Transcript for "Kalmar Interim report January–March 2025"

00:00:25 - 00:00:55
Carina Geber-Teir: [music 00:00:00-00:00:20] Good morning, everyone, and welcome to Kalmar's first quarter results webcast. My name is Carina Geber-Teir and I'm heading the investor relations at Kalmar. Today's result will be presented by our president and CEO, Sami Niiranen, and CFO, Sakari Ahdekivi. The presentation will be followed by a Q&A. As always, please pay attention to the disclaimer. Now over to you, Sami.

00:01:00 - 00:01:46
Sami Niiranen: [silence 00:00:55-00:01:00] Thank you very much, Carina, and good morning, everyone. I'm pleased to share with you Kalmar's first quarter results, which demonstrate solid performance driven by our focus on operational and commercial excellence. We managed to generate stable revenues and a resilient margin by successfully leveraging Kalmar's leading position in the market and driving excellence in our operations. We advanced our strategy towards sustainable growth and focused on building upon the strong foundation. Our orders received increased by 20 percent from last year, and overall demand was favorable in Q1. Despite lower sales, we delivered a resilient profitability of 12.0 percent, which was supported by the record-high services profitability.

00:02:01 - 00:02:35
Sami Niiranen: We have continued our focus on growth and investments in sustainable innovations, and we are proud to announce the launch of a five-year Move2Green R&D program, including €20 million in funding from Business Finland. However, today there is an increased level of uncertainty in the market environment affected by the recent tariff announcements and geopolitical tensions. As mentioned, our orders received in the first quarter increased by 20 percent compared to last year and totaled €480 million, following the good development from the previous quarter. Demand in ports and terminals remained stable. We saw some early market recovery signals at the beginning of the quarter in the US distribution and customer segment.

00:02:36 - 00:03:29
Sami Niiranen: However, there is an increased level of uncertainty in the market environment today. Europe performed strongly and remains our largest region in terms of orders, representing 47 percent of our first quarter's order intake. Our order book was at a good level at the end of the quarter, and €86 million higher than at the end of 2024. Then, moving on to our sales performance. Our sales in the first quarter were €398 million. The lower sales levels we have seen are impacted by the lower orders in 2024. The services segment's share of sales increased to 36 percent in Q1, which provides resilience to our overall revenue. The softness in North America is visible in sales, and Europe was clearly the largest region, representing 45 percent of the sales.

00:03:32 - 00:04:49
Sami Niiranen: We have a well-diversified business with four strong customer segments. As mentioned, our share of sales was 36 percent in Q1. A core portfolio share of sales increased to 43 percent, which shows strong interest in our sustainable solutions. We have a strong footprint in our three main markets, which are Europe, the Americas, and EMEA. With an installed base of 68,000 machines globally and a strong presence in over 120 countries for sales and services, our extensive reach remains a significant asset. This robust foundation fuels our active acceleration of future service growth through innovative offerings and digital solutions. Today, we have over 1400 owned service technicians around the globe

and four factories, which are located in Poland, the US, China, and Malaysia. Since January this year, they have all been decentralized and are now reporting directly to the divisions.

00:04:49 - 00:05:29
Sami Niiranen: The world today is different from a few months ago, with an increased level of uncertainty related to recent tariff announcements, geopolitical tensions, and the risk of a global macroeconomic downturn. It's still too early to draw conclusions on how all this will affect our industry, the demand environment, and global trade in the short term. Still, we will monitor the situation closely, have made different scenarios, and are ready to act swiftly as needed. Despite the uncertainties, we still see growth indications in the market indicators. The global GDP, global manufacturing, and global retail output development are all expected to grow around two to three percent this year. As late as yesterday, we received the latest container throughput development estimates from Drewry, and the global container throughput is expected to decrease by one percent this year.

00:05:32 - 00:06:22
Sami Niiranen: Let's then take a closer look at our large base of 14,500 connected equipment around the world. By following the running hours of this equipment, we get a good view of the activity and demand in different regions. We see a positive development trend both year-on-year and quarter-on-quarter, which indicates increased activity at our customer sites during the first quarter. However, at the same time, we have to remember that there are now more uncertainties in the market. The echo portfolio's share of total sales has remained high, increasing to 43 percent, and its share of order intake was 44 percent in Q1. This demonstrates our customers' strong interest in electrical and hybrid solutions, as well as sustainable service solutions.

