

## **Cargotec Corporation**

**Moderator: Paula Liimatta**  
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**11:30 BST**

OPERATOR: This is conference #: 952518.

Operator: Thank you for standing by and welcome to the Cargotec Corp (Coboy) Quarter One 2015 Interim Report.

At this time all participants are in a Listen Only mode. If you wish to ask a question, please press star one to ask a question over the phone. I have to remind you that this conference is being recorded today, Tuesday, the 28th of April 2015.

I will now like to hand the conference over to your speaker today, Paula Liimatta. Please go ahead, madam.

Paula Liimatta: Good afternoon, ladies and gentleman and welcome to Cargotec Conference Call on January to March 2015 report. My name is Paula Liimatta and I'm head of investor relations.

Today, we have a small live audience here in Helsinki as well as people on the phone lines. We will start with the presentation by our President and CEO, Mika Vehviläinen and CFO Eeva Sipilä. After that, we will begin a Q&A session, Mika, please.

Mika Vehviläinen: Thank you Paula. And good afternoon and from my behalf, as well thank you for joining this Q1 conference call. Let me run through some of the highlights first and, obviously we are quite pleased with our quarter one overall with all the relevant numbers improving.

The orders grew roughly 9 percent overall and if you take into the fixed currencies, there was a two percent order growth when we go through different business area, we of course see that there was a considerable differences between the business area with a very strong growth seen in Kalmar and also a good growth in Hiab; there we see going at considerable decline from very high Q1 2014 into the MacGregor.

I, however, would like to make the point that the 228 was still a reasonable number for MacGregor considering it's a one quarter number. But again, we had a very strong quarter one in 2014 there. The order books strengthened by 12 percent from the year end. And if one wonders how the math works between the order intake, revenue and order book obviously the uplift and the order, order book is driven very much by the currency changes and the dollar strengthening of course, is increasing the size of the order book considerable number of orders being in U.S. dollars.

The sales grew 18 percent which of course is an excellent achievement from the business areas and I'm particularly pleased with the fact that even if you exclude the currency impact which is about 8 percent the actually underlying revenues also increased by 10 percent which is a very good achievement on its own.

Operating profit of course improved remarkably from the pretty low number of the Q1 2014. And the cash flow was also sort of reasonable I would say and roughly at the same size as the EBIT as well. We are targeting as a group to sort of have a cash conversion over one – over the year but obviously this was a fairly good achievement considering that the rapid sales growth for example grew networking capital and few other items at the same time.

So relatively pleased with that number. And again, we also announced today additional saving measures in MacGregor on top of the profit improvement program we are already running and we will cover that bit more in detail in the MacGregor part.

Few words maybe on the market environment that's a quiet of few things are happening there and let me start with the MacGregor market environment and

the marine industry overall the – first of all, in the merchant side, the Q1 was fairly low activity. One of the lowest we've seen for a while. The bulk ship order intake that we saw sort of mini boom happening from the second half of 2013 until the first quarter of 2014 and that was still visible very much in our order intake year ago has of course effectively gone away, there is an over capacity in the bulk ship markets at the moment and the freight rates are also at an extremely low level.

However, we do see quite a high activity at the moment in the container ship sector, number of companies are now clearly planning to invest both for these called, ultra, triple E 18,000-20,000 TEU ships as well as then we also see sort of activity around feeder ships all sorts of them and driven by their shipping companies need to drive further efficiencies into container business and are obviously still strongly growing container traffic overall.

The activity around the container ship sector was not visible in our numbers at all but we expect that order intake in that area should start to be visible in our second half of 2015. In offshore market, obviously everybody is aware of the fact that the oil price being very (dis) number of oil companies have announced capex. The cycles are, however, very long on that, many of our products go actually into production phase of the sector and also obviously different markets whether you are sort of major oil corp. or national oil company have a slightly different investment profiles.

