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CGCBV.HE - Q3 2024 Cargotec Corp Earnings Call

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## PRESENTATION

**Aki Vesikallio** - *Cargotec Corp - Vice President - Investor Relations*

Welcome to Cargotec's third quarter results call. The quarter was the seventh consecutive quarter with good results. My name is Aki Vesikallio. I'm from Cargotec's Investor Relations.

Today's results will be presented by Cargotec's CEO, Casimir Lindholm; Cargotec's and Hiab CFO, Mikko Puolakka; and Hiab's President, Scott Phillips.

After the presentations, there will be a Q&A session. Please also pay attention to the disclaimer in the presentation as we will be making forward-looking statements.

With that over to you, Casimir.

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**Casimir Lindholm** - *Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team*

Thank you, Aki and welcome also from my behalf to this webcast. We're looking at a really good Q3 from a Cargotec perspective and again, like Aki mentioned seventh quarter in a row with good and stable results.

Orders received increased in both businesses. We'll come back to that a bit later and we had a really strong operative performance, a strong profitability, and I would say exceptionally strong cash flow in the businesses. The sales process of MacGregor is progressing according to plan. We'll come back to that a bit later as well. And then we specify the outlook for Hiab by MacGregor for the full year.

So orders received increased in both businesses partly driven by postponements from the second quarter. Mr. Scott will come back to that a bit later, but all in all 14% up year on year and 16% then in Hiab and 12% in MacGregor. So all in all, we are very pleased with the performance regarding orders in the third quarter.

Looking at where we are from a orderbook perspective, strong quarters now, several of them in MacGregor, the order book has increased, we're above a billion in order book in MacGregor. So strong starting point towards not only '25 but also '26 and onwards.

In Hiab, the order book has normalized we are on a level where it used to be pre-COVID and we have a roughly five months order backlog going into the fourth quarter and then gradually into 2025.

The sales going in different directions here in the businesses. Of course MacGregor, now you can see the strong order intake also being shown on the sales side and in a similar fashion, Hiab trending a bit downwards. And again, we are coming towards the normalized levels.

And as we have referred to previously, the EUR370 million market regarding order is what we have seen now since Q4 2022 in Hiab. But now we can see that sales is also starting to stabilize in that area. Eco portfolio, no dramatic changes here either on a quite stable level also in Q3 '24.

Comparable operating profit on a very good level. Q3 normally is a bit softer compared to the other quarters. We are in holiday season, both in Europe and in US. But despite that strong performance by Hiab above 15% operating profit and also MacGregor showing a strong Q3. Despite that, we still have some loss making projects in offshore but serve a merchant performing on a really good level. And that means all in all Cargotec on almost 12% comparable operating profit for the quarter. So we are really happy and pleased with the performance overall.

Regarding the transition of Cargotec we are progressing according to plan. So when we announced the demerger and the separation of Kalmar April 27, 2023, from that day, it took us 14 months to list Kalmar and all in all 16 months to separate Kalmar totally from Cargotec. So this is work done. According to the plan, we had almost a year and a half ago. So really happy with the performance of our both our internal and external people have done a tremendous job in separating Kalmar. Only a few DSA's left towards the end of the year.

And at the same time, partly the same team started the preparations of the carve-out of MacGregor already in the spring. And that work is also progressing according to plan. So internally, a lot of good work done in both these areas.

Then regarding the MacGregor sales process, we have had some positive developments during October and we're targeting the signing of a deal by year end 2024. And, of course, we'll come back in this area as soon as we have something to communicate.

The carve-out preparations here again, proceeding according to plan. And we started that project internally early in the spring. Then regarding the valuation of MacGregor as such, there is roughly a percentage of fixed cost increase when we are moving towards the stand alone MacGregor, the way we see it now. We are strengthening the organization in the areas of, for example, Treasury and IT, so there will be an increase of roughly 1% when we look at the stand alone MacGregor. And then that's not a listed version of MacGregor. So maybe good to note.

And with that introduction, I'll give the word and the floor to Scott Phillips who will present the Q3 report for Hiab and then onwards Mikko Puolakka for MacGregor and for the Cargotec group. The floor is yours, Scott.

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Thank you, Casimir. All right, I'm having trouble here with the remote. So let's see if I can get that in order. So, hey, good morning, everyone and welcome to the Hiab' portion of today's earnings report.

The quarter's strong profitability was a reflection of the high quality execution of our plans by the entire Hiab team, so really proud of the job the team has done year-to-date and in the quarter. Three key points to note, our demand remained on a stable level for the eighth quarter in a row.

I will provide a bit more context in the next slide and Casimir, I think teed that up quite nicely earlier in terms of how to think about the quarter, we had excellent cash conversion of 160% in the quarter and we continue to innovate industry leading solutions, which I will highlight four on the last slide.

