Kalmar Q3 2024 Transcript

Camilla Maikola: Good morning everyone, and welcome to Kalmar's Q3 results webcast. My name is Camilla Maikola and I'm from Kalmar's Investor Relations. Today's results will be presented by our president and CEO Sami Niiranen and CFO Sakari Ahdekivi. The presentation will be followed by a Q&A. Please pay attention to the disclaimer as we will be making forward-looking statements, and now over to you, Sami.

Sami Niiranen: Thank you very much, Camilla, and good morning everyone. I'm pleased to share with you Kalmar's third quarter 2024 results, which demonstrate continued progress in our journey as an independent publicly listed company. This quarter was robust. We delivered strong profitability and advanced our strategic initiatives, further solidifying our position as a global leader in heavy material handling solutions. The strong performance reflected the great achievements of the entire Kalmar team, and I want to thank everyone for their efforts in the quarter.

Sami Niiranen: In September, we reached one last major milestone in the demerger listing process, when the separation of all the IT systems for successfully completed. I'm incredibly excited about the opportunities that lie ahead as a standalone company. We reached a record-high profitability of 13.5 percent in the third quarter, despite the lower sales volume. The services segment's comparable operating profit margin continued to improve and reached 18.3 percent. Demand has remained stable overall, but the softness in the North American distribution customer segment has been prolonged. We have also specified our outlook and Sakari will cover this later in his presentation.

Sami Niiranen: We have a well-diversified business with four strong customer segments. Our services share of sales was 33 percent in the third quarter, and our Echo portfolio share of sales remained high at 40 percent, showing the continued strong interest in hybrid and electric solutions among our customers. Let's then take a look at the overall market environment. Market indicators are showing a mixed picture. However, all indicators for the different segments are showing moderate growth for the coming years. The global container throughput is expected to grow by 4.8 percent this year, while the indicators for GDP, manufacturing, retail, and wholesale are estimated to grow by around three percent.

Sami Niiranen: That being said, geopolitical risks have increased in recent months adding uncertainty to the macroeconomic outlook. Our orders received in the third quarter were €416 million, which is a six percent increase compared to the third quarter last year. Demand has remained sequentially stable, with some variation regionally and by end customer segment. Europe and EMEA have remained stable, while the softness in the North American market has continued. Some of our customers are still in a wait-and-see mode, especially when placing larger orders. Europe remains our largest region in terms of orders, representing almost half of our third quarter already intake.

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Sami Niiranen: Our sales pipeline remains healthy, and while quarterly ordering take can fluctuate depending on the timing of customer decision-making, we are confident in our ability to meet our long-term goals. That being said, we are not expecting our profitability to improve sequentially in Q4 versus Q3. In Q3, we had several bigger orders of which these six were separately announced. These included one major order of 26 hybrid straddle carriers to GMP Le Havre in France. One large order of 13 forklift trucks and the eight-year service contract to Australia and BlueScope. A large order of six reached stackers and two empty container handlers to Super Terminals in Brazil, and three smaller orders of heavy terminal tractors, empty container handlers, and electric forklift trucks.

Sami Niiranen: Let's take a closer look at our large base of around 13,000 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. Both year and year and quarter to quarter, we see mostly positive or neutral activity development in our main markets reflecting the stable demand picture overall. Then moving on to our sales performance. As you can see, our sales in the third quarter were €425 million impacted by this lower market activity and our lower order book compared to last year. However, it's important to note that the services segment share of sales increased to 33 percent from the previous year, which is helping to build resilience in our overall revenue.

Sami Niiranen: The Echo portfolio share of total sales has remained high and was 40 percent in the third quarter compared to 35 percent one year ago, which demonstrates our customer's strong interest in electrical and hybrid solutions. On an LTM last 12 months basis, the fully electric machines share of equipment orders was 10 percent. We have also continued to work towards our sustainable growth target during the third quarter. We have been pleased to announce some great achievements including a collaboration with Volvo Penta, concerning a framework agreement to service engines and the new partnership with CES, an Italian manufacturer of super-sized heavy-duty material handling equipment which will enable us to offer our customers an even more comprehensive range of solutions.

Sami Niiranen: We communicated already in the spring that we are committed to the SBTi targets. Today, we were pleased to announce that the Science Based Targets Initiative has approved our commitment at the beginning of October. Additionally, we have made a decision to expand our innovation center in Ljungby Sweden by building a world-class test center, which will enable us to conduct more comprehensive testing and development of our equipment and technologies. We have also launched the production of our heavy forklifts in our Shanghai factory to better serve our customers worldwide.

