Q1 2025 Earnings Call

Company Participants

- Markus Blanka-Graff, Chief Financial Officer
- Stefan Paul, Chief Executive Officer

Other Participants

- Alexia Dogani, Analyst, JPMorgan
- Arthur Truslove, Analyst, Citi
- Cedar Ekblom, Analyst, Morgan Stanley
- Gian Marco Werro, Analyst, ZKB
- Marco Limite, Analyst, Barclays
- Michael Foeth, Analyst, Vontobel Grafik
- Muneeba Kayani, Analyst, Bank of America
- Sebastian Vogel, Analyst, UBS
- Uday Khanapurkar, Analyst, TD Cowen

Presentation

Operator

Ladies and gentlemen, welcome to the Q1 2025 Results Conference Call and Live Webcast. I'm Sandra, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Stefan Paul, CEO of Kuehne+Nagel. Please go ahead, sir.

Stefan Paul {BIO 19353883 <GO>}

Thank you very much, Sandra. Good afternoon, and welcome to the presentation of Kuehne+Nagel's first quarter 2025 financial results. I'm CEO, Stefan Paul, and once again, I'm joined today by our CFO, Markus Blanka-Graff.

Let's move to Page number 2, first quarter 2025 results. Market share up, profits up. In the first quarter of 2025, we made progress toward our strategic goal, which is to expand our market share with a close eye on profitability. Market share gains and improved yields drove 8% year-over-year growth in top-line gross profit and 7% uplift of EBIT. Sea and Air logistics alone delivered 12% year-over-year EBIT growth, excluding the first-time consolidation of IMC. The organic Sea and Air EBIT growth was also robust at 8% on the back of 5% gross profit growth. The combined organic Sea and Air conversion rate improved modestly to nearly 33%. This contributed to bottom-line EPS growth of 6% year-over-year or 4% on an organic basis.

Looking at cash, we have seen improved free cash conversion rates in recent quarters. That trend continued in Q1. The free cash conversion rate of 55% is well above the historical average for the first quarter, which is seasonally the weakest of the year. Working capital was the key contributor to this large positive year-on-year development.

Finally, the first quarter results once again demonstrate the value of adhering to our flexible light business model amidst market volatility.

Next is Slide number 3, Sea Logistics. Return to year-over-year volume growth. Sea Logistics EBIT rose by 7% year-over-year in Q1 to CHF210 million. On an organic basis, Q1 EBIT matched the prior year level of CHF197 million. Overall volumes were up 3% in the quarter, marking a return to year-over-year headline growth for the first time since Q1 2024.

Excluding the effects of deselected volumes, underlying growth was 6% year-over-year versus estimated market growth of 3%. This marks an acceleration of the underlying growth trend after 4% year-over-year in Q4 and 2% in Q3. This is an outcome of our continued effort to grow market share through a focus on customer proximity, network expansion, anchor trade lanes, and a stronger differentiated value proposition.

The average yield increased by 11% due in large part to the first-time consolidation of IMC, our U.S. drayage acquisition. Excluding IMC, our average yield of CHF497 per TEU was comparable year-over-year and up 7% sequentially versus Q4. The result was organic growth profit growth of 2% year-over-year or 15% including the contribution from IMC.

Turning to OpEx. Organic unit costs were flat year-on-year. This suggests an absolute cost increase in line with volume growth. Organic unit EBIT of CHF191 per TEU was down 3% year-over-year but up 6% sequentially versus Q4. This all translates to a conversion rate of 36% in Q1 or 38% on an organic basis versus 39% both last year in Q1 and Q4.

Lastly, IMC's contribution in the first quarter was in line with our expectations. IMC has made a positive earnings and cash flow contribution before any material synergies have been realized. As a reminder, IMC strengthens and differentiates the Sea Logistics value proposition. It also reduces the proportion of our cross-profit that is correlated with sea freight rates.

Next Slide number 4, Air Logistics. Better yields, better volumes year-over-year. Turning now to Air Logistics, Q1 EBIT totaled CHF116 million, a strong 23% improvement year-over-year. Volume growth of 5% in Q1 is unchanged from the year-over-year pace we reported for Q4. However, this does mark a shift to market share expansion. The overall market grew by an estimated 4% in Q1 versus roughly 9% in Q4.

