not specified more in detail our outlook for the remaining part of the year is due to the fact that there are still supply chain challenges, even though the component availability has been improving quarter after quarter. Also, the truck availability continues still to be an issue for Hiab. So from that point of view, there are here and there, deliveries, which we have experienced in quarter 3. And most probably, we experience also in quarter 4, delays in deliveries due to these mentioned reasons.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

Yes. And on top of that, now the planned cost savings programme, we anticipate that, that will impact Q4 from a cost side, but too early to say, we start the unit negotiations basically now and too early to say how much of those costs will impact Q4 and how much will be taken in Q1. So there are some uncertainties in that area as well.

Tomi Railo - *DNB Markets - Analyst*

And final question on the split. Listening to your comments, it sounds that you really haven't had any second thoughts if the market conditions are weak or weakening that you would back off from the split. That's how I hear it. But my question is actually on the MacGregor side. Any interest anywhere? I know that you are focusing on the turnaround and not in a process to find a solution. But has there been any interest for the business potential deal or sell?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

I mean, as mentioned before, we are fully focusing on the turnaround of MacGregor. Now we can see 2 quarters in a row where we are on the positive side. So a lot of good work done and really happy to see the change here. And again, merchant and service performing already on a good level, and we are working on the offshore side and continue on the offshore side to make sure that we can turn that around as a separate business as well. And the market is good in the merchant. We have a good order backlog going into '24. We still feel that we need a few more quarters with positive development in the turnaround. And as said in the Q2 report, we will then look in the second half of '24 solutions for MacGregor.

Operator

The next question comes from Tom Skogman from Carnegie.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Yes. This is Tom from Carnegie. I wonder whether there are any excess inventories at dealers at the moment, perhaps not only your product but also Palfinger products or Hiab, and competitive products also for Kalmar?

Scott Phillips - *Hiab - President*

In terms of the inventory levels, they're certainly higher than pre-COVID, largely due to the extended truck lead times once the -- once we see some relief from the truck lead times, which we're depending upon the OEM and geography, seeing a little bit, we expect for the inventory levels then to come down. So certainly, I think quick answer to your question is they're higher than pre-Covid level.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Can you confirm that it's really related to already ordered trucks or have dealers ordered cranes from you and the Palfinger and they are now sitting with them without any end orders?

Scott Phillips - *Hiab - President*

I can't really give more colour on the composition of the inventory, how much is excess inventory and reduced activity level because we're not seeing that in our connected data as such, Tom, but certainly can provide colour relative to waiting on truck chassis in order to complete the installation.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

And for Kalmar?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

A similar pattern in that sense that, yes, the inventory levels are higher compared to pre-COVID levels. And as Mikko mentioned here before, in some areas, we're lacking some components, and that increases our inventory levels and also goods in transit. So a higher level than pre-COVID. But then again, we're expecting over time that, that will get back to -- or let's say that levels will normalise over time, but a bit too early to say when that will happen.

Mikko Puolakka - *Cargotec Corporation - CFO*

And we have had in the U.S. in -- like Casimir mentioned, in the terminal tractors, customers have had, in some areas, higher inventories, and they are now doing certain destocking activities in the coming months.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

All right. Thank you. When looking at MacGregor, did you take any restructuring charges in the third quarter that were not booked as an EU item [items affecting comparability] in the third quarter?

Mikko Puolakka - *Cargotec Corporation - CFO*

To clarify, so what we have said earlier is that in core businesses, when we are now doing this EUR 50 million cost savings programme, we are booking the nonrecurring costs related to that programme above comparable operating profit that is estimated to be approximately EUR 20 million, but timing, like Casimir said, is still dependent on the works council negotiations. We will, of course, also disclose and open in our quarterly financial statements and interim reports, how much this kind of nonrecurring costs we have had in Kalmar and Hiab. When it comes to MacGregor -- these MacGregor activities are stemming from initiatives which were originally already put in place in 2022, and they are more related to the structural changes in the offshore business mainly. And these costs, we are booking below the comparable operating profit, under the restructuring cost line.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

And what was the large positive EU item [item affecting comparability] MacGregor in the third quarter?