Sami Niiranen: As you can see here, both our equipment and services segments performed well in the third quarter. The services segment's profitability improved to a good level of 18.3 percent, and also equipment segment's profitability was strong at 13.6 percent. Demand has remained stable in both segments, and both have performed well during the last quarters. We are fully committed to our performance targets for 2028, which include a five percent sales growth per annum over the cycle and a 15 percent comparable operating profit margin. Driving excellence is one of our key strategic pillars. As part of this and our 15 percent comparable operating profit margin target, we have communicated that we plan to reach approximately €50 million in cross-efficiency improvements by the end of 2026.

Sami Niiranen: We have also communicated that as part of the Operational Excellence Initiative, there were some changes in the composition of Kalmar's leadership team as of the 1st of October. We actively continue our work towards a best-in-class commercial performance and cost-efficient company. Thank you everyone. Now, I will hand it over to Sakari. [Music].

Sakari Ahdekivi: From my side, Sami already covered a lot of ground, but let's add a few points to what was already said. What I will cover this morning is recapping where we are now with our financial profile in terms of LTM numbers. Dive a little bit deeper into the reporting segments and then also have a look at our balance sheet cash flow and then the outlook finally. Our financial profile has remained strong which gives us an excellent possibility to target growth further. As Sami already mentioned, our order book is at a healthy level of €905 million. If we look at the LTM orders received, we are almost exactly at €1.6 billion now from the last four quarters, sales being then higher at €1.79 billion.

Sakari Ahdekivi: Orders received have continued on a stable level and have been give or take around €400 million per quarter for several quarters now. Our business performance has been successful and we have been pleased to deliver a 12.5 comparable operating profit margin on an LTM basis, and the year-to-date figure is 12.8. Our leverage is low at 0.4 times EBITDA, and our cash conversion has been strong at 126 percent over the last 12 months. Then having a look at the equipment segment, our equipment demand has remained sequentially stable for the fifth quarter in a row.

Sakari Ahdekivi: Of course now, on a year-on-year comparison, we were able to show growth in our orders. The profitability of equipment increased from the last quarter sequentially and was at 13.6 in the third quarter of 24, presenting a strong level despite the lower sales. This was mainly driven by successful commercial performance and the cost savings actions executed earlier. The service segment profitability improved for the third quarter in a row and reached 18.3 percent in the third quarter. This was driven by the successful cost management actions as well as sourcing activities.

Sakari Ahdekivi: The order book and sales have been stable for several quarters already, which provides resilience. Growing services is one of our key focus areas. Our extensive installed base of 65,000 machines globally continues to provide a strong foundation for service growth going further. We are further accelerating this through innovative offerings and digital solutions. We have been able to perform well despite the lower sales volumes, mainly thanks to the improved business performance, including sales mix, price management, and direct cost improvements, as well as cost structure improvements which were earlier adapted to a lower sales volume.

Sakari Ahdekivi: The operating profit included items affecting comparability of €4 million in the third quarter, which were all related to the separation and listing of Kalmar. The total costs related to the separation and listing recorded during 2023 and 2024 by the end of September, have amounted to €41 million. We estimate the total cost to be a maximum of €45 million at the end of it. Maybe still to cover that, in line with the previously communicated €30 million annual cost savings. Approximately €25 million are now visible in the year-to-date Q3 numbers in both the sales general and admin costs, as well as production indirect costs, which are part of the cost of sales.

Sakari Ahdekivi: Our return on capital employed in the third quarter was 19.3 percent. It's worth noting that the rosy number, of course, includes the one-off costs related to the separation and listing somewhat affecting them. Then as an additional point, research and development expenditure in the first nine months of this year has totaled €38 million, which represents three percent of sales. Our average is strong at 0.4 times as I previously said. As you can see, it has actually improved in Q3, thanks to the positive cash flow generation in the quarter. Our gearing now stands at 16 percent compared to the 27 at the end of Q2.

Sakari Ahdekivi: Then we have also included here on the right-hand side of the slide, the maturity profile of our debt structure as it stands today. Mainly maturing in the years 25, 26, and 27, and you also see here the sources of funding. As said, cash flow remains strong. We've actually had now five quarters of positive cash flow generation, and in the third quarter, this was mainly supported by the strong profit impact. There was also a minimal positive impact from net working capital. Then as a note, our financing costs are very low, which of course supports the profit generation. Then finally, as a result of the continued solid business performance in Q3, we have now specified our guidance and estimate our comparable operating profit margin to be above 12 percent in 2024.