00:06:22 - 00:07:39
Sami Niiranen: The fully electric machines' share of equipment orders for the last 12 months was 11 percent, and we continue to see significant potential for electric equipment. We have announced three orders for the quarter, including 32 straddle carriers to APM terminals in Morocco, six hybrid straddle carriers to Forth ports in the UK, and five reach stackers, including a Kalmar's Complete Care service agreement to Saab AB Excel in Sweden. We are also happy to announce some actions towards sustainable growth. As I mentioned earlier, a five-year Move2Green R&D program, including €20 million in funding from Business Finland, was launched during the first quarter. This program brings together over 150 ecosystem partners, including industrial organizations, technology companies, research institutions, and universities. The goal of this collaboration is to initiate and lead large-scale research and development projects, increase R&D investments, and build solutions that enhance the efficiency in heavy material handling operations and support its transition to a low-carbon future.

00:07:39 - 00:08:46
Sami Niiranen: We also started the sale of our third-generation electric terminal tractor in North America. This terminal tractor is fully designed and built in-house at our Kansas, Ottawa facility. Our strong North American dealer network is trained and certified to support the new terminal tractor. Additionally, we will expand our global delivery capability by starting production of electric empty container handlers and heavy forklift trucks at our Shanghai facility. This shows our ability to meet our customers' expectations globally. Both our equipment and services segments performed well in the first quarter. The equipment margin is impacted by the lower sales volume, and the service's profitability continued to develop positively. The order book has strengthened in both segments. In my last slide, I'd like to remind you about our 2028 performance targets, which we are fully committed to. Thank you all for now. Next, I will hand over to Sakari.

00:08:57 - 00:10:32
Sakari Ahdekivi: [silence 00:08:47-00:08:55] Thank you, Sami, and good morning to all of you, also from my side. What I'll be talking about is starting off, as we usually do, to recap our financial profile and where we stand with it. Then we'll dive a little bit deeper into the reporting segments. Then we will go through the balance sheet and cash flow highlights, and then finish off with our guidance for the full year 2025. [silence 00:09:26-00:09:30] The financial profile, as you remember, is presented here in LTM figures. Our financial profile has remained strong. This gives us an excellent opportunity to develop the business and target growth as we move forward. Our order book is now at €1,000,000,041 million. This is actually almost 140 million higher than what it was at the low point in Q3 of last year. We are now above the end-of-2023 levels in terms of the order book. Gross profit levels have remained strong and comparable. Operating profit on an LTM basis is at 12.6 percent. Orders received are now higher than sales on a LTM basis, thanks to the strong order intake in both Q4 of last year and the first quarter of '25.

00:10:33 - 00:11:49
Sakari Ahdekivi: We have continued our strong cash generation, and our leverage is now standing at 0.1 times, and our gearing is at 4 percent. I will come back to that. The return on capital employed is at 18.4 percent, and we have close to 100 percent cash conversion over the last 12 months. Now, equipment orders have actually increased by 31 percent compared to the same period in the previous year. This was the second consecutive quarter of strong order intake in equipment, and I could say that we saw positive growth signals at the beginning of the year across the board. The future looks more uncertain as we move forward. However, at the beginning of the year, it was strong in terms of orders. Sales on the back of the lower order intake in '24, and the lower order book coming into the year, are significantly lower in equipment than it was last year.

00:11:49 - 00:13:10
Sakari Ahdekivi: I think this is important to understand that the volume has an impact on the profitability of the equipment segment. However, it's still at a good level at 11.6 percent. I think the important thing to understand here is that whereas the commercial margin has continued to be stable or even increasing, there's less volume and less margin contribution to cover the fixed costs. This, on at least a medium-term basis, is, as per definition, fixed, and therefore the lower volume has an impact on the margin. However, if we look at this on the gross margin level, this would still be an increasing picture. Services have seen very positive momentum. We have continued to grow the orders. Sales are up and profitability is clearly up at 19 percent for the quarter, supported on the other side by significant contract renewals and upgrade projects. The profitability with good execution and services provides resilience to the entire Kalmar business.

00:13:12 - 00:14:26
Sakari Ahdekivi: On the profitability of 19 percent. This was supported by good commercial performance, execution, and increased activity in our installed base. [silence 00:13:26-00:13:31] We have promised that we would come back to our 50 million Gross Efficiency Improvement programs in connection with this Q1 report. Here we go. The execution of our Driving Excellence initiative is ongoing. We continue to plan to reach the 50 million gross efficiency improvements by the end of 2026. During the first quarter, we have progressed the implementation, and we have reached a run rate of approximately 9 million annualized gross efficiency improvements so far. The majority of these improvements are coming from our commercial and primarily sourcing activities. However, driving excellence is much broader than that. The main components of the program are commercial excellence.