Notably, e-commerce volumes appear to have been flat in the overall market in Q1, corresponding with what we saw in our network. Once again, OpEx and perishables were key volume growth drivers in Q1 alongside our focus growth verticals. Hard cargo volumes, excluding automotive, also grew year-over-year. Yields improved by 7% year-over-year to CHF85 per 100 kilo. This reflects broad-based improvement across our segments. The sequential decline of 4% largely speaks to the more highly seasonable development of Apex yields and marks a healthy improvement of the Kuehne yield excluding Apex from Q4 to Q1. This resulted in a year-over-year gross profit growth of 12% in Q1.

Looking at OpEx, unit costs expanded by 4% year-over-year and 1% sequentially versus Q4. However, gross profit grew faster, resulting in an 18% year-over-year increase in unit EBIT of CHF23 per 100 kilo. This translates to a conversion rate of 26% versus 24% last year and 30% in Q4.

Next is Road Logistics, Page number 5. Market headwinds persist. Road Logistics EBIT for Q1 was CHF19 million or down by 37% on the prior year result. This reflects a still challenging operating environment. Organic net turnover declined by 1% year-over-year, excluding the accretive contributions of our acquisitions, customs broker Farrow and road operator City Zone Express. We estimate that the overall market development was flat year-over-year.

On an order volume basis, growth in Q1 was 6% versus 8% in Q4 2024. Excluding acquisitions, the result was minus 4% year-over-year in Q1 versus minus 3% in Q4. The result on EBIT was further strained by year-on-year cost pressures resulting in a conversion rate of 6% in Q1 versus 9% last year.

Turning to Contract Logistics, Page number 6. Contract Logistics results as expected. Contract Logistics delivered EBIT of CHF57 million in Q1, a new all-time high for first quarter. This marks a 5% improvement on last year's result, excluding currency effects and continues the strong and consistent earnings growth trend. Constant currency net turnover growth of 5% compares to estimated market growth of 3%. Market share gains remain centered in healthcare and e-commerce. Our large Adidas Contract Logistics fulfillment hub in Northern Italy is nearly fully ramped up. The solid conversion rate of between 6% and 7% was stable year-over-year and is the product of a continuous focus on process reengineering and automation.

This concludes my comments on the performance of the business units. I will now turn to a brief strategic update mirroring some of my remarks from the recent Capital Markets Day on March 25.

On Page number 7, Roadmap 2026. The implementation of our Roadmap 2026 strategy is progressing well. Just to remind you, these are the four cornerstones. The Kuehne+Nagel experience initiatives aim at increasing customer satisfaction, while our employee experience is driving a high performance mindset that strengthens our customer service. Through the digital ecosystem, we are making better use of data and are further automating processes to make our organization more efficient and scalable. Living ESG includes our tangible solutions to support our customers' efforts to reduce their carbon emissions.

Finally, we had not fully capitalized on the opportunities within our market potential initiatives. To address that, we are now focused on market share gains and the Q1 results show early signs of our progress.

And with that, I will now hand over to Markus.

Markus Blanka-Graff {BIO 18467945 <GO>}

Thank you, Stefan. And also from my side, good afternoon, everyone. Thank you for your interest as always in Kuehne+Nagel and taking the time today for our first quarter 2025 results. As Stefan has mentioned, we hosted our Capital Markets Day just recently and outlined our strategy in great detail.

First quarter showed an increase in market share and yield expansion. We also delivered an unusually seasonally high free cash (inaudible) to which I will speak shortly. The current business environment is marked by the highest levels of uncertainty and volatility. Based on our experiences through countless economic cycles and periods of unforeseen volatility, we remain vigilant but we will not act hastily.

For now, let me start with a quick review on the first quarter 2025. On the income statement, we can see an improvement on every single line driven by both organic and inorganic growth. The organic growth has been driven by volume and yield expansion. That led to an overall earnings before tax improvement of CHF35 million or 9.5% for the first quarter. The combined Sea and Air freight conversion rate was 33% in Q1. The most important driver of inorganic growth was the acquisition of IMC which closed on January 4, 2025. Please also take note of the increased demand of non-controlling interest line due to the 51% ownership in IMC.