So going into the order intake, it was EUR361 million for the quarter representing a 16% increase versus prior year and pushed our year-to-date order intake to a level slightly above last year's first three quarters to EUR1.095 billion or 3% above prior year.

Our order book is EUR636 million or EUR264 million lower than last year's level, which is the 29% decline. And as mentioned before, we are back to a level of about five months' worth of coverage as a result of the order book, which is quite a normal level for us, if you think about pre-COVID level.

Our positive deviation can mostly be attributed to key orders that slipped into quarter three that we expected to convert in the previous quarters. So when adding the last two quarters order intake, we are well in line with our preceding quarters run rate. So the right way to think about is we're still on quite a stable level for the eighth quarter in a row.

We saw a slightly larger increase versus a comparable period in the Americas as compared to Europe and on quite a stable level in Asia Pacific. Within Europe, Germany continues to be quite a challenging market for us from a European perspective. We are still seeing a continued increase in activity level. But at the same time, we see a longer and longer process that's undertaken by our customers to make decisions.

The key driver for this continues to be the high level of financing costs combined with an expectation that they will be lower in the near future. So customers are still hesitant to make the purchase decisions. As a result, I'd say we're at a normalized level in our order book. And so therefore, that will characterize our level of revenues moving forward.

So as a result of this situation, our revenues for the quarter were 8% below last year's level of EUR420 million. Year-to-date, our revenues are also 8% below 2023 levels. Service sales remained quite as on a good level at EUR112 million versus EUR113 million in the comparable period from last year. But increased 200 basis points as a percent of our overall sales from 27% to 29%. We were somewhat impacted by the container congestion in the US due to the port strike.

So despite the reduction in revenues, we delivered a strong level of profit at EUR59 million or 15.3% in relative terms versus EUR62 million and 14.7% respectively during Q3 of 2023. The team continues to execute well on our sourcing and supply chain actions as well as a bit of help from price realization as well so the profit. And the combination of the good level of profit and the decline in our net working capital enabled a strong cash flow. So overall the results for the quarter were on quite a good level. So really pleased with that.

And then moving into our last slide for the Hiab portion, really pleased to announce or highlight four of our innovations within the quarter. The first of which is an eULTIMA hook lift. This is the world's first plug and play hook lift designed specifically for electric trucks built with sustainability in mind. The MULTILIFT eULTIMA is designed to deliver exceptional performance and efficiency, which clearly sets the industry standard. It features a seamless integration by utilizing the truck's electric power take-off for power, ensuring easy installation, and optimal performance with energy efficient controls.

And it's also made from MULTILIFT eULTIMA zero recycled fossil free emissions, free steel. This therefore reduces the production of carbon emissions by 15% as well as the active emissions by 25%. And we did this in partner with our trusted steel supplier partners. The second innovation I'd like to highlight is our iZ.18R recycling crane. This is a new recycling crane in a critical space for us, which is equipped with our latest and greatest control systems, which enable improved productivity and safer operations.

And the model signals an entry into the 18 to 19 ton meter market, offering a sturdy and resistant mechanical structure platform. So we think that the physics based outcomes that will be enabled by this crane will set a good standard for the industry.

The third innovation I'd like to highlight is our iQ.708 HIPRO crane. This offers a design that balances weight, lifting performance and dimensions that contribute to increased safety, valuable payload, increase, and expanding the range of truck installation options for customers.

The improved performance in an optimized frame regarding dimensions and weight allows for smoother operation and more productivity for our customers. It's also equipped with our latest control systems, which enable an increase in productivity and safer operations.

Then finally, I'd like to highlight the Talon, which is a versatile system designed with a focus on interoperability. It's capable of loading, unloading, and securely locking various in service payload modules for transportation. The system combines the functionality of in service products with the

latest advancements in automation and technology and offers a significant reduction in the cycle time of the overall duty cycle of this particular load handling solution system.

So really proud of the innovations that we've released to the market in the quarter and proud of the work that the team has done in delivering excellent results within the quarter.

So with that, I'd like to turn it over to Mikko. He will guide you through the rest of the presentation.

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

Thank you, Scott and good morning. Also from my side. Going then to MacGregor. So really nice progress in the MacGregor turnaround if we look at previous quarters. When we look at first MacGregor market activity, the merchant vessel market was really strong in quarter three.

According to the Clarksons Research, shipyards got now 1,723 merchant vessel orders during January, September 2024. And actually Clarkson has now upgraded the 2024 merchant vessel estimate by 17% to over 2,200 vessels. So markets especially in the merchant container and car carrier vessel areas are progressing really nicely. The shipping companies are now ordering container vessels, for example, to secure deliveries as the shipyards are fully booked until 2028.

