CARGOTEC CORPORATION
Thurs, 26th April 2012
14:00 GMT
Chaired by Paula Liimatta

Paula Liimatta

Good afternoon ladies and gentlemen and welcome to Cargotec's conference call on Q1 2012 report. My name is Paul Liimatta and I am the Head of Investor Relations at Cargotec. We will have today a presentation by our President and CEO, Mikael Mäkinen, and after the presentation we will have time to answer your questions. We will start the questions from the live audience and then from the people on the phone lines. Before asking a question, please state your name and company. I think we are ready to start, Mikael, please.

Mikael Mäkinen

Thank you everybody. As usual, I will go during the next 15 minutes through Q1 and then you have a possibility, as Paula said, to ask questions. I will discuss the details of the three business areas on one slide each.

In general, one could say that the market activity was healthy. Yes, the order intake was a bit lower but there are big projects in marine, there's a good pipeline in terminals, so nothing that I'm very worried about. Sales grew by 4%. I will come back to that a bit later as we have a number of equipment that is waiting for despatchment. They are ready from our side but it's customs clearance, it's paperwork, it's payments and so on that are delaying them. That, of course, is one of the reasons why the operating profit margin was 4.7% during Q1. We are continuing the preparation for the possible marine lifting in Singapore. The work goes on and we will come back to that later this year.

We don't see any reason for changing the guidance. One quarter is very short in our type of industry so I'm very confident that we will reach the guidance that we gave at the beginning of this year. Looking at the figures, yes, just something that I'm disappointed in is, of course, the operating profit (I will come back to that) and actually a consequence of that, the cash flow. In cash flow one has to remember that the order intake in marine was heavy towards the end of Q1, which means that we got the orders but we did not get the down-payments. The second thing in the cash flow was the fact that, as I said earlier, quite a number of machines, ready-made machines, work in progress waiting to be assembled and despatched, especially despatched. But even with these negative things, I would say that the earnings of 42 cents per share for Q1 wasn't that bad. On slide number 5, when we look at the performance, yes, you can see the disappointing Q1 but, as I told you, there are reasons for it and it doesn't really change my view on where we are.

Let's have a look at the marine. This is the first time when we look at the different business areas in marine, load handling, terminal separately. Marine – you know that the order intake was a bit lower, number of ships being ordered at the end of last year/beginning of this year was lower than before. On the other hand, shipyards have shorter delivery times at the moment, ship prices have gone down. That usually indicates that there is coming up ordering activity. One also has to remember that, although the number of ships was smaller, we are shifting from traditional cargo ships more to offshore type of vessels. Sales remained healthy and, although the order book has gone down, it's still on a healthy level. Profitability 13.5, well in line with our expectations and how we forecasted it. There will be a recovery towards the end of the year. I would say that the order intake will recover. Also we saw some gradual recovery of services.

Then a few words about terminals. Terminals was, of course – I frankly have to tell you that, no, I am not at all happy with the result of terminals and my job is, of course, to say that what, if any, changes have to be done in the way we operate and so on, very quickly to analyse the situation and I am more looking at it from the point of view of the predictability, why we have been not able to predict that we will deliver a smaller number of equipment than we produced. At the same time, one has to remember that R&D was double in Q1 year-on-year. We are spending on R&D now because we have a number of big upcoming projects. We have a big order book to be delivered. They require R&D and I also feel that we are really in a very strange situation. The terminal business change now; bigger projects; more very innovative projects. You have to decide if you want to be in or out in this game. As I said, delayed deliveries, the biggest portion of them not at all related to us but on the customer and there is nothing unusual. It is not that the customer has financing problems or so. It's just the fact that it's difficult to match the deliveries in a quarter. We also have to remember that the service business was lower as a share of the sales during this quarter and last, but not least, the product mix. Of course, the profitability of our various products varies and you can have a quarter where you have an unfavourable product mix. Quite confident that we can correct those things and have a bit of predictability plus, as I said earlier, no change in the guidance for the full year.