Currency effects have developed from an initial positive at the beginning of the year to a neutral effect as of the end of the quarter. Working capital remains at the top of the agenda and has increased by CHF132 million compared to last year. The major part of this increase, around CHF100 million, is attributable to the consolidation of IMC. This clearly shows that the rest of the business has been operated with only a modest increase of working capital. The expected release of working capital due to the reductions of charter activities in Apex has not taken place due to the fast-changing conditions in tariff policies.

DSO and DPO have both extended since the beginning of the year, so that we are looking at a similar spread between them of 3.3 days at the end of the quarter. Under these unusual trading conditions, we have exceeded the top end of our sell-side corridor. Excluding the IMC impact, the net working capital intensity would be at 4.9%.

Continuing with cash and free cash flow generation. In Q1, we reached a cash conversion rate close to 55%, in a quarter of seasonally lower cash conversion. However, the anticipated cash inflow from the reduction in charge activity has not yet occurred due to the ongoing activities in that operation, as I just mentioned.

For a better illustration, let me move on to the next slide. Looking more closely at free cash generation, once again, free cash flow conversion in Q1 was 55%, which is well above the historic average for first quarter, roughly 15% usually, and well above the prior year result. The bulk of the year-on-year improvement was from core networking capital, with contributions from all business units including a net inflow from Sea Logistics. While the current market outlook is uncertain, we anticipate typically strong annualized free cash flow generation for the coming quarters unless there are very large spikes in freight rates for demand.

Let me now come to our short-term outlook for the year 2025. Based on all our reliable information about future trends, we don't see a compelling reason to change the upper and lower bands of the EBIT range that we presented at our Capital Markets Day in March. Let me explain our rationale. The challenge with forecasting is not only that uncertainty is increasing, but that the level of uncertainty is fluctuating often from day to day. This shows up in the capital markets indices that measure uncertainty or volatility more accurately. Evaluating the upper and lower bands of our EBIT range requires a sufficient amount of information on the course of future trends. If not enough information is available to make reliable assumptions, it would be irresponsible to make any changes to the guidance. That leaves us with two options; we leave the guidance unadjusted or we suspend our guidance.

Leaving our guidance unadjusted, which we have done, is our expression of confidence that in the foreseeable future we do expect to have enough information, or at least a lower degree of uncertainty, to provide either a hard confirmation of the range or to adjust it.

With this, I would now like to close our prepared remarks with our key takeaways. In the first quarter 2025, we took market share and expanded yields in Sea and Air at the same time. We are closely monitoring the level of uncertainty and making frequent assessments. We focus on customer proximity to manage this uncertainty and make the right decisions. We are confident that in near future, we will be in the position to update our guidance, which remains unchanged for the moment.

With this, I want to thank you all for your participation and attention, and hand back to the operator to open the Q&A session.

Questions And Answers

Operator

Thank you, sir. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Uday Khanapurkar from TD Cowen. Please go ahead.

Q - Uday Khanapurkar {BIO 22947063 <GO>}

Hi, thanks. This is Uday on for Jason Seidl. Maybe starting with trade and all the disruption that's taking place. I guess we're hearing varied accounts of how customers are adapting, you know, some pulling forward volumes, some taking a wait-and-see I guess. Are you seeing any dominant patterns form and customers indicating anything maybe about how inventory levels are that might point, you know, to potential timing of a destock this year, and maybe any thoughts on cadence of sea volumes through the (inaudible)?

A - Stefan Paul {BIO 19353883 <GO>}

Uday, Stefan speaking. I take this first one. So, we have everything from a complete stop of the supply chain pattern to 30%, 40% less uplifts or less bookings from China into the U.S. So, there is no pattern to be seen from an overall market perspective. It varies a little bit from sector or vertical to vertical. So, certain verticals are rather stable. I would say high-tech semicon is stable, but this is more air freight. They continue to uplift. There is no change. The consumer vertical is slightly different [ph], so the large shippers have stopped or paused their bookings to a certain degree, and industrial is a mixed picture and automotive, anyway, was down already since certain quarters.