Also in MacGregor's case, the service orders grew nicely in quarter three. MacGregor's orderbook is now over EUR1 billion and this provides a very good visibility to the coming year revenues as we go forward. It's good to note that from this orderbook -- from this EUR1 billion order book, 40% will be delivered in 2026 and later. So there is a quite a long delivery time from this current order book.

It's also good to note that out of this EUR1 billion orderbook, roughly EUR15 million of orders are anymore related to the lossmaking offshore wind projects and most of those projects will be delivered now in the latter part of 2024.

MacGregor's profitability improved significantly. Thanks to the growth in merchant vessel revenues and smaller losses in offshore. We continue to adjust the offshore cost base and we are currently planning to implement further headcount reductions still in 2024.

If we look the MacGregor profitability without the offshore business. MacGregor's quarter three comparable operating profit margin was 13.5%. So really strong performance as the restructuring actions have been really successful.

Let me next illustrate a couple of Cargotec consolidated financials. And again, as a reminder, these are the --Cargotec continuing business financials i.e. Hiab and MacGregor numbers both for this year's actuals as well as for the comparison period 2023. After nine months, our order intake is up by 10% year on year. This is mostly coming from MacGregor, which has been growing 22% during the first nine months. Hiab is also up by 3%.

Cargotec's year-to-date September sales was flat. MacGregor sales grew 20% and that growth has to a large extent offset Hiab's sales decline of 8%. However, despite flat sales, the nine month comparable operating profit improved significantly. In Hiab, it came from the commercial and sourcing actions, which have helped us to mitigate the inflationary pressures.

In MacGregor's case, the merchant business growth and the reduction of offshore losses have been the main contributors to MacGregor's profitability improvement. You see that we have incurred EUR34 million of items affecting comparability during the first nine months. EUR29 million of these are related to the quarter two happened pile gripper project settlement and the rest of the costs are related to the preparations for MacGregor becoming a standalone operations and for the sales preparations.

Our cash flow continued to develop a very favourably EUR148 million in quarter three and EUR411 million during the first nine months of 2024. The main drivers for the positive cash flow was the strong EBITDA in both business areas, reduction in accounts receivables, and then also inventory reduction, especially in Hiab.

In Hiab, the cash flow from operations was EUR100 million in quarter three. And as Scott mentioned, 160% cash conversion. As a result of strong profitability and cash flow, we have now a very, very solid balance sheet with EUR64 million of net cash and minus 5% gearing. This is the first time in Cargotec's history when we have a negative gearing. We have EUR125 million of bonds and other loans maturing in 2025 and we anticipate to repay those from the current cash balances. And our average interest rate on the interest bearing liabilities was 1.5% in September.

Based on the solid performance during January September as well as based on what we anticipate to book as a revenue from our order book during quarter four. And based on what we estimate for the fixed cost development for quarter four, we have decided to specify the outlooks for both business areas.

So for Hiab, we estimate the comparable operating profit margin to be above 14%. And for MacGregor comparable operating profit to be above EUR65 million. These are the floor levels for both BA profitabilities in 2024.

And by that, then I hand the microphone back to Aki for Q&A.

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**Aki Vesikallio** - Cargotec Corp - Vice President - Investor Relations

Thank you, Mikko. Thank you, Casimir and Scott. So please welcome back to the stage. And with that, we are ready for the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Antti Kansanen, Seb.

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**Antti Kansanen** - SEB AB - Analyst

It's Antti, Seb. A couple of questions from me. And let's start with Hiab. Just question on Scott, what you mentioned on orders slipping from second to third quarter. Are you now referring to the larger orders that you flag on the release or is it more like the underlying demand that there was a shift in those smaller orders as well?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah. Hey, good morning, Antti. And absolutely. The first, it was a consequence of a couple of large orders that slipped into Q3 from Q2.

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**Antti Kansanen** - SEB AB - Analyst

And then the second theme is the growth in the US or in America, which is I guess the best geography for you. How much is this the market strength or how much is this, you expanding your network in the states, which you have been talking about for some time? That that's maybe a longer term strategy, but is it playing out already?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah, largely it's with existing customers. So I'd say it's an underlying demand from the existing business.

At the same time, we've converted a couple of orders that weren't in our plan -- in our original planning as a consequence of the actions that we laid out in the CMD that we're taking in North America. So largely from existing underlying demand, a little bit of increased demand from expanding our access into new opportunities.

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**Antti Kansanen** - *SEB AB - Analyst*

Okay. And then the last one on Hiab. But I mean, I guess the demand is slightly uneven in terms of geographies or even product groups. So is this posing any additional challenges regarding cost base or about capacity utilization or I mean, you are referring Germany that it continues to be weak? Are you seeing any new needs to address the cost base or with the savings that you have already announced are we -- on a good level entering '25?

