Transcript

Cargotec Q1 2022 interim report

27 April 2022

PRESENTATION

Aki Vesikallio

Welcome to Cargotec's First Quarter Results Call. My name is Aki Vesikallio, I'm heading Cargotec's Investor Relations. Today's results will be presented by CEO, Mika Vehviläinen, and CFO, Mikko Puolakka. The presentation will be followed by a Q&A session.

In the first quarter, we saw solid profitability despite supply chain challenges. Some of the highlights in the quarter included our refocused strategy, which was announced on 30th March. We aim for higher financial performance through sustainability and profitable growth.

In the first quarter, excellent progress in services and in Hiab continued, although uncertainty on deliveries is expected to continue.

Please pay attention to the disclaimer in the presentation.

Going through the contents, so, first, Mika will cover the Group level developments and market environment as well as highlights from the refocused strategy. Then Mikko will go through the business areas and the financial development of the group.

With that, over to you, Mika.

Mika Vehviläinen

Thank you, Aki. Good afternoon from my behalf as well as thank you for joining the Cargotec Q1 2022 call. Quarter one 2022 was a quarter to remember for us in Cargotec. We saw a terrible war breaking out in Europe. We see the escalating COVID situation in China. We announced the cancellation of the merger with Konecranes. And then we announced a new refocused strategy for Cargotec. Against that backdrop, I have to say that I am quite satisfied with the performance in Cargotec. We had another very strong order quarter, exceeding, again, €1 billion orders, and the market remains strong in all of our segments.

Our revenues increased by 17% despite operational challenges that continued in our supply chain. And our comparable operating profit increased by 26%, really driven by the increases in the revenue.

Looking at the activity around the globe through our connected equipment, we saw very high utilisation rates continuing across our different segments and markets. We saw some slowdown in the Hiab sector in the US, really driven by the slowdown of the construction activity, although it still remains at a very high level. This is really driven primarily by the capacity limitations regarding the labour availability and the materials availability.

However, at the same time, we actually saw a record new housing starts in the US markets as well. So the underlying market remains to be strong.

Also, we are starting to see the impact of the COVID measures and lockdowns in China as well in equipment utilisation. We can get a lot of different insights and information regarding our equipment. And here is another example. This is looking at the Hiab loader crane operating times versus our expected modelled utilisation. So we actually have a lot of information available, and we can project where we would expect utilisation rates going. This is indexed information. 100 is actually the expected volume.

Interestingly, you can see from the chart that the activity level in Europe has been at a very high level over the projected material, except of course the Easter break that is very visible in the data. In the US, actually, the activity levels started somewhat at the slower level, probably due to the issues I discussed earlier about the construction activity. But we have seen actually the activity level picking up and actually exceeding the projected volumes, and also very visible that very clearly US Easter is not such a holiday as in Europe.

Market environment continues to be strong in all of our business segments and the container traffic continues to grow. We see continuing difficulties with the congestion in the port, and I'm sure that the current situation in Chinese ports due to the COVID restrictions is not helping out the situation, moving throughout this year.

We see a continuing high level of activity in the construction market. As I already said, we actually saw another record level of US housing starts happening again in the last quarter. In MacGregor, the market also remains to be strong. Clarkson is estimating a slight decline from last year, which was a very high year, with over 1,700 vessels, but the 1,300 vessels is still about double what we have seen in the previous years as well.

The decline is probably most due to the shipyard capacity starting to be quite full and the new build prices going up quite strongly as well. It's also good to note that the offshore activity is picking up. There's very clearly the change in the energy situation in Europe. For example, it's seeing increased activity again in the oil and gas sector and, of course, the renewable sector around offshore wind is remaining very strong.

As I said, another very strong order quarter and in our core businesses in Hiab and Kalmar mobile equipment, we saw further increase in our order intake. The MacGregor orders declined slightly from the previous year. Finally, last year we had a very strong service projects order in there. However, we see that the pipeline to be quite strong and already have seen an increased order activity during the Q2.