In our case, the activity level in the offshore market remained at healthy level actually about half of the order intake the first quarter 2015 came from the offshore sector. We still see that activity level remained fairly high for a while at least but it's obvious that we will not be sort of immune for the developments happening in the oil industry and offshore sector but we would expect then order intake potentially will start to slow down perhaps in the second half of the year at least by the 2016 and then the revenue impact slow down, and then start to happen in 2016-2017.

What this all means for the MacGregor is first of off, the order intake was still I would characterize as a decent and 228 but obviously not at the same level as it was one year ago. In the capital market day – and end of last, last year

we were indicating that we expect the MacGregor revenues to be roughly at the same level in 2016 than in 2015 now looking at the current activity and our own sort of pipeline. We actually expect that MacGregor revenues will be slightly down from 2015 to 2016.

The difference is not quite as drastic as many people might expect looking at shipping orders and shipping industry. That's driven really by the long cycles, the fact that we expect the container ship activity to sort of continue to be fairly active in second half of 2015 and again, still active situation in offshore industry contributing positively also in 2016 revenues. We expect actually our margin in 2016 relative wise or percentage wise to improve in 2016 compared to 2015 driven by the improvement programs we have going on in sales, services and internally efficiency as well as the additional savings programs that we announced today.

In the other sectors, we actually see overall market situations to be very favorable at the moment. In Kalmar's case the overall container handling equipment and services saw very positive development. We see that positive development continuing at the moment. U.S. market obviously very visible in our numbers already but also we are actually seeing increasing activity and are increasingly more optimistic about the situation in Europe as well and expecting a growth there during this year as well.

In Asia Pacific China, is relatively sort of stable but we see an increasing activity in rest of the Asia Pacific actually picking up quite nicely. In Hiab's case, obviously the U.S. market is continuing to grow and again, very visible in our numbers. We actually had a slight decline in our revenues in the first part of 2015. But we see the market activity picking up in Hiab's case in Europe as well. The latest truck sales, a new truck sales forecast actually now would indicate the five percent growth in Europe which would be as roughly the same growth rate as people are expecting from the U.S. this year.

So overall I think we are getting more optimistic about the Europe than a while ago. Looking then at the key numbers, again we looked the growth in terms of the orders, order book and sales and the significant improvement in our operating profit. Couple of more things maybe to point out our net debt

increased somewhat from the end of the year although it of course, was down from a year to year basis. That increase in the debt is the gearing was really driven by the payment of the dividends in the – during the Q1 and then second [X] sales growth happening that obviously tied up somewhat more networking capital.

We are still optimistic about our cash flow development and capability and as we have said we expect our gearing to be below 50 percent in the next 12 months or so. Really driven by the improving profitability and cash flow. I also wanted to point out maybe that it is not visible in these number but it's visible in our P&L calculation is that you actually saw increase in our fixed costs and part of that of course is coming from the translational impact in the currencies.

But it was also coming partly from the sort of considered investments that we already indicated during the capital market days. Our R&D investments grew about 20 percent year on year, we are clearly investing further into the product development especially around automation and some of the software parts. And also you saw some increase in our fixed costs in administration.

Again, efforts to sort of put more rigorous control systems and reporting systems and transparency into our businesses in terms of IT investments. Overall maybe one more comment regarding the currency impact. Obviously we sort of spelled out differences in terms of the fixed currencies and others in orders and sales. And it's good to note that practically all of the currency impact in the first quarter were so called translational impact. As we have guided in the past, we expect the transactional impact only start to become visible, slightly during the Q2 and more into the second half of the year due to the hedging of our business as well. With that one, I hand over to Eeva who will cover the business area separately.

Eeva Sipilä: Thank you Mika and good afternoon to everyone on my behalf as well. Looking at the MacGregor numbers more in detail. First, so as a – as our CEO already indicated EUR228 million for orders is in the current markets, something we are quite satisfied with – considering that really there was little

or no activity in the bulk segment and in the container vessel segment activities yet, not yet reflected in the cargo handling orders.