Sakari Ahdekivi: However, we are not expecting our profitability to improve sequentially in the fourth quarter compared to the third quarter this year. This completes my section of this presentation. We are ready for Q&A. I will invite Sami as well as Carina onto the stage with me.

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Sami Niiranen: Thank you. [Music].

Carina Geber-Teir: We are ready for the Q&A and handing it over to the operator.

Operator: 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.

Antti Kansanen: Good morning guys. It's Antti from SEB. Congrats on a great quarter, and a couple of questions for me, one by one. The first is on the equipment orders. It was the best number in a couple of quarters now despite Q3, usually being a bit seasonally weaker. Were there any specific timing impacts on any larger deals here? You're still talking about stable underlying demand. Any color on that front would be appreciated.

Sami Niiranen: Thank you for the question. Yes, when it comes to equipment orders, there is always timing. Timing matters, and of course, if you look back to the past five quarters, we have had a very stable, around 400 million order intake including equipment orders as well. This quarter we were happy and we are happy with our order intake, but the situation has not changed really drastically from the previous quarter for instance. The demand is stable as you can see on a couple of slides with operating hours as well as the market environment.

Antti Kansanen: Let me follow up.

Sakari Ahdekivi: Just to continue what Sami was saying. There's of course always an element of some orders falling into a certain quarter and that may cause some fluctuation between the quarters.

Antti Kansanen: Then maybe follow up on that, I wanted a little bit better to understand the backlog conversion. As you mentioned, the backlog is stabilizing, book-to-bill is close to one, and you have roughly eight months of sales on the equipment side of the backlog. Is it a fair assumption that if the demand is stable now, then any demand improvement would be reflected in your sales, not until maybe the back half of next year?

Sami Niiranen: I think it's a fair reflection and maybe repeating exactly the stable five quarters in the past. Our order book gives visibility for the next two to three quarters. We could estimate. I think it's quite a fair judgment.

Carina Geber-Teir: Of course, it depends on the mix a little bit because the lead times vary between three and 12 months. That's good to take into consideration.

Antti Kansanen: Noted. Then the second topic was on profitability and especially the margin expansion on services, quite strong both sequentially and year over year. Is there any mixed impact in play here or is it an underlying improvement? Also, you flagged that you don't expect margin expansion going into Q4. You've had margin expansion for a number of quarters despite any sales tailwinds. Why is this stalling for Q4?

Sami Niiranen: I think if I start with service, yes, we are quite happy with 18.3 percent profitability. Of course, the trend has continued now for the last couple of quarters. We have an improving trend with service profitability. It depends on the mix as well within the service segment, between the spare parts, sales service agreements, and so forth, but the trend is right. Of course, this is building up on our long-term work. It's just a quarter result of course, but for a long time we have been focusing on improving our service revenue as well as the profitability, and we are heading in the right direction there.

Sami Niiranen: Then when it comes to overall profitability, we specified and mentioned that the Q4, we are not expecting that to improve from Q3. It will be lower in profitability. That depends also on the mix. It might be the mix between the segments, equipment, and service. Then of course within the segments, within service, and as well as within equipment plus, of course, the regional distribution of our sales.

Antti Kansanen: Makes sense. Then the last one for me is to Sakari, a question on your net working capital levels and cash conversions where you are right now and looking perhaps for 12 months going forward. Are there any reasons to expect any drastic changes in either one of those?

Sakari Ahdekivi: I would say that, of course, to some extent it's volume related. If you look at the rotation of working capital, I would say that I don't expect a change in that. Then depending on how volumes develop, of course, in absolute terms, when you grow you tie up some more working capital, but there's no other change.

Antti Kansanen: The outlook is fairly stable for the next couple of quarters. Then the working capital to sales levels, there's no extraordinary in either direction right now where we are.

Sakari Ahdekivi: That's a fair assumption.

Antti Kansanen: That's all for me. Thank you very much.

Sakari Ahdekivi: Thank you. [Silence 00:23:00-00:23:04].

Operator: The next question comes from Panu Laitinmaki from Danske Bank. Please go ahead.

Panu Laitinmaki: Thank you. I have three questions. Just going back to the Q4 comment, you indicated that it's due to mix, but is it also due to volume? Do you expect Q4 revenue to be lower? Thank you three.

Sami Niiranen: I think there are several factors, and the mix definitely is one of the major ones. Then, of course, we try to perform as well as possible when it comes to our revenue generation. I think it's a result of many factors.

Panu Laitinmaki: Thanks. Then on the demand of the market outlook. Can you tell me about the North American destocking situation? It's been continuing for a year. What is the inventory situation? Do you have any visibility on how long that would continue? Is it over in Q4 or could that prevail also in 25?