The strong order activity is obviously visible in our order book that is now exceeding €3 billion. About 80% of that order intake is in our core businesses in Hiab and Kalmar mobile equipment that, of course, sets us well for the coming quarters. Our lead times start to be close to 12 months at the moment and the order backlog now extends beyond 2022.

Despite a challenging operational environment, we saw actually revenues increasing and a lot of hard work has gone into that one. In certain areas, we actually have seen the component situation lightening up somewhat and a number of critical suppliers for our businesses actually decreased somewhat during Q1. However, while there is a progress happening in many areas, the war in Ukraine, together with the COVID situation in China, is casting quite a lot of doubt and uncertainty. And the visibility for the supply situation for the rest of the year is quite difficult and the situation remains to be quite fragile at the moment.

Very happy with our services business that continues to go from strength to strength and we had another great quarter, almost at a record level at the moment, and services actually improved and grew in all of our businesses, all together by 12%, being 33% of our total revenues.

A few words about the refocused strategy that we announced at the end of March. This is a great start for the new refocused strategy. In our new core focus businesses, our revenues actually increased by 23% and we had a comparable operating margin exceeding 10% in those businesses also during Q1.

As said, we will be focusing on higher financial performance, faster growth, leveraging our capabilities in sustainability and services. Our strategic direction remains the same, aiming for profitable growth and aiming at improving the sustainability in the logistics industries.

Again, to recap the strategy, we will further aim to accelerate the growth in Hiab. In Kalmar, we will be focusing towards the mobile solutions and selected number of product groups, and will exit the heavy port crane business. And we have also announced that we now are starting the evaluation of strategic options for MacGregor.

Our business will be highly focused on customers, supporting their operations through improving lifecycle services. We have significant opportunities to drive further growth in our services business, both in terms of quite clear self-help measures such as spare part capture rates, maintenance contract capture rates, etc., as well as more and more advanced services based on our technology and digitalisation.

We have a great starting point. Our market positions are very strong. We are either number one or a very strong number two in all of the core business areas. We have excellent high value brands in those areas and our technology position remains to be very strong. We keep on investing. And again, this quarter we increased our investments in our R&D, leveraging our capabilities, and driving for electrification, robotics and digitalisation.

The demand for eco-friendly and sustainable products is clearly increasing and a good example of that one was the 38% growth in our eco-portfolio during the Q1. Actually, if you exclude the Navis numbers from the Q1 last year, which is also classified as an eco-portfolio, the growth in our eco-portfolio during Q1 would have exceeded 60%.

What's happening next then? Again, the strategic evaluation of MacGregor business has started. We have appointed an investment bank to help us in evaluating the different options and we plan to exit the heavy crane business in Kalmar. We have put the business on hold now, we are not taking any further orders and we expect to come to a conclusion regarding which is the best way to exit that business by Q3 this year.

We keep reviewing the operational models to support the refocused group and what's the best way of setting up our operations, for example, at group level, to enable that one.

Our capital allocation priorities are around accelerating our M&A pipeline even further, continuing in investing in R&D around electrification, robotics and digitalisation, and maintaining a strong focus on mission climate actions.

Our current strategy is clearly getting traction. We are growing in adjacent businesses and markets and, as I already said, the eco-portfolio grew by 38% during Q1 and overall, our core businesses grew by about 23% in Q1. We will be solving our customers' problems around sustainability. Another good example of that one is the announcement of the first in the world electrified reachstacker coming out of Kalmar, and we already see a strong demand for that solution as well.

We are investing further in that one. Again, our electrified ranges expanding continuously, we being the first in the world in bringing to market truck mounted, electrified truck lifts, and we already have a third product coming out of that one. And one good example of actually the demand for that one, we announced a record order for electrified truck mounted in Europe, with a value of about €5 million. So, very clearly, we see across the borders, strong demand towards more sustainable solutions, and we are in a very strong position to pull through that demand as well through our technology offering and development.