At the same time offshore was – offshore were continued on a good level from an order point of view. Sales were up to EUR282 million. This is something we have been indicating already a few quarters before and this is now obviously a result of us starting to deliver the orders received in late 2013. Profitability was 4.4 percent slightly better than the comparison period obviously still in the comparison period we had a few million in extra costs related to the M&A and then, certainly volume supported somewhat of an improvement as well.

A few words still on the savings measures announced today. So it's important to note that the development initiatives in sales services and design to cost continue and are now very nicely ramping up. This is something we announced in conjunction with new organizational announcements in MacGregor in October. And what is now obvious from the market situation is that we need to add some savings measures on as well and will start the regulatory negotiations with the personnel and unions. Estimated reduction of employees as of today is around 220 people.

We're targeting EUR 20 million of annual savings and we would expect this EUR20 million to be fully visible in 2016, obviously it's not – it will not all be visible yet this year as we will be sort of ramping up and consulting the actions with personnel. However, the restructuring cost estimate will impact this year and that is roughly EUR5 million.

Going into Kalmar we had a strong start for the year on all elements. Order intake of EUR455 million is something we're very happy with – it includes a significant continuation order from London Gateway on the automation front but also it obviously indicates a very strong run rate in the smaller equipment. Both on the port side as well as in the industrial and distribution side and especially in the U.S.

Sales were also up by 21 percent to EUR395 million and we really actually had a very good deliveries – a delivery speed in throughout our organization

to the extent that we actually were able to sort of take some April deliveries already into March. So hence we're expecting less of a quarter over quarter impact then when we go into the second quarter. But obviously also encouraging in Kalmar is the profitability 7.4 percent is certainly helped by volumes but it's also an indication that we continue to make progress on the profitability improvement actions we have been working on in the past two years.

Going into Kalmar sorry – going into Hiab then from Kalmar we're most proud about the blue line indicating the operating margin. We now have five quarters of a very positive trend in Hiab and reached nine percent operating margin in the first quarter. Order growth was also positive 17 percent up to EUR256 million. And that also is visible then in our order book, so we have a good start for the year in that sense.

Sales were more modest, we're still very much on the sort of flat levels we've seen in the past quarters as well and this is very much European phenomenon and in the sense that in the Hiab business clearly America's market situation is positive. We see some early signs of picking up in Europe but not visible in the sales yet. Ramping up then on a few group level items, cash flow conversion rate of roughly one was again a good start for the year. We certainly have more work ahead. However, considering seasonally we typically ramp up or operations and then that was visible and is visible in our balance sheet when you look at the inventories for example. So considering that we are happy with the EUR52 million but have obviously quite a ways to go still in the remaining quarters as well to reach our targets on the full year.

Looking at the mix of Cargotec's portfolio, so maybe the biggest change are – changes are visible in the geographical mix rather than the business area portions and especially worth noting is the decreasing percentage in EMEA, Europe, Middle East and Africa which is then taken up by growth in both America and Asia Pacific.

And obviously on a group level we're happy for the balance but at the same time we obviously do hope that the European economy starts to recover as well. Another angle on the mix is then – as we know there's a quite a lot of

interest on the geographical splits – within the business areas and due to – not least the currency market's volatility. So you see here the highlights on each of the business areas.

MacGregor is and continues to be a very Asia Pacific driven business as that is where the main ship yards are. In Kalmar and Hiab in both we see a clear increase in the share of Americas driven by the improved economy in the U.S. And with that, and I think it's back to summary words by our President and CEO.

Mika Vehviläinen: Thank you Eeva. Just a quickly obviously very satisfied with the progress we are making especially with the program we have in place in Hiab and Kalmar. We are also very confident and comfortable with the targets we have set for ourselves for 2016 with the 8 percent operating margin and 13 percent return on capital. And as you can see we are making progress towards that direction, both in terms of the EBIT improvement as well as the impact of the return on capital employed.

We obviously reiterate the outlook we have set for this year which is that we are expecting our sales to grow and our operating profit we improve from 2014. With that one, I think we are done and open for questions.