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Yeah, so far we see we're on a pretty good level entering into '25 relative to what we communicated the prior quarter with the cost savings actions we've taken into account the demand result that we saw in Q3. So far, I think we're positioned quite nicely.

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**Antti Kansanen** - *SEB AB - Analyst*

And then a couple of ones on MacGregor and now the first one is a bit a technical one. Regarding the backlog, how much is their service business within the backlog? Are you booking one quarter of sales or how should I think about it when I try to understand how much, let's say equipment revenues we should expect for the next five quarters?

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

There is roughly one quarter of sales in of revenue sales in the backlog. Spare parts, of course, they go fairly fast but approximately one quarter.

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**Antti Kansanen** - *SEB AB - Analyst*

So if we think about that, you are saying that there's roughly EUR630 million revenues for the next five quarters. It's Q4, it's total sales and then for '25 it's mainly equipment sales,

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

Correct.

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**Antti Kansanen** - *SEB AB - Analyst*

Okay. And then just a clarification on the increased cost level. Is this 1-percentage-point on MacGregor margin that we should think about that the impact is?

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

Yeah. That's basically -- MacGregor operating profit margin, yes, impact.

**Antti Kansanen** - SEB AB - Analyst

Okay. And the last one on MacGregor is something that Casimir, you said that there was a positive developments in October. I don't know if you want to expand that a little bit. I'm guessing probably not, but any further comments.

**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

Just that we are -- have approached the next phase of the sales process and again, we're coming back with any communication around that process as soon as possible and as soon as we have things ready, but targeting signing towards the end of the year.

**Operator**

Panu Laitinmäki, Danske Bank.

**Panu Laitinmäki** - Danske Bank A - Analyst

I have a couple of questions starting from MacGregor. Just to clarify, did you say that the margin without the project losses was or the offshore losses was 13.5% in Q3?

**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

Yeah. If we eliminate the offshore division result from MacGregor results, then the profitability would be 13.5% in quarter three.

**Aki Vesikallio** - Cargotec Corp - Vice President - Investor Relations

Yeah. 12% for the full year, year-to-date.

**Panu Laitinmäki** - Danske Bank A - Analyst

And then when -- how long do this continue? I mean, I thought that when you settle this big one in Q2, it would be lower in the loss side. But how does it look?

**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

Yeah. The offshore losses were approximately EUR6 million in quarter three. And the anticipation is that the losses are getting smaller going forward. And as mentioned, we are doing additional restructuring to eliminate the remaining losses.

**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

And I mean, most of the loss making products that we have left in the order backlog will be delivered this year. And a few of them in Q1 next year. And out of the totally more than EUR1 billion in order backlog, there's EUR15 million of loss making project still in offshore. So we are -- we're heading towards the end of the losses in the old projects in offshore.



**Panu Laitinmäki** - Danske Bank A - Analyst

And then just to clarify, I think you said like 1% fixed cost impact from MacGregor as when it's separated. So it is like 1-percentage-point of EBIT margin or how should we think of it?

**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

Yeah, it's the percentage point in EBIT margin. So if MacGregor would have for example, 13.5% without the offshore losses, then it would be a 12.5% with the stand alone cost. In MacGregor's case, we are not making MacGregor as standalone as a listed standalone Kalmar. We are preparing it for a potential divestment for a for a company, which has then other capabilities to run the rest of the listed company or group capabilities.

**Panu Laitinmäki** - Danske Bank A - Analyst

And then I still have one on Hiab. So coming back to the demand discussion. So you had like 16% growth in orders in Q3 and then it was negative in Q2. And you described that it's been stable for seven to eight quarters in a row. But like what are your expectations going forward is it going to continue being stable or do you expect this to improve Q4 or early '25 or what are you expecting? What are you seeing in the market?

**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yes, as mentioned before, I -- if you think about the key driver for the activity level being the higher financing cost, all of our solutions are ultimately financed. Given that there's an expectation in the market that in the near term there could be lower financing cost. We still see that driving a longer decision making time, which ultimately is impacting the overall demand picture in terms of order intake one. So therefore, I expect to see still a relatively stable level of demand moving forward. There aren't any indicators of movements either direction up or down.

**Panu Laitinmäki** - Danske Bank A - Analyst

Just to clarify, so you mean that customers are delaying the decisions because they see that the rates are coming down and they're waiting until they are down or not the direction that is encouraging them.

**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah, sorry, I'll clarify that. So as I mentioned earlier, the activity level from a quote perspective is still on a quite a high level. But what we are seeing is even the deals that we win the conversion from lead to order one is longer than it used to be. So therefore, that's why we characterize that as delayed decision making. That's still the case today.

Given that the banks both in Europe and the US have indicated there could be lower rate cuts in the following 12 month period. If you are financing a deal today, there's a risk that you finance it at a higher cost than you would, let's say 6 to '12 months from now. So that naturally is causing hesitation in pulling the trigger for a new order today and leads ultimately to customers continuing to sweat assets with an expectation of lower financing costs in the near term.