With that one, I'd like to hand over to Mikko Puolakka who will cover the business areas. Thank you.

Mikko Puolakka

Thank you, Mika, and good afternoon also from my side. Let's start with Kalmar where we had quite nice development in the order intake. The core businesses, meaning the mobile equipment and straddle carriers as well as services, order intake increased compared to last year.

The heavy cranes, like Mika said, we have not been taking any new orders recently and heavy cranes orders declined compared to last year. It's also good to remember that we had Navis still in quarter one last year and excluding Navis orders from the comparison period, actually Kalmar orders would have been on last year's level.

Like Mika said, we have had good traction in the environmentally friendly solutions. 30% of our forklift orders were coming from the fully electric versions and we now sold also the world's first fully electric reachstacker to Norway.

As you can see from our order book, we are accumulating the order book due to the fact that the component availability in various component categories is very poor. And this is leading to extremely long lead times, extending beyond 12 months, especially in the terminal tractors. Our sales growth is coming from mobile equipment and services. And like in orders, also in sales, Navis was approximately €25 million in quarter one and excluding Navis, the Kalmar sales growth would have been 24%.

Despite the sales growth, Kalmar deliveries are still very much constrained by the limited availability of different components. Just to mention a few examples like axles, hydraulics, electrical components, wire harnesses.

Volume growth was the primary driver for Kalmar's profitability improvement and if we look to the core profitability of Kalmar, i.e. excluding the heavy cranes, the profitability would have been slightly above 10% in quarter one.

Then moving to Hiab where we had an excellent performance in all financial parameters. We had a couple of larger orders in quarter one, like the €25 million truckmounted forklift order in the US, as well as some orders coming from the German Rheinmetall deal which we did a couple of years ago.

Sustainability is very strongly on our customers' agenda, also in Hiab, like in Kalmar's case. And an example there are those fully electric, truckmounted forklift orders, including a five-year service contract.

Sales grew across all product categories, but especially in the loader cranes and demountables as well as in services. However, like in Kalmar, also in Hiab, the component shortages, as well as lack of truck chassis, are limiting our delivery capabilities and also leading in Hiab to extraordinarily high lead times and high order book.

Looking at Hiab's profitability, that improved significantly. And this is coming very much from the volume growth but also Hiab has executed a very rigorous cost control during quarter one.

When looking at MacGregor, despite the improved vessel contracting activity, the orders declined slightly. Some merchant special orders were postponed from quarter one to quarter two. We saw improvement in RoRo or merchant vessel orders however, especially in the RoRo segment, but then the offshore and services orders declined. Service order decline was because of the quite sizeable one-off type of service modernisation orders, one in quarter one last year.

MacGregor sales growth is very much driven by services as well as then the delivery of merchant vessel orders which we have won during 2021. Profitability for MacGregor was low, at break even. The merchant vessel profitability, as well as services, improved in this year's quarter one but unfortunately, still the off-shore projects were making losses in quarter one.

When looking at the overall picture, like Mika already illustrated, we have a very high, an extraordinarily high order book. The book-to-bill has been for Kalmar mobile equipment as well as for Hiab, already for several quarters, more than one. When we look at profitability, nice improvement in comparable operating profit, from €52 million to €65 million, primarily driven by higher sales.

We had €28 million items affecting comparability. The biggest items here are the €9 million related to the merger and then we did a €10 million impairment for Russian business-related assets in quarter one.

The full reported operating profit was €37 million, a 53% improvement, and we doubled our net income during quarter one from last year's level.

Cash flow was disappointing. The reasons are quite explainable. The €70 million negative cash flow is coming from the increase in inventories, mainly work in progress in Kalmar and in Hiab, due to the component availability. And then we have been increasing also our spare parts inventories, in order to support the growth in orders and sales that we have seen.