00:14:32 - 00:15:39
Sakari Ahdekivi: This is around pricing, supply chain optimization, sourcing, and operational excellence. It mainly consists of process optimization and a continuous focus on competitive operational cost-based improvements and faster decision-making. It's quite a broad program, all in all, focusing on both external and internal factors. [silence 00:14:50-00:14:54] I said our return on capital employed enables strong long-term growth, 18.4 percent is the reported figure. However, if this were corrected for the items affecting comparability, which were significant in 2024, the figure would be 3.6 percentage points higher at around 22 percent. [silence 00:15:23-00:15:26] The balance sheet is strong, and we have continued to lower our leverage as well as our gearing, said leverage now at 0.1 times EBITDA.

00:15:41 - 00:17:03
Sakari Ahdekivi: On the financing side, we have nothing major maturing in 2025. You can see the maturity profile of our debt financing on the right-hand side of the picture. Gearing now is at four percent. This is before dividends were paid out and at the beginning of the second quarter. [silence 00:16:07-00:16:10] Cash generation has continued strong. We generated 85 million in cash flow from operations before finance items and taxes in Q1. The cash conversion rate was 97 percent for the last 12 months. This was also the seventh consecutive quarter of positive cash flow generation. [silence 00:16:39-00:16:44] Finally, as a reminder, we have our guidance for 2025. We maintain our guidance and expect that our comparable operating profit margin will be above 12 percent for the full year '25. Thank you.

00:17:06 - 00:17:22
Carina Geber-Teir: [silence 00:17:02-00:17:05] Thank you, Sakari. We'll get Sami back to the stage. I know it's a very busy day today, so let's immediately start with the Q&A, and I'll hand over to the operator right now.

00:17:22 - 00:17:44
Operator: [silence 00:17:18-00:17:21] If you wish to ask a question, please dial pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound Key six on your telephone keypad. The next question comes from Antti Kansanen from SEB. Please go ahead.

00:17:50 - 00:18:28
Antti Kansanen: [silence 00:17:45-00:17:50] Good morning, guys. It's Antti from SEB. Thank you for taking my questions, and I will start with the demand side of things. You mentioned strong equipment orders during the quarter. You referred to strong demand recovery early in the quarter with increased uncertainties. However, could you provide a little bit more color on how you have seen the run rate trending? If you look at January, February versus March and April, has there already been a concrete step down in the level of orders that you are taking, or are you just referring to a bit of uncertainty about how things are progressing here?

00:18:28 - 00:19:01
Sami Niiranen: Thanks for the question. Yes, we are referring to a higher level of uncertainties, definitely. If you look back a little to Q4 or Q1, we had a strong orientation in both quarters, basically at almost the same level. However, going towards the end of Q1 as well as now in the beginning of Q2, the uncertainty level has increased. That's the fact. I have seen in certain parts of the world that the customers are a little bit more in the wait-and-see mode because the situation is unclear.

00:19:04 - 00:19:29
Antti Kansanen: [silence 00:19:00-00:19:03] Just trying to figure out what's realistic on a run rate basis. Two very strong quarters are more realism to come back to the levels that we saw a year ago, and also uncertainty and slowness are isolated to the US market, or is it also visible in Europe, where at the same time, you are seeing the utilization rates up quite a lot year over year?

00:19:30 - 00:20:11
Sami Niiranen: I think it's too early to draw conclusions on how it will behave in the short term, basically, as we mentioned in the presentation as well. However, when it comes to different regions, the uncertainties are highest in the US market. That's what we can see. When it comes to running ours, that was a very positive development in Q1 all over, I would say, but especially in Europe, if you look at those numbers. I think the US market is most uncertain at the moment, and that is reflecting the customer behaviors as well. Then Europe has been going very strong in Q1.

00:20:20 - 00:20:42
Antti Kansanen: The second theme I had was Q1 equipment deliveries out of the backlog. Therefore, just a question, was this as you expected, or does the tariff environment provide some headwinds also for deliveries? Also, when should we start to see equipment deliveries growing on a year-over-year basis now that you've had a positive book to build for six months and strong order growth?

00:20:43 - 00:21:05
Sami Niiranen: Good question. No major headwind in Q1 when it comes to equipment deliveries. Our lead time for our portfolio ranges from three to 12 months. That gives you an idea of the backlog and its behavior as well, now that we've had two good quarters in a row in terms of order intake.

00:21:06 - 00:21:27
Sakari Ahdekivi: Maybe to add, I think this was expected, and nothing is really surprising there. It's coming from the fact that we had the low order intake quarters in the middle of last year. If you consider the three to 12-month lead time and average it out, then that's roughly where the timing hits.