Sami Niiranen: Good question. Of course, we are following our inventories and the dealer inventories on a monthly basis. We have a pretty good visibility on that. Then we are also following up on the operating hours as we could present today. The inventory levels have been decreasing. We can say that, but we don't expect a very quick recovery now in Q4 for the destocking. It will be prolonged to the end of this year at least. In Q1 at the beginning of next year, we are wiser on that situation. That's how we see it. The softening of the softer North American market really related to the distribution and customer segment has continued for quite a long time now.

Carina Geber-Teir: As some of you remember, this has really been prolonged from our communication previously. At that point, the situation has remained the same for quite some time already.

Panu Laitinmaki: Thank you. My final question is just on capital allocation. You have a pretty strong balance sheet already and good cash flow should make it even stronger. What are your thoughts on these dividends? What else could you do with the cash that you will get?

Sakari Ahdekivi: I'll take that one. I don't think we have anything new on that. I think what we've said before is that we want to support our strategy both in terms of sustainable innovation and growing services. It's on R&D spend. It's on things like Sami was talking about the test center now in Ljungby. Capital will be used to support our strategy. I think there's not much new to say about that.

Panu Laitinmaki: Thanks. [Silence 00:26:19-00:26:28].

Operator: The next question comes from Mikhail Dopol from Nordea. Please go ahead.

Mikhail Dopol: A couple of questions here. Coming back to the US dealer, in the inventories, you mentioned that you cover or follow those on a monthly basis. You have fairly good insights on where they are currently across your products. Just wondering if you could specify a bit about what you see now in terms of dealer inventories compared to normal levels across your products.

Sami Niiranen: The dealer inventories that we are following up regularly have been decreasing during the year. That's the trend that we have seen there, but still, it has not affected the software terminal tractor business in the North American market. Of course, we will continue following up on the order pipeline inventories, and activities in general. What we can say now is that this softening or destocking will continue at least up until the end of this year.

Mikhail Dopol: Let me rephrase. Do you see dealer inventories, how much higher are they today in percentage terms compared to historical averages for example? Does this only apply to the terminal tractors, or do you see dealer inventories elevated across some other products as well?

Sami Niiranen: I think the major impact has been on the terminal tractors definitely in that customer segment there. I don't have in my head now, the historical data on the inventory levels exactly, but if you look 12 months backward for the last year, of course, there is a reduction taking place also, but still we are not seeing ease up of this destocking during this year.

Mikhail Dopol: Would you say that this mainly relates to interest rates or what do you think will drive this down inventories?

Sami Niiranen: I think it goes a little bit back in history, a couple of two or three years post-pandemic when there were a lot of investments by the end in that particular distribution and customer segment. Then the dealers filled up their inventories and we produced machines with high volumes as well, when this chain reaction started to release. Then our customers had enough equipment, and our dealers had a high stock. We had a quite full production as well. That's what has continued during the last one and a half years. It's coming from the post-pandemic investment cycle.

Sami Niiranen: Then, of course, a particular feature in the North American and the US market specifically is that we have a high number of dealers there. There are three different players in the value chain.

Carina Geber-Teir: When we talk about terminal tractors, of course, they are less tailor-made to the end customers, than our heavy, for example, reach stackers and so forth. That's also part of the pattern that has happened in the past.

Mikhail Dopol: How big is the segment of your total portfolio?

Sami Niiranen: Excuse me. Can you please repeat your--

Mikhail Dopol: I'm just wondering when you mentioned the terminal tractors specifically, how big part of your total orders or sales does that represent on your equipment?

Sami Niiranen: What we are reporting on a quarterly basis is the segment split between our services and the equipment that you have seen today as well. We are not exactly opening up between different divisions internally when it comes to terminal tractors and counterbalance and so forth. What we can say, of course, is that the terminal tractors business is a very important business for Kalmar.

Sakari Ahdekivi: Then, of course, you can see the regional split in our secondary segment reporting. There you see the Americas region and especially in North America, of course, terminal tractors are a substantial piece of that.

Mikhail Dopol: Then my second question relates to demand overall. I was wondering if you could give a bit more color on what you see across the various segments and regions or what you saw basically in Q3 and what you see when you go into Q4. We've talked about terminal tractors in the US. We talked about the distribution segment being weak there but beyond that, if you think about other segments and regions, how would you describe the situation?