Our balance sheet has remained strong. Gearing was 38%. That has increased by 11% units from last year's level. Half of that increase is coming from the dividend payment – €70 million – what we did in March, and then the other half is coming from the working capital increase, primarily inventories. Our so-called committed liquidity is €650 million and on top of that, we have a €260 million credit facilities coming from commercial paper programmes and overdues. So our overall liquidity is $900 million, of course, giving a nice possibility for executing acquisitions if such become available. We don't have any major debt repayments coming before mid-2023.

And our guidance for 2022 is unchanged. We estimate the comparable operating profit to increase from last year's €232 million.

So, that concludes the presentation and we can move then to Q&A.

Aki Vesikallio

Thank you, Mikko, and thank you, Mika. So, operator, we are ready for the questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered.

So we have our first question from Massimiliano Severi from Credit Suisse. Please go ahead.

Massimiliano Severi

Yeah. Hi. Massimiliano from Credit Suisse. Thanks for taking my question. My first one would be on the margins in Hiab, clearly quite strong in Q1. And I was wondering, do you think that you can keep the margins stable or even maybe expand them year-on-year in 2022? Also, because from Q2 onwards, you will have the price increases that you did in July kicking in and while you will need to renew contracts with suppliers. So how should I think about margins in Hiab for 2022?

Mika Vehviläinen

I think the margin development in Hiab overall has been quite steady. We had a little misstep, if I use that word, in Q4 where we were expecting to be able to deliver more as we ramped up some of the related costs and that bit a little bit on that on the Q4 margin. But if you look at actually Q1 to Q3 last year and then you look at this, I think that gives a better reflection of the underlying performance for Hiab.

It is true that the pricing increases are coming through now and when we move into the second half. Obviously, a question mark at the moment is that the inflationary environment still remains there. We have executed now, or are in the process of executing another price increase now in April. And it’s quite likely that we will do another price increase later this year to exceed the inflationary expectations. But again, as we discussed, the environment and the visibility is pretty poor and the situation is quite fragile. So, obviously, we were hoping that we can maintain this level despite the uncertainties there.

Massimiliano Severi

Sure, thanks. And my second question would be on the perhaps delayed sales or delayed revenue recognition due to supply chain issues. So maybe both in terms of component availability issues, and the difficulty in shipping products due to ship availability. Can you help us quantify how much these were across the divisions in Q1?

Mikko Puolakka

In general, these delays have been, I would say, more or less at a similar level that we experienced in quarter four last year. We have not given a specific number but definitely we had the delays, especially in Kalmar mobile equipment as well as in Hiab during quarter one. The limiting factors are, like you said, multiple components and then also the availability of transportation and the long delivery times.

Massimiliano Severi

And so also the split between Kalmar and Hiab would be largely stable versus Q4?

Mikko Puolakka

More or less, more or less.

Massimiliano Severi

Okay. Perfect. Thank you very much.

Operator

We have another question from Magnus Kruber from UBS. Please go ahead.

Magnus Kruber

Hi, Mika, Mikko, Aki. Magnus here from UBS. A couple from me as well. I think in the last quarter you seemed a bit comfortable about your timing between price hikes and cost impacts. Do you feel the same confidence now after the surges in particular in steel prices in Q1? And could you comment a bit on the adjusted gross margin development in Q1 this year, compared to last year in income and Hiab please? And what to expect into Q2 there.

Mikko Puolakka

The component shortages are very similar. The sources or the component categories are very similar this quarter what we saw last quarter. And just to be quite open, like Mika said, the supply situation is very fragile at the moment. The Ukrainian war, I would say, for many companies, including ourselves, has not yet been that visible in the supply chain, in quarter one. And we are, of course, working very rigorously in the coming quarters to compensate any missing components due to this event, including also the Chinese COVID situation where basically the Shanghai port area, for example, is hugely congested at the moment. And it’s difficult to estimate what kind of impact that would have for the coming quarters’ component availability.