**Operator**

Tom Skogman, Carnegie.

**Tom Skogman** - *Carnegie Investment Bank AB - Analyst*

I wonder about the MacGregor merchant order book margin compared to what has been delivered. Is there any trend we should know about there?

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**Casimir Lindholm** - *Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team*

Well, thanks, Tom. I mean, we haven't communicated earlier what is the margin in the order book that we have for MacGregor. But of course, the market as such is very positive and we have been building the order backlog, not only for '25 but also for '26 and partly '27. So I think that's the main change to take into account that 40% of the order backlog is towards '26 and onwards. So I think that's the message and the strength in the order backlog of MacGregor.

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

In our merchant MacGregor merchant business, the margin has not been historically the issue, it has been the overall market has been just low. So I would say that the project margins today are on the same level as they have been in the past. The profit improvement is very much coming from the volume growth. Thanks to the 2.5 years strong order intake.

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**Aki Vesikallio** - *Cargotec Corp - Vice President - Investor Relations*

Casimir said earlier that there is only EUR15 million related to this loss making offshore projects left in the order book.

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**Casimir Lindholm** - *Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team*

Yeah. So from that perspective, you have -- you're totally right, Tom that totally including an offshore then of course, the margin in the order backlog is clearly better than historically. If you take in the order backlog from offshore into the game.

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**Tom Skogman** - *Carnegie Investment Bank AB - Analyst*

Yeah. I was just zooming in on the merchant because when delivery times get longer, they have a higher, certainty about everything and with delivery times getting extended, you should probably get some margin benefit, just because you always have risks when delivery times get extended. So I was just wondering about that (multiple speakers) there is no change.

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**Casimir Lindholm** - *Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team*

Yeah. I mean, of course, we are all the time now in a good and positive market striving, striving for better terms and conditions in MacGregor and especially in the merchant business. So that is of course the case but as such, we haven't communicated the margin levels except for then challenging projects in offshore.

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

Like we have had also in the past, the deals are hedged back to back. So when we quote to our customers, of course, we are also looking at the supply chain at the same time for the projects.

**Tom Skogman** - *Carnegie Investment Bank AB - Analyst*

And then I would like to ask about the Hiab. You have not said so much about customer behavior in different end market. So do you -- I guess the construction segment is the swing sector here. So what do you see, especially in things that go to construction and perhaps also consumer goods related stuff when we are at the end of this interest rate cycle.

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Yeah. So construction still remains challenging. Obviously, the most challenged areas in construction are Nordics, Germany. France still quite challenged. There's been a mixed picture in the Americas if you will still quite strong on the building materials sector, all of our customers that have reported and those that are yet to report so far, the results have been quite strong on their side. However, they're still being cautious because of the financing cost and managing the balance of asset utilization.

On the retail side, as you mentioned, Tom, it's a bit of a mixed picture but still holding up quite nicely. However, we keep a close eye on our large rental customers fleet utilization and that's been a bit cyclical up and down if you look back on the prior six month period. So we're keeping a close eye on that. More will be revealed in that sector, I'd say in Q4. So we'll keep a close eye on that.

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**Tom Skogman** - *Carnegie Investment Bank AB - Analyst*

And then finally about capital allocation that starts to be very important for investors to know how you think, you know that given you already have net cash and that, and you sell MacGregor, you will have loads of money in the balance sheet and of course, it's a Board decision but, but I guess you can still help us to understand how are you preparing to speed up acquisitions? What are you doing right now, before you get the money or should we expect large extra dividends instead? Or how do you think?

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**Casimir Lindholm** - *Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team*

I think in the broad context, we'll come back to all these questions as part of potential communication of MacGregor deal. And then latest, of course, in early February as part of the Q4. But all those elements are of course on the table both regarding the strong M&A strategy for Hiab and supporting that one of course, also the extra dividend and so forth are on the table in those discussions. But of course, first we are focusing fully on the sales process of MacGregor and then we'll come back to all these topics. Preparations, of course done in all these areas. And then at the end, it's a Board decision to bring some of these topics to the AGM in the spring.

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**Tom Skogman** - *Carnegie Investment Bank AB - Analyst*

But perhaps Scott could still give some feeling. What you're doing, screening for acquisitions, is it a different ambition level compared to one year ago, and how many cases do you study, or something?

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Yeah, thanks Tom for drilling into that. I'd go back to what we communicated during the CMD. Our areas of focus are still in the four attractive segments that we see growth potential over the next three to five years. From an organic perspective, we'll continue to double down our investments in facilitating and hopefully accelerating the energy transition to sustainability in our sector. We'll continue to invest in our services portfolio and the digitalization of our solutions that will help and aid in growing our services business to deliver better outcomes for customers.