Sami Niiranen: I think overall, we have seen stable demand for last year and for this year. Then of course, the other end customer segments like ports and terminals performing well, but then heavy logistics are also performing well or stable, and then even manufacturing, despite some slowness in Europe, for instance. That has been performing well. Basically, the softening and the slowdown have been in the distribution and customer segments. When it comes to different regions. You can see in our order intake, for instance, that we have a very strong position in Europe as well as in EMEA, which has really grown. The weakness is on the North American side there.

Mikhail Dopol: Then finally on price versus cost, we can see that in the waterfall chart that you showed, there seems to be some clear benefits still flowing through from that. How do you expect this to trend going forward? Should we expect this benefit to fade into next year, with less of a margin tailwind or do you expect to be able to maintain this tailwind from this equation?

Sami Niiranen: If I start with pricing, we have done quite substantial pricing increases in the past two years. We don't see that continuing. We are at the normal pricing adjustment level nowadays. Nothing major in Q3 and nothing major in Q4 are expected either on that front. Of course, active pricing management is one of our strategic initiatives going forward in the long term and medium term. Then when it comes to the cost side, of course, we have a very high focus on sourcing activities, reducing and optimizing our product costs so that work continues as we speak. It's one part of the Driving Excellence Efficiency Improvement Initiative as well.

Mikhail Dopol: Then just a follow-up on the price commentary there, have you had to give up pricing on some segments in some regions given a tougher market, or would you say that you have kept your pricing or even raised your prices in Q3 and Q4?

Sami Niiranen: If I refer back to my previous comment, I know major substantial adjustments in any direction in Q3, have been pretty stable across the board.

Mikhail Dopol: That's all for me. Thank you very much for the answers.[Silence 00:34:23-00:34:30].

Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

Tomi Railo: Hello, it's Tomi from DNB. A couple of follow-ups. Maybe you can help us understand the pipeline situation and the talks. Of course, assuming that you had some good orders now booked for the third quarter are the left projects potentially for the fourth quarter? What is the reasonable assumption here that the activity is stable, but in order not to build too high expectations for the fourth quarter? Is it sensible to maybe deduct a little bit on the third quarter all the levels and take a little bit more on the average levels, and what you saw before the third quarter? Any comments on the pipeline activity and the fourth quarter?

Sami Niiranen: Good question. Yes, it has been very stable. I would say year-to-date and even for the past five quarters, as mentioned a couple of times already. We are moving around at 400 million order intake level per quarter. That has been the run rate. Then of course, when it comes to different quarters, there are timing effects as we have mentioned. Also, the quarters do not exactly look alike. Now this quarter, we happen to have a couple of more major orders, which some of them have reported in the presentation. That's how we see the situation. If you look at the market environment operating hours, I think it supports that picture as well.

Sami Niiranen: Then maybe referring back to our earlier comment on having a flatter market in 2024, and 2025, I think our order intake for the past quarters reflects well with that statement as well.

Tomi Railo: Still on the pipeline, do you see smaller, medium-sized, bigger prospects in the pipeline?

Sami Niiranen: Yes, smaller and medium-sized equipment year to date have been performing well, and then in different quarters, we have had some delayed decision-making in larger investment packages. Then the softening or softer North American terminal tractor market as well. That is mainly the picture, and when it comes to the pipeline customer activities, I think it's on a stable level as of today compared to the beginning of the year as well.

Carina Geber-Teir: As Sami already stated earlier on there, if you look at the geopolitical tensions in the world, that gives a little bit of unpredictability to the situation. That's why we also need to be cautious.

Tomi Railo: Then another follow-up. I didn't really get the clarity on their fourth-quarter volume sales assumption. Is that seasonality or delivery timings? Is it stable from the third quarter levels?

Sakari Ahdekivi: We haven't actually said--

Carina Geber-Teir: Seasonality is not really.

Sakari Ahdekivi: Seasonality is not something that impacts us very much. I don't think seasonality is a factor, but we haven't actually guided the sales. The indication is the profitability that we've alluded to.

Tomi Railo: Thank you. [Silence 00:38:17-00:38:22].

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Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

Tom Skogman: Hello, this is Tom from Carnegie. I think we have a bit of an uncertainty going into next year when it comes to margin expectations. I think it would be wise just to wipe out because now you say that the margin will be lower sequentially in Q4. What is happening to the order book margin compared to what you have delivered? You had a good quarter now, but is it so that you have to have exceptionally high margin orders that they have delivered this quarter?

Sami Niiranen: Thanks for the question. When it comes to Q4, of course, we talked about the mix effect within the segments as well as the regional distribution of the orders. There are many factors affecting Q4. Then when it comes to our order book, we are at around 900 million level there which gives visibility for the next two to three quarters. Then if you look backward, our order intake has been very stable at around 400 million per quarter level. I think that gives some indication of the previous quarters.