And then, what comes to the margin development in Kalmar, it’s very much coming from the higher revenues. We have grown our investments in R&D to support a sustainable solution. So, the main driver for the profitability growth is coming from higher volumes.

Magnus Kruber

Okay. When you say they're coming from higher volumes, is it fair to say then that the price cost impact in Q1 was largely neutral on the margins for both Kalmar and Hiab? Is that fair to say?

Mika Vehviläinen

That's probably an optimistic view on that one. Closer to neutral in Hiab, in Kalmar Q1 was quite difficult in a sense that the cost came in faster than the pricing implementation.

Overall, on that one, we expect that situation to start to neutralise as we move towards Q3 now. So the situation will be slightly better in Q2 than it was in Q1 and then should be better again on Q3. But then as you raised yourself, the question right now is around the inflationary pressures coming from the war in Ukraine. And I think we are will still be seeing the impacts that Chinese COVID lockdown, and I think the eventual spreading of the COVID in China will have there as well.

There is a delay on that one. The overall Ukrainian war situation of course has a primary impact on steel components. Overall, it has fairly limited impact on our businesses. The impact will only become visible during the Q2 and onwards. And when it comes to the Chinese COVID situation, most of the impacts for us will probably be indirect, not directly from our sourcing in China, which is somewhat limited in our manufacturing operations in Europe and in North America. But more likely coming through from our suppliers, supplies being impacted on that one. And my sense would be that that estimate will be more visible during the Q3 and Q4 rather than earlier.

Magnus Kruber

Okay, got it. Thanks a lot. That's useful. And then also on Hiab, very solid orders again in the quarter. And I think you commented that you held back on taking some orders there into Q4, due to lack of visibility on the cost side and availability of components. I suspect that was not the case maybe in the first quarter but has there been any impact from any pre-buys, anything like that, with respect to potential or planned price increases as you talked about? And also if you can comment on how April started, it's very useful.

Mika Vehviläinen

Yeah, I think, first of all, I always had this expectation throughout the whole last year that pre-buy, but every time we increase the prices, the next week and next month come and orders remain at a robust level as such. I think the one advantage we have had is that we were fairly early to react compared to some of our key competitors, and we did a number of more incremental price changes throughout the last year. I think the situation with some of our competitors is that they are now forced to contemplate considerably higher price increases in the short-term that puts them in a disadvantage in the eyes of the customer as well. And I think that, in that sense, that puts us in a fairly strong position in the market as well.

Mikko Puolakka

And then it's good to remember, as we had in quarter one, in Hiab, a couple of larger orders like the US €25 million order and in Europe for example, the Rheinmetall framework related orders.

Magnus Kruber

Perfect. Thank you so much.

Operator

So we have another question from Aurelio Calderon from Morgan Stanley. Please go ahead.

Aurelio Calderon

Hi, it's Aurelio from Morgan Stanley. Thanks for taking my questions. I've got three, if I may. I'll take them one at a time. The first one is around MacGregor and I think you mentioned that you still have the offshore business still making losses. Have you put any special provisions in this quarter, as you did last quarter, for those offshore projects? And what should we expect in terms of performance for that business going forward?

Mika Vehviläinen

Was it around heavy crane?

Mikko Puolakka

No, the MacGregor. We booked a couple of million euros extra costs on certain offshore-related projects in quarter one.

Aurelio Calderon

Okay, perfect. And maybe stepping back for that business, and given obviously that you have this process going on in the background, do you think a sale is likely in this environment? Or do you need to see an improvement in margins before you can sell this business to someone? Just curious to know what your potential avenues for actions of this business could be?

Mika Vehviläinen

Yeah, I think it's too early in the process to actually draw any conclusions on that one. We are just about to start the process and obviously, we need to evaluate the outlook and the different options we have. This is something that I think we need to get back to you later in this year.