Load handling – the market was very good in our traditional markets, growing in Asia, good growth in US. So there we saw our order intake growing 22% and the biggest growth was in Americas. As we have a very short time between the order and delivery (2-4 months), that means that also the sales grew by 12%. So we have a good order book, good sales. Now we just have to deliver and that means that the profitability improved to 3.8% and that's also partly due to the volume but also partly due to the actions that we have taken, the way we have built up this business, supply chain and so on. Is 3% a good result? No, it's not at all a good result. We haven't changed the long term goal of 10% for the Group but at least it's the right direction and I am pretty sure that Axel Leijonhufvud and his team have a fairly good grip on how the business should be developed.

Gross profit still, as our CFO usually said, should stay about 20%. Yes, it's about 20%, so there is no big drama on that level. Cash flow, as I said earlier, goes hand in hand with the delayed deliveries from terminals and you don't get paid for the products and they are in your work in progress. Again here I see a temporary situation like this. You can see historically also that there is a big variation between the different quarters. Service – small growth. In our type of business very difficult to see that there would be a dramatic growth of service as at the same time the new equipment is growing.

Not a dramatic change in the distribution, geographical distribution, of our sales. Yes, APAC is a bit smaller than in the comparable quarter but EMEA on the other hand, the growth is not coming from the E part (Europe); it is coming from the Middle East, Africa part of the red part of the pie. So again here I think that the development is fairly good. Yes, at the same time you have to remember that Americas had a fairly good result.

Key priorities, just to remind you, Asia is still very, very important for us. I think we start to have a critical mass in Asia. If 40% of our sales come from Asia, it's already more than a billion euro business in Asia. So it's a sizeable part of our operation but that requires all the time how can we be stronger, how can we have a better reach to the market for certain products and so on. Load handling strengthening our market position, again here many, many initiatives in the pipeline that we cannot talk about today in detail but that's also going in the right direction. The joint venture that we have in China, due to local authorities, there is a one/two month delay, nothing dramatic, typical Chinese to get all the paperwork done so that we can start or continue the construction on our side, start to deliver heavy cranes from there.

We have to see how we can find further growth opportunities for marine. Marine has a very, very good market position, extremely strong operating model. Can we grow it? Can we have new products, new markets, whatever it is? That is one of our priorities at the moment. Further development of services, as I said, takes time. Next, the Cargotec EIP system that we are rolling out right now is needed in most of our sites out there. Leveraging the building blocks in terminals – yes, we have the building blocks. Yes, we have a very disappointing Q1 but, on the other hand, I think that, because we have the right building blocks, we are in a very, very good position to capture the market as there are a number of very interesting projects out in the market.

We have not changed the guidance for the year. We expect the sales to grow and the operating profit margin to improve compared to 2011. I don't see, based on one quarter, any reason to change that outlook. We have also said that marine will continue on a good level. Sales might decline slightly from previous years. Too early to say if it's a plus or a minus but, as you have seen, certainly terminal and load handling will grow due to the order book.

So that's very short. I think that we can have more time for questions, so please.

Questions and Answers

Paula Liimatta

We can take first questions from the live audience. Do we have any questions? No. We can then move on to the people on the phone lines, operator, please.

Tom Skogman – Handelsbanken, Helsinki

This is Tom Skogman from Handelsbanken. I was wondering about the terminals' profitability. First of all, has something major happened to the profitability of NAV's(?)? And, secondly, when you talk about delivery hiccups or delays, is this relating to one or *many individual projects and will this mean that we will see a much stronger sales growth already in Q2 for terminals?*

Thank you, Tom. First of all NAV's(?), no, nothing has changed on the NAV's side. You have to remember that, due to IFRS, actually we are still in the period of delivering it as a sale of March because we are still eating on the order book that NAV's had when we bought the Company and that should gradually now disappear and you see the margin coming through. This is only a technicality. The second thing, if it is one delayed project, no it's quite a number of projects. They are ready machines waiting there, some of them outside our factory countries close to our customers, in customs; some waiting for despatchment. So yes, of course, you should see that coming through fairly soon. Anything else, Tom?