00:21:30 - 00:21:47
Carina Geber-Teir: Okay. The final question for me is on the Excellence Initiative program and the savings. If I were to try to model the improvements, how should I split the impact between the segments that you report, services, and equipment?

00:21:53 - 00:22:11
Sakari Ahdekivi: [silence 00:21:47-00:21:51] The improvements are coming from Q1, as we said, mainly from the sourcing side. I would say that it is probably a little bit more weighted towards the equipment segment.

00:22:13 - 00:22:15
Antti Kansanen: Okay. Thank you very much.

00:22:15 - 00:22:16
Sami Niiranen: Thank you.

00:22:18 - 00:22:24
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:22:28 - 00:22:56
Panu Laitinmäki : Hi. I have a few questions. Firstly, going back to the discussion. I understand what you are saying, that there is more uncertainty, but could you quantify or be a bit more specific? What does it mean that it has the US market completely stopped, or is it more that you see customers taking more time to decide, or how big of a change is this compared to Q1 that you have seen in early Q2?

00:22:57 - 00:23:41
Sami Niiranen: Absolutely. At the beginning of the year, in February or Q4 reporting, we mentioned a gradual improvement with terminal tractors in the US market. What we can say is that customers are more hesitant in that segment or in that area right now. Maybe slowing down the gradual improvement, I would say, going back to the mode we were in last year, for instance. That's what we see. It's not a complete stop in sales, even in the US. Customers and dealers are in a wait-and-see mode because the tariffs and price increases we have implemented are affecting the market.

00:23:42 - 00:24:02
Sakari Ahdekivi: Maybe to add that we've been referring to the inventory levels of the distribution market and the terminal tractors. That, as such, has more or less normalized. From the inventory side, I think it's a more or less healthy situation, but then the uncertainty is now playing into it.

00:24:02 - 00:24:20
Carina Geber-Teir: As late as last night, I received a message from the US, where a big event is ongoing, and the one word that describes it at the moment is 'decisiveness.' There is a need to buy equipment, but then there is a kind of hesitation amongst the customers.

00:24:20 - 00:24:43
Panu Laitinmäki : Okay. Thank you. Then, in Europe, you mentioned several times that it's strong. Why is it so strong? Is it coming from the ports, or is it coming from other segments than the ports? Do you see some impact from the German infra plants or what have you, driving industrial demand in Europe?

00:24:47 - 00:25:28
Sami Niiranen: The growth and the good business sentiment in Europe are coming from all segments. It's not limited to ports only. We have seen high activity in all four customer segments in Europe. Germany is not very visible yet. The new packages they launched haven't taken effect yet. Germany has been quite slow, actually, but I think our strong service footprint has also been performing well in Europe. I think it's the mix of equipment and services, as well as including all four customer segments. We are happy with the diversity among our customer segments.

00:25:31 - 00:25:41
Panu Laitinmäki : Okay. To clarify, so do you expect the good sentiment in Europe to continue? Is it more uncertain in the US, or is it also in Europe, that you have seen some change lately?

00:25:41 - 00:26:10
Sami Niiranen: I think the uncertainty is everywhere. The highest uncertainty we can find is in the US market for sure. Europe has been performing well, at least in Q1. We will see in the coming months

what kind of business sentiment there will be in Europe. The wait-and-see mode is also seen in Europe with certain customers.

00:26:10 - 00:26:29
Carina Geber-Teir: Looking at the running hours of our equipment. Last Friday, we took a closer look at the running hours, and they're still stable so that you won't see a huge difference in those. That's why the uncertainty is the message that we are trying to convey here.

00:26:32 - 00:26:49
Panu Laitinmäki : Okay, thanks. Then the final one from me is on the tariff's impact on earnings. Could you remind us of the direct impact on you when you export products to the US? How do you expect to mitigate the impact, and how has it been going so far?

00:26:57 - 00:28:14
Sami Niiranen: Let's say the majority of our revenue in the USA is coming from the country. It's coming from the terminal tractor business, which is big business that we have there. We also have a factory in Kansas, which delivers machines to the US market. Then, our services business is remarkable also in the US. The majority of our business in the US and revenue is coming from the country itself. Even for those products and solutions, there might be some indirect effects from the tariffs. What we are exporting and transporting to the US from other countries is from Poland. Our factory there is counterbalanced. Forklifts, reach stackers, and horizontal transportation carriers. The biggest portion is produced and purchased from the country itself. That gives us resilience. What kind of actions have we taken so far, since we've seen the cost increase from our suppliers? We have already implemented price increases for many of our products, and they took effect today. What size price increases? We can give a range between five and 10 percent. That is valid for both the equipment and the parts.