Mikko Puolakka

But the low MacGregor profitability is very isolated to certain product categories – offshore wind-related products, so it's not across the business. The merchant business, like said, has improved, as well as the services.

Aurelio Calderon

Okay, great. And just one last question from my side. And obviously just touching again on the higher margins which were quite strong. Have you had any positive benefit from USD revaluation for the USD strength this quarter? Or has that not been major driver of the profit improvement and it's all being driven by volumes?

Mikko Puolakka

We have had some positive tailwind from the stronger US dollar. It's good to remember still that we have a fairly high, or very high order book and the hedges are based on these historical orders. So we see the appreciation of the US dollar with some delay as the lead times are quite long. But if you look overall Cargotec, with the kind of comparable currencies, and the US dollar and other currencies' appreciation has had roughly a 2.5% positive impact on sales and orders.

Aurelio Calderon

Great, thank you very much.

Operator

So, we have another question from Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason

Hi, it's Johan here. Just a question on your eco-portfolio in Kalmar mobile and Hiab. How does the margin profile look for these newer products versus your traditional hybrid or fully diesel-powered equipment that you are selling?

Mika Vehviläinen

It obviously varies from product to product and as the eco-portfolio includes other sustainable solutions than just the electrified portfolio. But generally, if I talk about electrified equipment, the price of the equipment is higher – in some cases considerably higher – than in the similar diesel equipment. And obviously, it depends a little bit how much battery power one puts into there. I would not say that the gross margins in terms of percentages are any better but obviously when you are dealing with a higher value of equipment, your absolute gross margin per product is typically higher than it would be in a similar diesel equipment.

Johan Eliason

Okay. And then, aftermarket is a core part of your profitability in what is your core business going forward, and I suppose these electrically powered products would typically generate less of a service opportunity going forward. How do you see that developing?

Mika Vehviläinen

Yeah, you're right in a sense that obviously less spare parts and generally less wear and tear on those ones, but there are also new requirements coming with the electrified portfolio. And if you saw the announcement for the €5 million order intake for example truck mounted forklift, it included a full-service coverage for those ones as well. And there are actually certain, just practical issues there as well because the high-powered electric equipment requires certain qualifications and training as well. So, not everybody is able to maintain those vehicles on their own. So that, at least in the short term, is an opportunity.

And overall, if you still look at our services business, our capture rates are relatively low still and we strongly believe that with the introduction of the electric equipment and general different technology, we can actually drive a higher capture rate in those equipment so, as such, it shouldn't impact as negatively the services business as one would expect. It's good to remember that some of the diesel powered equipment, spare parts actually are quite widely available from a number of different OEMs as well. That's not necessarily the case when you move towards electricity.

Johan Eliason

Okay, excellent. Many thanks.

Operator

So, we have no further questions. As a reminder, ladies and gentlemen, if you wish to ask a question, please dial 01 on your telephone keypad. And we have another question from Magnus Kruber from UBS. Please go ahead.

Magnus Kruber

Thanks for taking my follow-up. I just wanted to talk a little bit around the inventory level that you talked about. How do you see that pan out to the balance of the year?

Mikko Puolakka

Yeah, thanks for the good question and it's a really good question. It depends very much of course now from the coming months and quarters' supply, sub-contractor supply availability. Like we discussed earlier, for example, the Shanghai port congestion, what kind of impact that has. If the situation would remain stable, I believe we could improve, to a certain extent, inventory turnovers but there are quite many moving components at the moment in the supply chain. One could say that in quarter one, we still were able to deliver quite nicely with that capacity which was in the pipeline in the supply chain or even in our factories. But now in the coming quarters, we need to see how the deliveries are coming in from the various global supply chain networks.

Magnus Kruber

Got it. And then I want to talk a little bit about the offshore project in MacGregor. Could you be a little bit more specific on how much headwind you had from that and, assuming everything goes to plan, when that project will be wrapped up or finalised?