I was looking also at the SG&A costs and then when you look on year-on-year, there is still a strong growth but will they start to fade off from now on? So we have 121 in Q1 and 97 million in Q1 2011 but then again in Q4 they were 128. So what will happen from now on?

Mikael Mäkinen

Eeva, do you want to comment? Do you have the figures there? I can continue.

Eeva Sipilä

You are talking now about Cargotec in total?

Yes, that's the one you report.

The SG&A cost is obviously up and the R&D expenditure, as our CEO discussed, is obviously partly included in that number as well and then there are some other increases as well and I think it is obvious with this result, especially in terminals, that we need to very closely analyse what we want to do and what we can prioritise or reprioritise for the remainder of the year. As such in the other two segments, they are very much in line with the plans and so are the other rows, so in that sense it is no surprise but naturally the fact is that, with somewhat lower volumes, the SG&A relatively speaking is a bit too high.

But you don't have any plans for any major cost-cutting just because of the big disappointment in terminals at the moment? You don't see any need for that?

Mikael Mäkinen

Of course, we have to, Tom, all the time look at this and, of course, as I said, I am very disappointed in the result and, of course, we have to look at the cost but there is no big chunk of unnecessary costs. As I said, this is a deliberate decision to beef up the R&D just because we need it for the future.

Sebastian Ubert – UBS, Frankfurt

Hi, it's Sebastian here from UBS. A question regarding the terminals business: can you give us an indication of how much of the revenue spread have been delayed and by when *do you expect those to be executed? That is my first question. Regarding the load handling business, can you also shed some light on the development in the European markets? That will be quite helpful, thank you.*

Eeva Sipilä

Regarding the terminals, the unfortunate fact is that the delayed part is the part where we have a better margin. One of the challenges we have in terminals still is that we don't have even equal profitability between the different products and that hits us in quarters like this. We're not necessarily talking about – we're talking about several tens of millions anyway but it's both the volume and the mix which then hit the operating profits.

Mikael Mäkinen

And then the load handling, did you write it down?

Eeva Sipilä

Sebastian, can you please repeat the load handling question?

Yes. I was wondering how that has been developed in the European areas as you were quite optimistic on Asia Pacific and on the Americas but just a few words about the European situation and how do you see there the development going through this year?

Mikael Mäkinen

Yes, I was optimistic. I was talking about the US because there we have seen very fast growth and Asia, of course, a fast growth but starting from a low level. If you go to Europe, then it is, as I said, up to the last quarter, the further south you go the less positive it is, if that helps you. If you take North and Central Europe, it's on a fairly good level.

And one follow-up question, if I may. On the marine segment you said that you will see more orders coming from the offshore segment. Can you give us an indication of how much of the order backlog is today related to the offshore segment and how that is presented in the actual order intake?

Eeva Sipilä

Yes, offshore of the orders received in marine for the quarter, roughly 25% was offshore and we are very happy with the number. Because of the order backlog obviously coming from a longer time, still from the backlog, we talk about 10% plus. So it didn't yet change but, of course, if the order intake continues with this, it will also have an impact during the remainder of the year then on the order book.

Thank you.

Pekka Spolander – Pohjola Bank, Helsinki

Pekka Spolander from Pohjola Bank, hello. I would like to ask about the marine feeling, how you feel the market is? When I'm reading the comments and listening to your *comments, I might get an impression that the market is a little bit weaker now than you expected three months ago. Is this the way we should think and how do you look at the coming quarters in marine side?*

Mikael Mäkinen

No, I think already when we published our annual result we said that we see that the market is weakening. My view has not changed in the last three months, no, but we see – because it's always like these varied movements. We have seen it going down. We have seen some companies, for example, where the order intake for marine equipment is 4-6 months earlier than us, that they have shown fairly good order intake during Q1. So I would say that it is varied and that means that our order intake should increase quarter-by-quarter during this year. That's my view today.