Paula Liimatta: Thank you Eeva and Mika, as said we will start the questions from the conference call – sorry, from the live audience here in Helsinki. Please wait for microphone and state your name and company to benefit those people on the phone lines.

Pekka Spolander: Pekka Spolander, from Pohjola Bank. First, two questions about MacGregor. Could you talk about a little bit more about the time table of this new cost savings program? You indicated that the slowing demand we will see in sales later this year or 2016. But what about the time table of this savings actions?

Mika Vehviläinen: The savings actions will be done by the different segments depending on their prevalent situation. The first negotiations for the potential employee reductions actually have gone out today, primarily in Norway and Sweden in a number of our services locations, these are actually part of the on-going sales program and we are sort of optimizing our services footprints.

So some of this will be happening fairly quickly and provided that we reach an agreement with the union discussions, those and sort of reductions in employees and cuts will actually happen by the summer. We would not exclude further potential reductions and negotiations during the second half if the market situation goes. We really have to see that unit by unit and see where the activity levels are and we try to react to those ones sort of proactively so that we are actually be able to stay ahead of the curve when the – sort of slowdown of the activities will come as Eeva was indicating the full EUR 20 million be fully effective throughout the next year and visible in there and obviously in this year that those savings will come in force as the reductions and cost savings measures happen.

Pekka Spolander: OK. Thank you. And the guidance for MacGregor's this year margin. If I recall right in February you indicated that the margin would be somewhere between the fourth quarter last year which was 8 percent and the full year last year which was 5.2 is this still a guidance you can give.

Mika Vehviläinen: I think our current estimate is obviously closer to the last year margin than the Q4 at the moment. So we have a slightly more pessimistic. It's driven by the partly the sales mix that was of course visible in the Q1, despite the high volumes, the margin was not as in the Q4 and then, obviously also the offshore activity, there are number of those projects are project of completion, so it's impacted by the order intake development and then also the currencies actually play a role in there.

Some of offshore activities is priced in Norwegian crowns, some of the cost are in dollars and with the percentage of completion methods those have some impacts on the margins as well.

Pekka Spolander: And finally the Hiab margin was very strong in the first quarter and typically, we have seen that the first quarter is the lowest margin during the year, is this something we expect also this year.

Mika Vehviläinen: Yes. I think so that the logical development in Hiab margin. I'm very satisfied that the margin considering that the sales volume was relatively low.

And then obviously we would expect the transactional impact coming through from the currencies in the second half especially.

Now, one needs to be careful – if you look at the geographical distribution, you see that roughly 40 percent of the Hiab revenues are in U.S. One needs to be slightly careful, that doesn't translate directly into transactional benefit because some of the products are actually done and primarily, the tail lift business is actually U.S. supply chain and manufacturing, then services is a considerable part of the U.S. business as well and that's obviously with the local cost.

So I would say, roughly half of the Hiab revenue is actually U.S. originated if I would use that word. The other thing that will be visible there as well is the fact that in U.S. we are primarily in the direct mode. So we have our own sales companies, our own sales and services operations. So the SG&A obviously will go up as the currencies will translate. We estimate the transactional impacts – positive impacts for Hiab to be roughly EUR10 million this year.

Pekka Spolander: Thank you.

Paula Liimatta: Operator, we can take the questions from the people on the phone lines now.

Operator: OK. Thank you. As a reminder it's star one to ask a question. And your first question comes from the line of Johan Eliason from Kepler Cheuvreux, please go ahead.

Johan Eliason: Yes, hi. This is Johan from Kepler Cheuvreux, just to question a little bit on next year as you are guiding to some extent on Cargotec which is 2016. You're obviously targeting at an 8 percent group margin by 2016 and as I recall, that was basically on the assumption that you would be able to manage that in a flat top line scenario. Now, when you say that MacGregor will only be down slightly and I guess, we should considering where the cycle is heading and should see the other divisions growing.

What sort of effect do you think the other top line would have if it comes from the Kalmar and Hiab divisions on that margin target for next year.