00:28:14 - 00:28:27
Panu Laitinmäki : Okay. Thank you.

00:28:27 - 00:28:33
Operator: [silence 00:28:15-00:28:27] The next question comes from Andreas Koski from BNP Paribas Exane. Please go ahead.

00:28:37 - 00:28:51
Andreas Koski : Thank you and good morning. Maybe I can follow up on that last question. Do you think a price increase of five to 10 percent will be enough to offset the cost increases for you related to the tariffs?

00:28:51 - 00:29:13
Sami Niiranen: Thanks for the question. At this moment, I think pretty much so. I think they will match the much cost increases as well. The market and the business are uncertain, as we can see. We try to be as childlike as possible. Therefore, we have taken those actions already.

00:29:13 - 00:29:26
Sakari Ahdekivi: What happens next depends on where the tariffs go next. We need to react again should a different situation arise.

00:29:27 - 00:29:33

Andreas Koski : Do you import a lot of components and goods from China, or is it mainly from Europe to the US?

00:29:34 - 00:29:53
Sami Niiranen: The import part is mainly from Europe. As I said, the majority of the business is coming from the country itself. What is not produced or purchased in the US is coming from Poland. When it comes to China exposure, we're talking about roughly five percent. The exposure to China is quite limited.

00:29:55 - 00:30:36
Andreas Koski : Thank you. Moving on to equipment, you said that the revenue level of around €250 million was expected in this quarter. We have a book below 1.3 for the equipment business, and order intake has been above 300 for two consecutive quarters. Could you remind me of the lead times here? When should we expect a decent pick-up in equipment revenues? Did I understand you correctly that if we see a pickup in equipment revenue, then at a revenue level of 300 or more, that should lead to a margin of about 13 percent? Thank you.

00:30:36 - 00:31:40
Sakari Ahdekivi: I'm not giving you a number per se, but it means the-- What I was trying to say there is that the low level of revenues impacts the margin. It is because even if our commercial margin, the pricing, or the margin between pricing and our sourcing is stable or even improving. If your volumes are really low, then you have less than what you can cover your fixed costs with. Therefore, it will lead to a higher margin, because then we have better fixed cost coverage when the volume is higher. On lead times, the shortest is the terminal tractor is around three months. Then we have the straddle carriers at 12 months. We've had quite a lot of straddle carrier orders, especially in Q4. That's a little bit longer before it hits the sales. However, at the same time, we had a good order intake across the board in both Q4 and Q1.

00:31:42 - 00:32:00
Andreas Koski : Understood. Then, can I ask about the margin guidance of about 12 percent? Is that based on a revenue level of 1.6 to 1.7 billion, or what kind of revenue range do you look at when you give that guidance?

00:32:01 - 00:32:52
Sami Niiranen: Let's say we have guided on profitability and said 12 percent, which is the floor, and that remains unchanged. We haven't linked it directly to any revenue, and the market is uncertain. We are taking actions to mitigate those negative effects, but we keep our guidance as it is. It's very important that we react to the price increases and cost increases we are witnessing, as well as the rising oil prices, swiftly. Then focusing on services and driving excellence, as mentioned, is very crucial, and keeping the cost control as such. That is all behind the guidance, and this 12 percent profitability as well.

00:32:52 - 00:33:22
Sakari Ahdekivi: As you are aware, we don't give guidance on our sales numbers. However, the LTM orders figure is a pretty good indication of what we're heading towards in terms of sales over the coming period, so to speak. Whether it's exactly this year, I'm not going to say. Anyway, we have a good book-to-bill ratio, which indicates that sales will be higher at some point.

00:33:23 - 00:33:42

Andreas Koski : That's great. Lastly, regarding the EPM order, I think it was related to modernizing the 32 straddle carriers. I just want to confirm that it is reported in service and not in equipment. If you can give an indication of how large this order was, that would be great. Thank you.

00:33:43 - 00:33:52
Sami Niiranen: Yes. It's reported in the services. It's one part of our services' portfolio, and the size of the order now--

00:33:52 - 00:34:01
Carina Geber-Teir: I need to come back to you, not to say anything wrong on that part? However, if it's okay, I'll confirm.

00:34:02 - 00:34:04
Andreas Koski : Okay. That's great. Thank you very much.

00:34:04 - 00:34:04
Sami Niiranen: Thank you.