We continue to have a focus that is guided by looking at M&A opportunities largely that are bolt ons that are logical for the spaces that we're exposed to. That are aligned to the attractive spaces and any opportunities for close adjacencies to the spaces we communicated in the CMD. And

so therefore, we remain active in continuing to manage and build the funnel of opportunities when the time is right to start to take action on those opportunities.

And all of which has to be aligned to our strategy, all of which we look for the opportunities that will provide a clear catalyst to increase our services opportunities and all of which will have to align us to markets in which we think we have a clear opportunity to lead or be closely leading in order to drive the technology standard for the industry that we're competing in and align to customers that really count on life cycle services to drive their productivity outcomes. Those are the areas where we know we compete the best.

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**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

And maybe on top of that, Tom. I mean, of course, we are as a company preparing ourselves for the future from one part is of course the carve-out that is ongoing that we started already in the spring regarding MacGregor so that we are ready as soon as possible. And then from a IMIT perspective, ready to support the growth journey for Hiab.

And of course, there's a lot of work done also within Hiab in improving processes and efficiencies so that when Hiab goes on the growth and M&A journey, then of course, it's easier to integrate businesses into common systems and processes going forward. So all that work is being done as we speak and we started that already a year ago. So that is also supporting the future of the growth in Hiab.

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**Operator**

Erkki Vesola, Inderes.

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**Erkki Vesola** - Inderes Oyj - Analyst

Erkki, Inderes. A couple of questions from me. First Scott regarding the postponements in higher borders from Q2, didn't have time to read the report line by line. So could you provide any ballpark figure regarding this?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah, the right way to think about it. If you look at our prior quarter's run rate, adjusting for seasonality, we're within a couple of percentage points if you add together Q2 and Q3 versus where we would expect to have been given the prior quarter's run rate. So the level of orders that slipped into Q2 we would have made for quite a repeat level of order intake for Q2 versus prior quarters. And then Q3 would have looked a bit more normal in terms of the 10% to 15% seasonality decrease that we see from the vacation period in most of our geographies in Europe.

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**Erkki Vesola** - Inderes Oyj - Analyst

So just on top of my head, it's anywhere between say EUR10 million to EUR20 million?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Roughly.

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**Erkki Vesola** - Inderes Oyj - Analyst

Okay, thanks. And then (multiple speakers) --

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

Yeah, it's good to remember. Also that like we announced, for example, in quarter three, we had the EUR16 million of defense orders, defense logistics related orders. And some of these orders as such, they do not necessarily repeat every quarter.

So like there has been also in the past the quarterly fluctuations. It has not been a dead man's brain curve, the order intake, but there has been this quarterly fluctuations and it's going to be also fluctuations going forward. But like Scott said, looking at the longer term, history, it has been on a -- on the average on the stable level.

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**Erkki Vesola** - *Inderes Oyj - Analyst*

And then you had quite a low group tax rate in Q3. What's the expectation for a full year? I mean, assuming that MacGregor will remain in your books until the end of the year?

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**Mikko Puolakka** - *Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team*

I would say that roughly 26% would be the proxy for the full year.

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**Erkki Vesola** - *Inderes Oyj - Analyst*

So clearly higher than what we saw in Q3.

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**Mikko Pelkonen**

That's the best estimation at the moment.

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**Operator**

Antti Kansanen, Seb.

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**Antti Kansanen** - *SEB AB - Analyst*

Thanks for the follow up opportunity. This is a question for Scott on the interest rate sensitivity in Hiab. I mean, you're not really selling big projects. So I wanted to better understand what portion of your clients actually is reliant on external funding. Is it the smaller players versus the larger fleet operators doing it -- funding it with an operating cash flow? And I mean, if the delay is more like that, clients are waiting to see what the level of lower rates is on the underlying businesses. I mean, construction seems really obvious one on that front. So maybe you can talk a little bit more about that.

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Yeah, for the most part. Thanks Antti for the follow up. But for the most part, all of our solutions are ultimately, finances are part of a bigger integrated solution. So whether it's a small client or a larger firm or a bigger account for us, ultimately, the deals are financed. Perhaps the defense logistics could be an exception to that one.

So just like we would do in our own personal lives, we're looking to renew the lease on our automobile now, versus perhaps the interest rates are going to be at a much better level next year, then the tendency would be to wait for that, whether it's extending the lease or just being able to delay that decision making until the time at which the financing cost will make the total acquisition costs much more attractive on a payback case basis that's driving the behavior in our -- in customer markets.

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**Antti Kansanen** - *SEB AB - Analyst*

So, I mean, it seems that your clients are the fleets are aging and they're sweating the assets. So assuming that there's at least a similar level of demand going into, let's say back half of next year, there should be quite a lot of pent up demand. Are you prepared from production point of view to match it or how is that?