Mika Vehviläinen: Well, we haven't really gone into the details and fully try to understand the top line developments for next year in the other business is obviously with the MacGregor and when lead times are so long. We have a better visibility and understanding how that develops and obviously paid more attention on that one with the fluctuating market situation.

I think the 8 percent expectation still stands and again, I guess we have indicated in the past, we expect the Hiab and Kalmar to contribute to that 8 percent positively with MacGregor being and below that 8 percentage points. Obviously, with the current revenue development, we expect the weight of the MacGregor would go down as well for the 2016 compared to the 2015.

Johan Eliason: Exactly. Then just as on the Kalmar, these project, are there any risk remaining to the old problem projects?

Mika Vehviläinen: Practically, no. I mean, the projects are mostly closed. And if there are in some very few remaining tails left in there, nothing significant that could sort of take place anymore.

Johan Eliason: And how are these big projects, part of this was also automation related. Is there a new round of automation projects coming you think and now, you have a lot of references up to show to the market or what should we expect now going forward from that sort of projects – big projects?

Mika Vehviläinen: Thank you, (picking it up) actually. I forgot to mention it in my remark – the outlook. We actually are looking at the automation market development quite positively at the moment. We recorded two significant orders into Q1, one was the next phase of the London Gateway and then the automation for the Port of Brisbane as well. Overall we see the inquiries and interest around the automation growing. There are numbers of these ports that are actually taken or are to be taken into commercial use during the first half of 2015.

I think they are more and more proving the fact that the automation is delivering against the promises of savings in terms of labor cost, safety and environment are actually delivering against those promises and I think overall

the interest towards the more automated port terminals are driven by efficiency needs of the ports is increasing.

Johan Eliason: Great, many thanks.

Mika Vehviläinen: And maybe if I have to make the point because I know this sometimes is a point of confusion, the project cost overruns had primarily into 2012, '13 and '14, were almost exclusively related to the large cranes, so-called STS cranes built, not in the automation project per say.

Operator: Thank you. Your next question comes from the line of Antti Suttelin from Danske Bank, please go ahead.

Antti Suttelin: Yes. Thank you. A question about the cost cutting in MacGregor, I just wonder how you made the calculation about 220 people and EUR20 million savings. That would indicate average cost for employee by you know, being EUR 90,000. Cargotec averages something like 58,000. So it's really so that the MacGregor cost per employee is so much higher than the group average.

Mika Vehviläinen: No, it's not obviously the savings target includes other than direct personal cuts. We are using significant amount of external resources and subcontracted resources for engineering and project implementation. Obviously that's the first area that we will cut when the activity level will go down. There are also other cost saving initiatives related to sort of running costs and discretionary cost et cetera.

So overall those savings measures will amount to EUR 20 million. And last proportion of that one will obviously come from the own personnel reductions and all – you are absolutely right in terms of average cost, however the sort of qualified engineering cost in Scandinavia are well above our average cost as well.

Antti Suttelin: OK. Should I understand that part of the EUR20 million saving is actually related to lower volumes. So you know, the EUR20 million is not fixed cost reduction. Part of that is because of because simply volumes going lower.

Mika Vehviläinen: Yes. It's usually showing actually in our indirect or above even in direct lines as well. So the EUR 20 million is the overall cost saving some of that is again coming from our own personnel and some of that is coming from the sort of the outsourced or third party personnel as well.

Antti Suttelin: OK. And finally, can you just – as a curiosity indicate, what is the average cost per employee in MacGregor in relation to group average?

Mika Vehviläinen: It's considerably higher because MacGregor has very little of its own production and blue collar workers so, this is on top of my head but the average here, did I remember you saying about 50K, right?

Antti Suttelin: Yes. Cargotec average is 58K.

Mika Vehviläinen: 58K so this is a rather a rough estimate. Actually, I look at this while ago but I can't remember somewhere in around 70 to 80K. That difference is really primary from the – two factors more expensive locations for example Norway and second less sort of blue collar workers because of the MacGregor business model is different.