Tom Skogman: Sorry. The question was about the order book margin and how terminal factors, for instance, will be a smaller and smaller part of the order book. If the order book EBIT margin or sales margin is very different from what you have delivered this year, we know that you had exceptional price hikes in the aftermath of the pandemic. Now, it's been normal business, more and more quarters. I just wonder what is happening to the margin of the order book compared to what you have delivered so far this year.

Sami Niiranen: That's what I tried to explain a little bit on the mix and that effect of course, but in volume, our order book or intake level has been stable during the past quarters at around these 400 million. Then we can see the share of service sales in the overall revenue, which has increased over the last quarters as well, and it's now at 33 percent of our revenue. That has improved.

Tom Skogman: If there are some segments like terminal tractors where you are scared to have very low utilization ratios in certain factories or so, that will impact the margin negatively next year.

Sami Niiranen: Yes. I think different the different equipment they are operated in different ways, but I think overall we have a strong position in all kinds of equipment when it comes to different divisions. The portion of terminal tractors that we aim to be, is to be sustainably profitable with every single equipment type. Then it may vary between the divisions. How much are we selling terminal tractors, and how much are we selling some other machines?

Sakari Ahdekivi: We quite quickly adjust on the direct labor side. If we have lower delivery volumes. That's something we can do.

Tom Skogman: Then about electrification, that's 10 percent of your orders. Can you confirm that you are certain that you have at least this high market share in electric products in fossil engines?

Sami Niiranen: When it comes to the electric portfolio as well as our eco portfolio that we launched already back in 2017, we have been strong on that front, but we have been strong on the diesel engine equipment as well. I would say that across the portfolio, we have a strong share of the market as of today. We are very happy with the progress of the fully electric equipment so far and we are very happy with the eco portfolio. Our development especially, which is already 40 percent of our revenue.

Carina Geber-Teir: It's important to note that the fully electric equipment, when customers place the first time orders on fully electric equipment, is a long process before it comes from the decision to order for the customers because they need to redo their operations. There we see different kinds of sales ways to the customers than with the traditional diesel engines.

Tom Skogman: That pricing in electrical equipment makes you worried somehow that they would be cutting prices on electric products.

Sami Niiranen: That's of course, what we are following up on. What we have said in the past is that fully electric machines have up to two times the revenue versus the DSL equipment, but it's up to two times. It really depends on the portfolio and the type of machine there. There is a tendency of course, for price competitiveness or cost competitiveness on the electric side. That's why we are carefully following up. Then we have a high focus on product cost management as well. Lowering our product costs is as good as possible. That is part of the driving excellence initiatives as well.

Tom Skogman: Thank you. [Silence 00:44:31-00:44:39].

Operator: The next question comes from Andreas Koski from BNP Paribas Exane. Please go ahead.

Andreas Koski: Thank you and good morning. Can I come back to your comment about your expectation for the flat market in 2024, and 2025? Does that mean that you expect a stable order level of around 400 million also through 2025 or should we read that comment in another way?

Sami Niiranen: Again, if I start from the past and what we have delivered so far, we have had quite exactly €400 million per quarter order intake for the past five quarters. That's what we have seen with the sequentially stable demand and overall stable demand year to date. Then earlier, we indicated 2024, and 2025 being a flatter market. It's well in line with our current order intake that we have had during this year, for instance. That's what we say. Then now today we have provided you with a little bit more information on the market environment as well. Basically, splitting the market expectations for different customer segments, a quite interesting data which is showing moderate growth in the different segments.

Sami Niiranen: Then included the GDP as well. What we are also really carefully following up on is the operating hours of our equipment, which shows very stable development there during this year and during Q3. Now both year on year as well as quarter on quarter. We can see some highlights there in Asia, for instance, where the operating hours have increased a little bit more, but overall, it's a very stable demand picture that we have asset today.

Andreas Koski: Does that mean that you expect improvements in 2025 or I didn't get what you expect for 2025?

Sami Niiranen: I tried to look to the past and then refer to the extra information that we have provided today as well because it's not giving exactly our order intake or other numbers for the next year. That's where we are today. Then we have a high focus on performing as well as possible during this year as well as in the years to come. Then lifting our focus towards 2028. Of course, what we have confirmed today is that we are fully committed to our long-term targets of more than five percent annual growth over this cycle, as well as 15 percent profitability by 2028. The growth might not be linear. That's what we have also mentioned at some point.