So we might expect that the ordering to move somewhere between 200-250 million might be also something we can see in the coming quarters?

Okay, that's your guess.

Oh yes.

My guidance is that we see that it will increase quarter-by-quarter.

Okay. And my second question concerns the cost side. How do you see the costings raising at the moment?

Eeva, do you want to comment?

Eeva Sipilä

Well, I think overall the pressure is less than it was a year ago, which is not as such unexpected due to the fact that there is some other uncertainty in the market, so in that sense okay. The challenge, of course, at the same time is that we also – the pricing side is not an easy side either and the uncertainty affects that as well. A close follow-up, but so far no bigger surprises in the cost inflation, rather along our expectations.

Okay, thank you.

Tomi Railo – SEB, Helsinki

Good afternoon, a couple of questions. Firstly, is there any chance of quantifying the R&D increase or absolute amount for Q1? You said, Mikael, that you doubled the amount but what sort of level impact did it have in Q1 in terminals?

Eeva Sipilä

I think we can say that we are talking about roughly 10 million in total now in Q1 2012, which is, as our CEO was saying, double what it was in Q1 2011.

And that was for terminals?

This was for terminals specifically.

Okay, thank you. The second question is on the sort of guidance elements, there is a sense that in the report that although terminals didn't progress as planned, we are confident on the improvement for the full year. Is this the same as sort of the expectation on improved profitability for next quarters or is this the same as you have indicated earlier, that the terminals' profit should improve from last year's level?

Well, I think our guidance is on Cargotec EBIT percentage to improve from last year's 6.6 and in that sense, if you do the numbers and read what we say about marine, I think it does assume that both load handling and terminals need to improve but it is not more specific than that on any individual segment. We are referring to the overall Cargotec improvement, in which our guidance remains intact.

But if I just continue, it has been rather clear earlier that the terminals' profit improvement as well as load handling profit improvement should offset the marine.

That is what I referred to if you do the math and read our guidance on marine.

Yes and you repeat that comment in spite of the miss of terminals in Q1?

Yes, we repeat our guidance.

Iris Kemppainen – Carnegie, Helsinki

Iris Kemppainen from Carnegie. In terms of R&D costs, do you expect that these will double year-on-year in the coming quarters as well? What kind of levels would we see?

Eeva Sipilä

The budget is for a significant increase. Also bearing in mind what our CEO was saying about the automation projects and, of course, the NAV's(?) impacting our numbers. Of course, some issues still can be reassessed if we so desire but that has been the plan. So in that sense, Q1 is a good proxy for the full year unless we do something differently.

Mikael Mätinen

But just to remind you that it is, of course, included in the guidance.

And in marine I think you said in Q4 that you expected orders to be actually right from Q2 but now it's a little bit south that the market is quite weak. So should we expect the acceleration from Q3 instead of Q2?

Who knows when it will accelerate? I think it is more correct to say that it will improve quarter-by quarter, but what do you call acceleration and what do you call increase? Too early to say.

Okay. And one question: could you just repeat your acquisition targets? Are those both in load handling and marine and anything that you can say regarding those?

Sorry, I couldn’t hear you.

Your acquisition targets.

Okay. Already when we said that we are studying, investigating the possible listing of marine in Singapore, already that time we said that we have fairly ambitious growth targets for all three businesses because we want to be the market leader in all three businesses and that means acquisition targets in all the three business areas. When it will happen, which business area first, which comes after that, too early to say but it’s for all the three ones. We have also said that maybe you will not see many of the very small acquisitions. By small I mean those service acquisitions that we did over the years that are 10 million, 15 million. I am talking about acquisitions of 30, 50 million plus.

Okay, thank you.

Closing Comments

Eeva Sipilä

If we don’t have any more questions from the people on the phone lines, I think we are ready to wish all a good day. We don’t have any more questions here in Helsinki either. So I would like to thank you all and wish you a nice spring, thank you.