Antti Suttelin: I see. Thank you.

Operator: Thank you very much, there are no further question from the telephone line. Please continue. We have just – one question just coming through from the line of Jan Kaijala from Nordea, please ask your question.

Jan Kaijala: Hi, thanks for taking my question. Just on the – you used to report on the MacGregor. You used to report on the purchase price allocations and I'm just wondering going forward what should we think and what was the level – it's been line 2.5 million a quarter, how does it look from here on and for how long?

Mika Vehviläinen: Roughly 10 million per annum, right Eeva?

Eeva Sipilä: Yes. For the – so the first five years, that's a good number, then it starts to reduce.

Jan Kaijala: OK. OK. Then maybe just so maybe you did it in the beginning I was just didn't catch it, I mean, refresher of what is your capex and tax guidance for the year?

Eeva Sipilä: On the capex side, we will be below depreciation. We had a very slow start in the first quarter. So that's not necessarily an indication of the full year level, but we will be well below depreciation which approximates some 80 million on an annual level. And then on the tax rate, best indication so early in the year would be to use 30 percent. We're obviously working to be a bit below that. But as this point of the year it's quite a lot of moving elements still.

Jan Kaijala: OK. Thanks. That was all I have.

Operator: Thank you very much and your next question comes from the line of Johan Edvardsson from (ABG), please go ahead.

Johan Edvardsson: Yes. Hello guys. Hope you are all well. I have a question on the transaction exposure on the currency. You mentioned 10 million in transaction alone in Hiab. What is the total transaction exposure for the whole group and how is that expected to play out to going forward also in 2016?

Eeva Sipilä: Well, it's good to understand that the growth in Americas is coming from areas where the supply chain is also in the Americas as you may remember from our earlier comments, Kalmar has its supply footprint in a better balance in that sense. Sales versus where it is sourced and where it is supplied and the big growth in Kalmar, Americas numbers is coming from terminal tractors which are Kansas assembled product.

So we're not actually expecting much of a transactional impact in Kalmar as we see it now or marginal if something is – and also in MacGregor looking at it now we run a pretty big part of the business in MacGregor in U.S. dollars today. So obviously we get translation but transaction not to any significant extent. And this sort of up to 10 million impact on Hiab is our assumption based on today's rate of roughly 1.1 and assuming of course that's sort of no other things move. I would not dare to venture into projecting currencies into 2016. If you know the rates, you tell me.

Johan Edvardsson: I was more thinking about given that you have hedged your H1 exposure in '15 that implied an impact in 2016 just so by using the unhedged rates in the first half, right?

Eeva Sipilä: Well, the Hiab comes through earlier in a sense, we have a four to six months hedging period. So that's why we're expecting a small benefit already in second quarter as I said assuming this is current, current level and then a bigger impact in the second half. Then if the currency stay on this level, then there is no further impact into 2016. But then of course if you are assuming further changes, then it could be the case. But this is based on our current view. There's a lot of moving elements. So it's not very exact science obviously to estimate this forward.

Johan Edvardsson: Sure. Thanks. And also, I was just wondering about the cost of EUR5 million, for the EUR20 million savings. It sounds very attractive in that sense, what does that include and is there a risk for further costs of – yes, for achieving those savings.

Mika Vehviläinen: We are very comfortable with that. And that amount at the – this is almost exclusively related to the compensation for the redundancies.

Johan Edvardsson: OK. Thanks a lot.

Mika Vehviläinen: Thank you.

Operator: Thank you very much. There are no further question at this time, please continue.

Paula Liimatta: Thank you operator. Do we have any more questions from the live audience here in Helsinki? No. And are there any further questions from the people on the phone lines?

Operator: No further question at this time. Once again, star one to ask a question. There are no question coming through. Please continue.

Paula Liimatta: OK. Thank you. If there are no more questions, I would like to thank you for all your attention today and wish you good evening. Thank you.

Operator: This conclude all concern for today. Thank you all for participating. You may all disconnect.

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