Andreas Koski: Then on your revenue level. Your backlog is now down to 12 percent since the beginning of the year, and it looks like the book to bill in 2024 will be around 1493. Is it fair to assume that it will be difficult to grow topline in 2025 and that sales will also settle at the level of around 400 million per quarter? Thank you.

Sakari Ahdekivi: It's of course logical that when you have an order intake for several quarters of around 400 million and your delivery times are between three and 12 months. Then your orders and your sales will start to converge. I think the joker in the game there is then service, which we are working hard to grow, which is not a backlog-driven business. Other than that, I would say that of course, logically, that's how it works.

Andreas Koski: The last quick one, because if I go back and read annual reports et cetera container throughput has always been mentioned as a key driver for the demand of Kalmar's products and container throughput has been growing, say mid to high single-digit levels for a number of months or even quarters now. When do you think that will translate into stronger demand for your products? If that is the key driver for you still? Thank you.

Sami Niiranen: Thanks for the question. I think it's one of the key drivers because it's one of our main customer segments as well. There are timing effects. There are other factors as well when it comes to those larger investment orders, but I'm happy to have a couple of major orders already reported in Q3. There you can see some evidence on that side as well, in the ports and terminals in our reported orders during this quarter or the previous quarter.

Carina Geber-Teir: I said ports and terminals have been performing well. What we are trying to also convey is the message that there are other drivers not solely the container throughput, and taking that into consideration when looking at the total picture.

Andreas Koski: Thank you. [Silence 00:50:08-00:50:15].

Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen: Thanks. A couple of follow-ups for me. First, it's very helpful that you provide the connected fleet activity changes, but I wanted to better understand, how much it really varies. Where is an absolute term you feel that utilization rates are now? What I'm thinking is that is this something that would be a leading indicator then for the equipment demand in the sense that, do we need to see these numbers being materially higher for the next couple of quarters before we could be more convinced that perhaps the equipment demand is picking up as well. How should we understand the absolute levels and how much they can vary in your client's business?

Sami Niiranen: I think we have provided two indicators basically or timewise two indicators. We have a quarter-to-quarter or quarter and quarter comparison as well as a year and year. Of course, that gives quite a good flavor a little bit on the time perspective there as well. What we can see from today's report is the stability there, plus or minus something. No huge differences there, but of course if they start to become substantially more green numbers there and the operating hours will increase. It will either mean that there will be more service opportunities, or the customers start replacing the old equipment at some point as well. If we are on the red side with declining operating hours, of course, that is a bit concerning for the new equipment sales. I would say customers can still prolong the service intervals.

Carina Geber-Teir: I think it gives you an indication because we've been following these running hours for several years already. During the COVID pandemic, we could see changes, but also how stable it was in some regions. I think it's one indicator, but of course not the only one. `

Antti Kansanen: What I was trying to understand better, that is it's by nature always stable in the sense that your clients usually run the [crosstalk 00:52:28-00:52:29] not stable hours.

Carina Geber-Teir: Not necessary.

Sami Niiranen: We can see some details there with Asia for instance. It was not exactly zero. It was well positive there.

Antti Kansanen: Then the second question was on the equipment profitability. I just wanted to better make sure how big of a profitability difference there is within the equipment business. I'm not trying to get any exact numbers out of you, but the margin has been stable for a number of quarters. If you think about any realistic mix changes that can happen, how big of an impact can it actually have on the margins, all else equal your volumes and pricing and whatever stay the same. Is there a meaningful big margin difference?

Sami Niiranen: Of course, we are striving for sustainable profitability across the board, and the portfolio and we can say, no major differences between different divisions. We are on a good level in our portfolio, but of course, the mixed differences come when we are selling to different regions. We have different sizes of packages. We might have 26 machines, as we reported today, in one order versus a couple of machines package. Of course there differences might occur always depending on the mix of the equipment in that particular package or it will be. What we are really aiming at this is to offer Kalmar's solutions as well as possible, combined with aftermarket and combining all portfolios that we have in our company. We try to offer them a one-stop or total solution for our customers.

Antti Kansanen: Maybe just coming back to Tom's earlier question. The margin levels that you are running right now are very good. We have certain guidance from you on what the volume outlook is, but we just want to avoid that. You have benefited very much this year, whether in terms of mix or whether it is pricing versus cost, that everything seems to be fairly normal in a sense. Then what comes after this is your improvements organizationally and whatever happens with the volumes. There are not any specific mix or pricing-ish benefits that you would want to highlight for the last 12 months or 24 in general.

Sami Niiranen: No, but of course, we can highlight our fantastic continuous improvement work when it comes to pricing, active pricing management as well as product cost management. That is the work that will continue going forward as well. It's a vital part of our Driving Excellence Initiative.