00:34:08 - 00:34:13
Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:34:17 - 00:34:40
Mikael Doepel: Thank you. Good morning, everybody. Just coming back to the comment about the running hours you mentioned there. Checking last Friday, you said it remains stable. Did you refer to April thus far compared to March or something else, and also, to any specific regions or globally? Just to be clear on that comment. Thank you.

00:34:40 - 00:35:13
Carina Geber-Teir: We looked at both regions, and then we looked in the longer term to see what it looks like. If you look at the year '25 compared to some other years, it's a fairly average year. Not the best one. Not the worst one. It's in between there and looking, we looked at the different regions, and we couldn't really-- That's why I'm saying it's stable. Not a huge change. That's why we all come back to that. It's too early to draw any conclusions, but we are following that closely.

00:35:16 - 00:35:21
Mikael Doepel: Okay. Therefore, was this a comparison of April to Q1 or March, or something like that?

00:35:21 - 00:35:29
Carina Geber-Teir: No, no, it's a comparison looking on a weekly basis at the running hours.

00:35:32 - 00:35:49
Mikael Doepel: Okay. The fact that you're saying it's too early to say what's going on could be an indication that you haven't seen much change in your sales funnels or order intake in Q2. Would that be a fair conclusion to draw from that comment?

00:36:00 - 00:36:44
Sami Niiranen: No, I think we have one month down the road, basically after this big decision at the beginning of April. It's still early days, but what we've seen is hesitation and the news from last night

from the US in decisiveness as well. That's what we've seen. We have the order pipeline and discussions with our customers ongoing every day, which is affecting them. However, short term, for a couple of months ahead, it's still too early to draw any further conclusions at the moment. However, there is a high level of uncertainty in different parts. Mostly, I would say, in the US at the moment, but affecting the whole globe, as we can see from the news as well.

00:36:47 - 00:37:05
Mikael Doepel: Okay. In Q1, the order intake was actually quite strong, I would argue, especially on the equipment side. Would you say that there were any elements of pre-buying now ahead of any potential tariff increases, or did you see any indications of buying basically in the quarter?

00:37:06 - 00:37:40
Sami Niiranen: No, no we haven't seen we haven't seen that in Q1. However, we have been very active with our proactive sales and are trying to offer our superior solutions to our customers in different parts of the world. We were successful in all three regions, but especially in Europe. That was really the bright spot in Q1. I could even claim that with our efforts, white spot strategies, territory management, and so forth, sales strategies. I think we have been successful in winning some markets here as well.

00:37:46 - 00:37:54
Carina Geber-Teir: I have asked that question 10 times over the last week I've been there. The answer from the businesses is that there is not yet any evidence of pre-buying.

00:37:56 - 00:38:29
Mikael Doepel: Okay. Then just the final questions. You also mentioned in your remarks in the report that growing the service business is a key strategic focus area. I'm looking at Q1. It looks very flat just for currencies, year-over-year, on the orders. I'm just wondering, what are the levers to drive growth this year for the service business, given, as you mentioned yourself, increased uncertainties and perhaps lower throughputs, and so on?

00:38:34 - 00:39:47
Sami Niiranen: Yes, growing our service is one of our strategic pillars and is definitely a high-priority area. I'm very happy with the performance we had for services in Q1, if I look at the numbers overall. We need to keep in mind in Q1 and Q4 and last year as well, when it comes to services, that there are certain markets which have been slower, like the US market has been slow, and Germany, which is our big market, big country as well for us has been quite slow up until today. That is affecting the top-line growth in services. I think we have very good actions in place. We have very good activities in different areas, and modernization was mentioned. However, I think what is driving the growth is coming back to our installed base, the active installed base of 68,000 equipment that we have all over the world. I remember the number from 2023. That was 65,000 at that time, and now we have 3000 more. Going to those machines' customers proactively and trying to sell our superior solutions is the key ingredient for our future growth as well. Then we have different flavors. We have e-commerce, digitalization, and safety solutions for services, with a very high focus on service agreements as well.

00:39:48 - 00:40:09
Sakari Ahdekivi: Strategically, I don't think short-term anything changes. We drive the same initiatives. I think maybe one thing is that if you're just comparing Q1 to Q1, Q1 last year was rather strong in terms of order intake in services, and yet we're a bit higher now. The sales were up six percent, which is quite a good development.

00:40:09 - 00:40:15
Mikael Doepel: Okay. The target is to grow the service business this year as well, in terms of orders.