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

If that's a lot of what our supply chain strategy is all about that we've been busy executing the last couple of years. The partnership with our suppliers continues to get better and better. We're well positioned in terms of our overall factory footprint and being located in a good position relative to the end markets that we serve. So there's always more work to do, but we feel like our level of resiliency in terms of our upside flexibility with regards to capacity is better than it was even a couple of years ago for sure.

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**Antti Kansanen** - *SEB AB - Analyst*

And then another one is the nature of the defense related business, is it in a sense you flag that it's -- it can fluctuate from quarter to quarter. So if the best expectations is that we're going to see this a fluctuation, but probably on a higher trending level in a sense that the budgets are coming up?

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Well, I think about it this way. The right way to think about it is the timing at which those convert is extremely difficult to call. So therefore, it's we're -- rarely 100% accurate in terms of timing. We make a good estimate and then often it can come earlier or it could come later. So therefore you see some of those deals slipping from quarter to quarter.

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**Operator**

Tomi Railo, DNB.

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**Tomi Railo** - *DNB Bank ASA - Analyst*

Tomi Railo, DNB. Still expanding a little bit on the end market, drivers of the orders in the quarter in Hiab. The orders up 16%. You announced a couple of the larger orders, for example, in construction, but just directionally where construction and infra orders up stable or down year on year. And maybe where were the pluses and minuses if you can comment the end markets direction.

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**Scott Phillips** - *Cargotec Corp - President of Hiab, Member of the Leadership Team*

Yeah. Thanks for the question, Tomi. Quite stable year over year. The markets that are most challenged are those that that I've talked about through earlier. So the Nordics continues to be quite challenged, France and Germany within Europe. It's slightly more positive in the Americas, in particular North America.

So that remains relatively stable year over year.

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**Tommi Railo** - DNB Bank ASA - Analyst

And how about waste and recycling, defense and other forestry, agriculture and (inaudible)

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah. Overall a bit of a mixed bag waste and recycling. I'd still say if you look at our year-to-date figures is still relatively stable. I think as I alluded to earlier, we're 3% up in order intake. So that's a good proxy for waste and recycling year over year. And then apologies, I think he asked about defense logistics. Again, I'd say it's relatively in line with the 3% up year over year.

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**Tommi Railo** - DNB Bank ASA - Analyst

Thank you. And then service sales were flat essentially in the quarter year on year. You wrote that the orders increased, any further comments on that increase and then the general customers mood activity in terms of servicing. What's your expectations also there?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah, I'd say in the quarter, we had a bit of seasonality effect that hit us harder slightly this year versus last year. We were also somewhat impacted by the container port strike perhaps a bit in the southeast part of the US with the weather events towards the end of the quarter as well. Fleet utilizations were slightly below our theoretical expectations both in Europe and the Americas. So a combination of those factors.

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**Operator**

Mikael Doepel, Nordea.

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**Mikael Doepel** - Nordea Bank - Analyst

A couple of questions on Hiab still here. Coming back to your call about the about the US market on the retail side. I didn't quite catch that. So if you just could repeat what you said about that, I think you talked about a mixed picture. You talked a bit about the utilization, you mentioned something about Q4. If you just could you repeat that please?

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**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah, absolutely. So thanks for the question, Mikael. So what I was alluding to there is that we keep close eye on the large rental fleet customers that we have. So think Ryder, Penske and others similar. Their fleet utilization has fluctuated. We've seen some prior months up, some down, we tend to get a batch amount of orders towards the either Q4 or Q1 of the following year. So over the next two quarters, we'll learn more about the picture of demand relative to that exposure and in particular in the Americas.

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**Mikael Doepel** - Nordea Bank - Analyst

All right. No, that's very clear. Thanks for that. And then just another one as well relating to pricing. Pricing in the, in the overall business in Hiab. I mean, how would you describe the current market dynamics from that point of view and expectations going into the final quarter of the year?

**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah. It's remarkably similar to the prior seven, eight quarters. We're certainly -- we all we are under constant price pressure. Customers -- given the high financing cost, the inflationary environment that they experienced, especially in '21 and '22. Each of those deals have been under tremendous price pressure. We have a strategy as I alluded to during the CMD where we target to have a positive net price change, that's positive year over year. And we've been able to achieve that from a mix of price change across the broader portfolio. So overall, it's still a similar environment today as it has been for nearly two years.

**Operator**

Panu Laitinmäki, Danske Bank.

**Panu Laitinmäki** - Danske Bank A - Analyst

Thanks for taking my follow up question. I wanted to ask about Hiab and the price costs tailwinds. I assume you're not quantifying it but if you think about Q3, was the input costs decline bigger than you had in Q2? And how do you expect this to continue? So basically the question is that how long do you expect to get a tailwind for your margins from good pricing and maybe lower raw material and component costs?