Mikko Puolakka - *Cargotec Corporation - CFO*

This was related to the EUR 18 million provision release. This provision was related to a U.S. export control case, legal case, which we were able to close successfully and no additional costs were charged to us for that, and we were able to release that provision in full. We made this provision in 2022 and now released it in September.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

And when I look at service sales, how large share of your service sales in Hiab and Kalmar related to installation of product, i.e., things that will come down when new equipment sales come down next year?

Scott Phillips - *Hiab - President*

Yes, this insulation share has gone up, of course, year-over-year, as a consequence of the increase in the equipment sales. We don't see a material impact whatsoever to the margin, Tom.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

I'm not talking about the margin, I'm talking about the service sales relating to installation of equipment. How large is that?

Scott Phillips - *Hiab - President*

We don't disclose that level of detail on the service sales, Tom.

Aki Vesikallio - *Cargotec Corporation - VP of IR*

It can be found on a year level in our investor presentation. So you can check it there, it is roughly 10%.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Okay. And then finally, are there any ideas that you would like to do acquisitions now. Well, I guess, price hikes come down considerably given that you are in the demerger process. You have a good balance sheet and if you sell MacGregor, I mean, you know that you will be able to get some money from that as well.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

All in all, the M&A strategy is strong, particularly on the Hiab side. And of course, as always, we are looking at different targets, and especially on the Hiab side. In Kalmar, there's more focus operationally internally at the moment. And of course, then in MacGregor, we are focusing on the turnaround in offshore. So the demerger plans as such doesn't prevent us from moving when we see something interesting in the market to the right price levels.

Tomas Skogman - *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Perhaps I should also just ask about the manufacturing footprint. Now we have a clear downturn in volumes, and you have still some smaller factories. I realise, I mean, you acquired the Effer business, now you say, for instance, that volumes in orders are down considerably for large Hiab cranes. Do you consider doing something to the manufacturing footprint this downturn?

Scott Phillips - *Hiab - President*

Yeah, we continue to evaluate all those options, Tom. So we'll continue to do so moving forward.

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

And as part of the cost savings programmes, there are parts in there that are reduction of floor space regarding offices and warehouses and so forth. So that element is in the cost savings programme as well.

Operator

The next question comes from Erkki Vesola from Inderes.

Erkki Vesola - *Inderes Oyj, Research Division - Analyst*

It's Erkki from Inderes. Just a couple of questions from me. First, just to clarify, the annual savings, will that EUR 50 million drop -- fully drop through to EBIT when it has materialised?

Mikko Puolakka - *Cargotec Corporation - CFO*

Correct. It will come to EBITDA. So if our costs would be, for example, it's basically so that this EUR 50 million is compared to 2023 cost level. Our fixed cost would be EUR 50 million lower in '24.

Erkki Vesola - *Inderes Oyj, Research Division - Analyst*

So it's EUR 50 million plus on EBIT level? So to speak.

Mikko Puolakka - *Cargotec Corporation - CFO*

This is also to support the profitability. Of course, we have not yet disclosed, but do we expect for next year's revenues. But like Casimir said, this is to offset certain lower order book and lower order intake what we have seen now in the coming quarters.

Erkki Vesola - *Inderes Oyj, Research Division - Analyst*

And then another clarification. Is this EUR 50 million, it's not a run rate at some point of time, it will be fully visible in '24?

Mikko Puolakka - *Cargotec Corporation - CFO*

Fully visible in '24, in the fixed costs of Kalmar and Hiab.

Erkki Vesola - *Inderes Oyj, Research Division - Analyst*

Okay. And then another one regarding the heavy cranes business in Kalmar. What was the impact of the heavy cranes in terms of sales and EBIT? And how long will Kalmar still have this drag in the coming quarters?