00:40:16 - 00:41:09
Sami Niiranen: Yes. What we have said, and we have nailed down our 2028 targets as shown in the presentation, as well as a 15 percent comparable operating profit. Then, five percent or more annual growth is basically over the cycle. That is very applicable and valid for our services as well. Definitely, it's now 2025, and we have a few years to go until 2028. Therefore, we want to be active every single year. In these a little bit more turbulent times, uncertain times that we are living in at the moment, the services of the market and the sales business are very important for us and many other companies as well. If they're running our stay on a decent level, there is always the possibility to sell our solutions to those customers, even though not everybody might be buying the new equipment.

00:41:09 - 00:41:17
Sakari Ahdekivi: We're particularly happy about the margin development in services, which has now been increasing quarter-over-quarter.

00:41:19 - 00:41:37
Mikael Doepel: Yes, absolutely. I think if you just squeeze in one final one, maybe on the pricing versus cost. You mentioned price increases. You also have cost inflation. How do you think about that equation this year? You expect to see a net benefit, or is it more neutral?

00:41:37 - 00:42:18
Sakari Ahdekivi: It comes back to our driving excellence because a big part of that is our commercial improvements. On the pricing side, tariffs now play an additional role as well. If you look at the savings that we've been generating in Q1 in the run rate, that's mostly coming from our sourcing activities. There's a lot we can do actively ourselves in our sourcing. We're not just following the market there in terms of inflation. That's what I would say, with actively executing our driving excellence. That's where we have the answer.

00:42:18 - 00:42:21
Sami Niiranen: Yes, and keeping the costs under control at the same time.

00:42:23 - 00:42:25
Mikael Doepel: Okay, good. Thank you very much.

00:42:32 - 00:42:37
Operator: [silence 00:42:25-00:42:30] The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:42:40 - 00:42:54
Tom Skogman : Hello, this is Tom Skogman from Carnegie. I have a couple of questions. First of all, have you seen any cancellations? How are you protected with advance payments and contracts in the US, especially?

00:42:55 - 00:43:12
Sami Niiranen: Good question. No, we haven't seen any cancellations. Then, when it comes to

contractual terms and commercial terms, we have comprehensive contracts. We also have the prepayments or advanced payments clauses for different kinds of equipment.

00:43:23 - 00:43:28
Sakari Ahdekivi: If you look at the cash flow, in Q1, Tom, advanced payments were a big contributor to the working capital impact on cash flow being positive. Yes, that is an important factor in how we do business.

00:43:30 - 00:43:32
Tom Skogman : What do you mean--

00:43:33 - 00:43:34
Sakari Ahdekivi: We haven't seen cancellations.

00:43:35 - 00:43:53
Tom Skogman : What would it mean if a customer wants to do a cancellation in Q1? If you have a contract now, the price will go up by 10 or 20 percent. Who knows how much it goes up or the point of delivery, and you have already made the machine, and they have paid 10 percent, and then it comes there. What happens in practice?

00:43:53 - 00:44:15
Sami Niiranen: We always stay close to our customers in good and bad times, and there will definitely be discussions on that particular case. If that happens on a case-by-case basis, it will be handled. The key is really that we have very close collaboration with our customers. That is helping in these types of situations.

00:44:15 - 00:44:29
Tom Skogman : Okay, and then the terminal tractors, what share of the components are sourced from the US, and what components are made in the US? What internet access do you have?

00:44:29 - 00:44:53
Sami Niiranen: I would say sourced from the US is the maturity for a diesel terminal tractor. Then, where some of the subcomponents might be coming from, there might be different tier levels in the sourcing or supply chain. However, the supply chain is mostly sourced from the US market.

00:44:53 - 00:44:55
Sakari Ahdekivi: It's the vast majority in diesel.

00:44:55 - 00:44:55
Sami Niiranen: Yes.

00:44:56 - 00:45:09
Carina Geber-Teir: As Sami previously stated, if you look at the diesel terminal tractor, the level of parts that come from our source in China is about five percent of a diesel terminal tractor in the US.

00:45:13 - 00:45:37
Tom Skogman : Can you explain to me how this pricing is done? We know your delivery times. Not all

suppliers have adjusted their prices for components imported to the US, et cetera. This is like a moving target all the time. How do you deal with pricing to be able to sell something at all at the moment?

00:45:37 - 00:46:41
Sami Niiranen: That's a good question and a very valid one. We are very professional with our pricing activities, and not only today but also yesterday. We have very good people treating, dealing with pricing, and understanding the situation. We also have collaboration between different functions within the company. Transferring this macroeconomic view to the pricing team as well. Then, we will take action and decide as we go. It's quite dynamic, as you rightly said, and a moving target. I think we have to nail down at some point. Now, at the beginning of April, some decisions were taken. That gave us a trigger to initiate some price increases because that's the fact. However, if something else happens tomorrow, we need to react. We have a task force dedicated to this one, which is an even enforced task force compared to a normal situation.