Mikko Puolakka

The biggest offshore project we are planning to deliver very late this year, and tests will happen early next year, so basically throughout the whole year is the execution phase of that project still.

Magnus Kruber

Okay, so the year-over-year weakness that we saw in the quarter was basically down to this project since the commercial vessels were pretty much improving. Is that fair to assume?

Mikko Puolakka

The profitability margin for this and a few other projects are on a very low level and we are recognising revenue for this low margin project that is burdening the offshore division profitability until the project has been completed. And that completion, based on the current estimation, will happen early next year.

Magnus Kruber

Okay, thank you. And just a final one on this overhang of equipment that was not able to be delivered due to supply chain constraints or component shortages: You said it was similar to Q4? That means, you haven't really been building anything additional? The situation is the same and overhang remains the same sequentially?

Mikko Puolakka

Yeah, all in all, of course, the situation is changing almost on a daily basis. The visibility to some suppliers' ability to deliver is fairly short so it can happen in some months that some delivery batches don't get the needed components and then it postpones to the following month. And that can happen even within these quarters. So, like Mika said, very fragile situation still.

Magnus Kruber

Got it. Perfect, thanks a lot. That's all from me.

Operator

So, we have another question from Massimiliano Severi from Credit Suisse. Please go ahead.

Massimiliano Severi

Yeah, hi, thanks for taking my follow-up. My first follow-up would be on MacGregor orders. I was wondering if you could maybe comment on why the lag between the container ship orders and MacGregor orders is currently being wider than usual. Usually, we spoke about nine months. We are seeing a little bit more than that. If you could maybe comment on this.

Mika Vehviläinen

Yeah, it's a good question. We generally say that it's 6 to 12 months and it looks like that's a lot closer to 12 months. It could be a number of different reasons. The ship yard capacity at the moment I think in China especially is that ships are built there, there are COVID issues that are restricting the activity at the moment. We have seen, as Mikko pointed out, the pipeline to increase and actually see already some solid evidence about the order development getting stronger in the Q2. So, we would expect this to be more visible during the Q2 already.

Massimiliano Severi

Okay, thanks. And my final one would be very shortly on the component availability issue, what you have seen so far in April versus Q1, if it's stable, or whether China has already started to be seen and it's getting slightly worse than during Q1?

Mika Vehviläinen

Yeah, I think the usual suspects are still continuing, with wire harnesses, some of the electric and hydraulic components as well. I would say that overall, if you look at the situation during 2021 and look at that list of the suppliers, the numbers of the critical suppliers has actually come down. So we have seen slight improvement happening overall in the supply chain within the traditional channels, if I use that word. I think the answer that comes now partly from Ukraine, although that impact will be quite limited to certain product areas in Cargotec, and I do not expect that to have a huge impact overall for us. But then the big question mark personally for me at the moment is the developing situation in China. There are some components we are getting directly to our supply chain into our manufacturing units in the US and Europe from China, but the bigger uncertainty relates to our suppliers' availability of their components coming from China. And I think those impacts probably will be more visible during the second half, and at this stage, it's just very, very difficult to predict how that situation will develop.

Massimiliano Severi

So, it's mainly because you already have the inventory that you needed to produce in Q2. This is more or less the idea?

Mika Vehviläinen

Yeah, to a great extent, we have components available but, of course, we do not have everything yet for quarter two deliveries. So if you miss some critical component in an equipment, we can't deliver it to a customer, it's not safe, it cannot be used. So, this is the challenge we are dealing with at the moment.

Massimiliano Severi

Yeah, of course. Thank you very much.

Operator

So, there are no further questions at this time. So, I give the call back to you. Thank you.

Aki Vesikallio

Thank you for the great questions and great answers. If you noticed, we actually published our updated finance calendar, and we will publish our second quarter results already on 20th July. So, stay tuned.