**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

Yeah. Thanks for the follow up, Panu. So it's relatively stable sequentially in terms of the contribution of cost versus price quarter to quarter. And of course, we just have visibility now to roughly five months of order book. So therefore that's really the visibility that we have relative to the contribution between price and cost. Beyond that, we can give a bit more color when we come back with the Q4 call.

**Panu Laitinmäki** - Danske Bank A - Analyst

Okay. But you wouldn't think that the orders that you are taking now would be having lower gross margin than the ones that you are delivering.

**Scott Phillips** - Cargotec Corp - President of Hiab, Member of the Leadership Team

We have -- we still have the same parameters in which we evaluate deals. So therefore we've got a fairly good visibility of what the gross margin picture would be in orders that we take today. And certainly we don't go after deals that would be illogical for us to pursue.

**Operator**

Tom Skogman, Carnegie.

**Tom Skogman** - Carnegie Investment Bank AB - Analyst

Yes, hi, this is Tom again. Reading what I've written here, I realized I don't fully understand this MacGregor margin, but you said 12% year to date, is that without the loss making offshore project or without offshore in total? Because part of the offshore business will remain, of course. So what -- I mean, what I want to understand, what is the margin for the continuing business basically.



**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

I would say that it's still clearly above 10% even for the remaining part of the offshore business. We have not gone into such details that we start to break down so much in detail, but like I said, the merchant business services without the entire offshore business, which has been still as a total loss making the quarter three margin was 13.5%. And if we would exclude the problematic projects MacGregor would have been also with those numbers clearly above 10%.

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**Tom Skogman** - Carnegie Investment Bank AB - Analyst

But the understanding is that what you're selling is including this -- the offshore business, which is not offshore wind related to understanding. So that will also be sold so --

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**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

Correct. That will be also sold. But as also mentioned, we have approximately 10 projects making roughly EUR15 million in the order book. And except for a couple of those projects, the rest will be delivered during this year.

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**Aki Vesikallio** - Cargotec Corp - Vice President - Investor Relations

Currently, most of the equipment business in MacGregor is related to the merchant.

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**Tom Skogman** - Carnegie Investment Bank AB - Analyst

What is the direction in the order book for this continuing offshore business? I mean that should also be on a in a growth mode, right? So the margin outlook should be better there for next year than for this year.

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**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

We haven't taken any new orders in the old project business since April 2023. So we are delivering on the old order backlog and then I think it's more a decision for a potential new owner to take a look at offshore that you want to play in that market or not. We have decided not to enter into new projects in offshore before we have full control of the old projects. And we exactly know what is the cost and what are the margins and what is the market ready to pay for these products and solutions? So again, we haven't taken any new orders in offshore since April 2023.

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**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

For new technologies,

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**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

New technologies. So again, I mean, so there is a profitable service business and there is a smaller profitable products and solutions business with within offshore repeatable business as such. But of course, from a size perspective, it's quite a small business these days.

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**Tom Skogman** - Carnegie Investment Bank AB - Analyst

Yeah, and how many people work in the offshore business in total?

**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

We are down roughly to above 150 people today, including the service technicians. So, it's a of course, a clearly smaller business today than compared to a couple of years ago.

**Tom Skogman** - Carnegie Investment Bank AB - Analyst

And the total offshore share of the order book, you said only EUR15 million for these loss making products. But the total figure?

**Mikko Puolakka** - Cargotec Corp - Executive Vice President, CFO, Member of the Leadership Team

The total number is around EUR70 million out of which EUR15 million are these loss making projects.

**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

So it's roughly between 5% and 10% of the total order backlog is offshore. So again, a quite small part of the business as such.

**Tom Skogman** - Carnegie Investment Bank AB - Analyst

And then finally given you have a very good visibility for MacGregor, what top line sales growth do you expect next year -- just in a range.

**Casimir Lindholm** - Cargotec Corp - President, Chief Executive Officer, Member of the Leadership Team

I think for the top line. And that's one reason why we came out now quite clearly with the fact that we have 40% of the order backlog goes into '26 and beyond. There are limitations regarding the shipyards and the shipyards are full. So now when we are taking new orders, they are then for production '26 and '27 mainly.

So in that sense, I mean, you can't expect that that the MacGregor top line will increase substantially going into '25. Because again, the shipyards are full, the capacity is full for '25, and we are to a large extent covering 2025 and again, 40% of the order backlog goes into '26 and beyond.

**Aki Vesikallio** - Cargotec Corp - Vice President - Investor Relations

Thank you, Tom. Thank you for the question. So it's one hour mark and time to conclude the session. So thank you for the great questions and great answers. We will be back with the result released next year and the exact dates will be communicated later during this year. Thank you. See you.

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