Sakari Ahdekivi: Of course, now in Q3, the service improvement was a factor in driving up the overall margin.

Antti Kansanen: Thanks so much. [Silence 00:55:31-00:55:38].

Operator: The next question comes from Panu Laitinmaki from Danske Bank. Please go ahead.

Panu Laitinmaki: Thanks for taking my follow-up. I just wanted to ask about the US part strikes. Basically, two questions. One is that have you seen any impact on your demand from those? Then secondly, given the negotiations with the unions. If the ports would agree on limiting automation, would that have any impact on your plans to develop the autonomous terminal tractors?

Sami Niiranen: That's a good question. When it comes to the strike that was a couple of weeks ago, which didn't last very long this time yet at least. No impact on the demand in that phase. We prepared carefully for different scenarios. That didn't impact on the demand yet. When it comes to overall automation demand, if there will be more strikes, agreements, or negotiations between different parties, of course, that's what we need to follow up on. Then in the US, the country is large, and there are different areas. This was especially specific to the eastern part. I think overall, automation and the shift towards more intelligent solutions will continue, but there might be some side implications along the road.

Panu Laitinmaki: Thank you. [Silence 00:57:14-00:57:21].

Operator: As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. The next question comes from Tom Skogman from Carnegie. Please go ahead.

Tom Skogman: Hi, this is Tom again. I wonder about the US tariffs. I think you make only terminal tractors in the US, but I don't know how much local production there is of your other types of products. What impact will tariffs have and how high will they be in your type of products?

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Sami Niiranen: Our position in the US is strong with the factory terminal and tractor factory in Kansas Ottawa. Then we have a large comprehensive sourcing base as well as the whole dealer network there. I think it gives us a very good foundation for different market volatility as well. When it comes to possible tariffs, for instance, it's a little bit too early to draw conclusions on that one, but of course, we are preparing for different scenarios on that front as well. Not only on tariffs but different kinds of initiatives launched in the US as well, which might be beneficial related to environmental sustainability and so forth.

Tom Skogman: Can you update us on this tariff situation? I think there are tariffs if you import products from China, but there are no tariffs from Europe at the moment. What is the situation?

Carina Geber-Teir: I think it varies on product because then on some of the tariffs, there are also waivers depending on what products you have. You have to take that into consideration. It's early days to say, depending of course, on the future of the US, and that's why we need to monitor and follow the situation very closely.

Tom Skogman: There are no tariffs at all on your main products at the moment.

Sami Niiranen: We need to come back to that later.

Sakari Ahdekivi: Your competitors? Do they have local production of these large heavy forklift trucks? Kscranes and Stanley don't have but I don't know about these other ones.

Sami Niiranen: I wouldn't like to comment that on competitors either. What I can repeat is our strong position in the US with our terminal and tractor factory and the whole sales network that we have over there.

Tom Skogman: Then a totally different question, what type of products do your dealers typically sell? I think a big part of the dealers are like Caterpillar, Toyota, forklift truck dealers or so. Can you open up a bit more? What type of products do they usually sell?

Sami Niiranen: They do sell all kinds of products. If you now talk about the US specifically, of course, we do have terminal tractors there, we have counterbalanced products. Forklifts, reach stackers, empty container handlers, as well as large straddle carriers as well. The service part, spare parts, and service. That's what they are responsible for as well.

Tom Skogman: I'm more wondering what other type of products it is. Are they usually selling construction, equipment or light forklift trucks? Their volumes are high or what is a typical dealer? Do they have any adjacent product categories that you could be interested in acquiring at some point that they sell et cetera?

Sami Niiranen: It depends on the theory. It really varies between different types of dealerships. They do have their specific focus areas. There might be some heavy machinery equipment that they have in their portfolio. Of course, our intention and the target in color is to make sure that we will get the best possible attention for us with those dealers. Then let's say, maybe confirming our organic growth strategy that we have launched for 2028. We really focus on organic activities by growing services, focusing on R&D, and investing in sustainable innovation. M&A activities. We are following up on what's happening in the market, but they are not our priority asset today.

Tom Skogman: Then the final question details one to carry out the depreciation of intangible assets. Is all of that to be seen as PPAs or because I don't find a separation in the report?

Sakari Ahdekivi: Tom, let's come back to that.

Tom Skogman: Thank you.

Camilla Maikola: I have understood. We have no more questions. I want to thank you all for joining us today. We will get back during the end of this year with our Q4 earnings call and with the financial calendar for 2025. Thank you all. [Music].