00:46:41 - 00:46:59
Carina Geber-Teir: Maybe to expand also from pricing to keeping close to the customers. When the customers make an investment, it's usually a huge investment overall in their operations, and the machines and services are one part of it. That's why it's really important to look at it beyond pricing, also.

00:47:02 - 00:47:24
Tom Skogman : You have to understand that you are happy with the IT systems you have, where you get new prices on components, including tariffs, that go straight into the salespeople's knowledge, somehow? Are you happy with how you deal with the new information you receive day by day, and when suppliers increase prices?

00:47:24 - 00:47:36
Sami Niiranen: I can say generally we are happy with our market intelligence and how it works, and how it transfers down to the front lines as well, socially, overall. You're responsible for IT systems.

00:47:37 - 00:48:11
Sakari Ahdekivi: The relation between our input costs and our pricing. There's a very clear communication there. Coming back to the driving excellence, we are also working actively, even in this environment. Then, on our sourcing and input cost, which also plays into this in a positive way. Pricing-wise, yes, we need to stay active and react to the situation. That's what we're doing.

00:48:20 - 00:48:23
Tom Skogman : Can you provide an EFEX update, and especially the dollar sensitivity, if you exclude the hedges? I understand you have a place beyond the hedges.

00:48:28 - 00:48:48
Sakari Ahdekivi: Through the translation, there is an impact. That's actually shown in the interim report on page 11, where you see the impact of EFEX on the orders and sales, and that there is some impact on the operating profit as well, through translation.

00:48:48 - 00:48:53
Tom Skogman : Is the transactional exposure beyond hedges?

00:48:58 - 00:49:13

Sakari Ahdekivi: Yes, there is some of that as well. Generally speaking, I would say that if the dollar weakens, it tends to have a negative impact.

00:49:13 - 00:49:17
Tom Skogman : You cannot quantify or give out any number.

00:49:17 - 00:49:17
Sakari Ahdekivi: Not really.

00:49:19 - 00:49:33
Tom Skogman : You didn't say anything about electrification. What is the strategy here? When we know that batteries are usually imported from China, what happens? Do you take a break in the US market? What about Europe?

00:49:33 - 00:50:41
Sami Niiranen: Now, the focus is fully on electrification, as it was in the past. It's a vital part of our strategy going forward. We had a couple of numbers on electrification as well as a core portfolio, and in the fully electric machines in Q1, the share of the electric machines of the total equipment increased, so we were happy with that. Eleven percent is the number for the last 12 months. Full focus there if you look at the tariff magnitude between the US and China at the moment. The short term is affecting our full electric machine sales in the US. That's the fact. As we reported, we have just launched our fully electric terminal tractor in the US. We are at the beginning of that journey, and it's not affecting us that much yet. When it comes to other regions, our full focus is on delivering our superior solutions and selling them to our customers. I think we had a good performance in Q1.

00:50:42 - 00:51:09
Tom Skogman : Then my final question is on potentially setting up more production in the US. It's quite an asset, like assembly. The CapEx should probably not be too big, but then you would have under absorption in Poland. What about finding suppliers in the US for this type of industry? I know you have US-based competition, so I guess there must be suitable suppliers in the US industry.

00:51:09 - 00:52:15
Sami Niiranen: If you look at our global footprint, as you can see here in the picture as well, it's strong. We're very happy to have a factory in the middle of the country, in the US, whichever one it is. On top of that, we have some subassembly activities for counterbalancing. I mean forklifts and reach stackers in different parts of the country as well. It's not only limited to our factory in Ottawa, but we also have some other activities contributing to other divisions. We are happy with the footprint there, but constantly, if you look at the whole world, we are analyzing what the best setup is to operate. I think our base and foundation as of today is pretty good, and we are happy with that. Then we discussed the suppliers in the US. There are several suppliers there for our terminal tractors, and the same thing is there. We constantly analyze opportunities in different parts of the world, including the US.

00:52:17 - 00:52:19
Sakari Ahdekivi: We could potentially do more there if it makes sense.

00:52:22 - 00:52:23
Tom Skogman : Thank you.

00:52:28 - 00:52:34
Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

00:52:35 - 00:52:48
Carina Geber-Teir: Thank you for a very active dialogue. All the good questions. I hope to see you soon, latest in our half-year reports call, which will be on the 25th of July. Thank you all.

00:52:49 - 00:52:49
Sami Niiranen: Thank you.

00:52:49 - 00:52:50
Sakari Ahdekivi: Thank you. Bye bye.