Mikko Puolakka - *Cargotec Corporation - CFO*

Yes. The heavy chains revenues were low double-digit revenue in quarter 3 and the profitability was a low double digit, a couple of million euros loss in quarter 3, EUR 2 million smaller loss compared to last year's quarter 3. And the order book is EUR 8 million at the moment. Most of that will be delivered this year.

Operator

The next question comes from Antti Kansanen from SEB.

Antti Kansanen - *SEB, Research Division - Analyst*

Thanks for the follow-up question opportunity. This was for Scott on the availability of the truck chassis. So could you talk a bit more about how -- is this a very unchanged picture from the previous quarters? I mean, if you look at the products that are relevant for Hiab, is the situation improving? And what's kind of realistic in your point of view going forward to expect that the truck makers delivery times would start to normalise, what needs to happen so forth. So a bit more clarity on this.

Scott Phillips - *Hiab - President*

Yes, we see that still remaining on balance, stable, sequentially. As I mentioned earlier, a few markets and a few OEMs where we see improvements. In most other markets, the lead times still remain quite extended compared to pre-COVID. I think the indications are -- and it's early to tell at this point, but the indications are that should start to normalise moving forward, but it's hard to tell, timing-wise on our side, we just don't have that level of insight when the order books will be fully open and stay open on the side of all of the OEMs, but we would expect that the lead times to start to normalise moving forward.

Antti Kansanen - *SEB, Research Division - Analyst*

And you feel that with this kind of underlying demand and workload for your end clients, your orders would actually be higher at this point of time if the truck lead times would be, let's say, normal.

Scott Phillips - *Hiab - President*

All indications are -- that's a good assumption. If you had lead times that were normal and then combined with easing of interest rates, then those seem to be 2 of the biggest factors that has created a more challenging situation on the order side.

Antti Kansanen - *SEB, Research Division - Analyst*

Do you think Hiab, if we look at the order book, it's still roughly 6 months of revenues and prior to COVID was usually between 3, 4 or something like that. Do you think you will go back to kind of the previous business model where the lead times are quite short, and the backlog is relative to sales, it's smaller? Or has the business changed?

Scott Phillips - *Hiab - President*

We would expect to see at some point in time, a return roughly to pre-COVID levels. We wouldn't see any reason to think differently at this point. But timing-wise, it is difficult to tell. And as Mikko mentioned earlier, we certainly will revisit that point when we do the full year report in early next year.

Antti Kansanen - *SEB, Research Division - Analyst*

All right. Thank you.

Operator

The next question comes from Mikael Doepel from Nordea.

Mikael Doepel - *Nordea Markets, Research Division - Equity Analyst*

So just a quick follow-up on the total cost base going into next year. So if you look at your full cost base and if you exclude that savings, so the underlying base, what are your expectations heading into next year? So do you expect balance higher, flat or maybe lower overall cost when you consider all the key items like raw materials, wage inflation and so on. Any comments on that?

Casimir Lindholm - *Cargotec Corporation - President & CEO, Interim President of Kalmar*

I guess what we have referred to earlier that if you look back a year or 2, and we expect that raw materials would increase and they did, and we expected the interest rate to increase as well, and then we have the salary costs, we expected those to increase and then you have the logistics costs as well. And then, what has been a positive development is that the raw materials have come down and so has the logistic costs. But then on the other side of the coin is that we still have a lack of some components where the prices are quite high. And then we have the salary increases that were clearly higher than we expected. So I guess all in all, those pluses and minuses are balancing each other out to a large extent. That's how we refer to this topic in Q2. And I don't think we have changed our minds after Q3 either. So that's roughly how it looks in our business. And again, then on top of that, we had the interest rate component here that, of course, has impacted our business and our customers' businesses like in almost any other industry.

Operator

There are no more questions at this time. So I hand the conference back to the speakers.

Aki Vesikallio - *Cargotec Corporation - VP of IR*

Okay. Thank you for the great questions and for the great answers. We will be back with our full year results release next year. Thank you very much.