So, you can -- your question was do you see a pattern? No, we don't. It's various observation from different verticals, from different markets. But what you can clearly see is that the bookings out of China to the U.S. are going down significant since a couple of weeks. And we come to this most probably in the course of this call with more questions and we try to answer the trading pattern as well.

Q - Uday Khanapurkar {BIO 22947063 <GO>}

Okay, fair enough. Thanks. And then, I guess, as a follow-up, can you maybe remind us, I guess, what percent of your revenues comes from customs brokerage and maybe if there could be a benefit from the spike in trade complexity and I know you've been growing that as a standalone on the road piece and I understand that might be more kind of intra EU or intra North American than transcontinental, but just wondering how maybe a spike in customs duties might flow through on the sea and air side. Is it like one to one with the size of duties or any insight there would be helpful?

A - Stefan Paul {BIO 19353883 <GO>}

I would -- for this specific portion of customs clearance activities, we do not disclose any subsections of our business units. So, please understand that. But what I can say is that certainly activities have increased from a financial perspective, and I think that is important to note. On tariffs, we usually do not and usually means for the vast majority of customers we do not extend credit terms because that would just be not financeable if this is a word. And hence, we are remaining on the operational side where we facilitate and operate, in a highly efficient way, tariffs as far as they are levied for our customers.

And that productivity, as far as we can say at that point in time, we can clearly see an uptick.

Q - Uday Khanapurkar {BIO 22947063 <GO>}

Okay. Thank you for the time.

Operator

The next question comes from Muneeba Kayani from Bank of America. Please go ahead.

Q - Muneeba Kayani {BIO 15241083 <GO>}

Good afternoon. Thanks for taking my question. So, follow-up on the previous question. Can you give us a color on how that this activity that you talked about breaks out across the sea market and the air market? Is one doing better than the other? And just generally like the other follow-up from the previous question was, so if you could break it down in terms of volume trends that you've seen in the last couple of weeks and then also from a yields perspective, is directionally, is it benefiting -- are your yields benefiting from kind of the disruption that you've seen over the last couple of weeks? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Thank you for the question. Spot on, Muneeba. So what we see, let's start with sea freight, pretty much is overall as a slowdown of bookings out of China to the U.S., and the magnitude of, I would say currently this week, next week of 25% to 30%. This is almost equalized by an uptick in the other Asian markets and other trade lanes. So, what we currently see is that everything what is missing out of China will be to a certain degree, maybe not 100%, offset by other trade lanes. So, there is a clear shift into Southeast Asia. Whether it's one to one for the second quarter or there is a slight decrease in volumes, we cannot yet confirm. But the pattern shows that it's almost equal and the volume will not collapse. This is what we can see from the first three weeks in April.

Does that mean we have already a clear picture on the entire volume development for the second quarter? No, not yet. It's a little bit too early. We need most probably another three, four weeks in booking patterns in order to come back to this. Right? So all way -- almost, I would say a flattish development currently when it looks, when it -- when we talk about bookings and volume development in sea freight. So, there's not a collapse in the marketplace. That's the message.

The second message or the second focus is on air freight. Air freight is slightly different. Air freight is continuously strong in terms of bookings. It might be even that the second quarter will be stronger than the first quarter in terms of the volume is concerned. Yield, not yet foreseen how yield is going to develop. I would tentatively state that the yield in sea freight comes a bit under pressure more than in air freight. Air freight, I would -- if I compare first quarter with the second quarter is somehow flattish, right?

So to sum it up, flattish volumes in sea freight, very good trend in air freight continues with a high demand in the marketplace. And yield is a little bit overall too early to already give a guidance for the entire second quarter. So, it stays volatile as we speak.

Q - Muneeba Kayani {BIO 15241083 <GO>}

Thank you very much for that color. Super helpful. If I could just clarify your comment on air freight volumes, when you said that it could be a bit better than 1Q. Is that -- do you mean the kind of absolute volume in 2Q versus 1Q or is it the year-on-year trend being even better in 2Q?

A - Stefan Paul {BIO 19353883 <GO>}

I would say absolute volume in Q2 versus Q1.

Q - Muneeba Kayani {BIO 15241083 <GO>}

Thank you.

Operator

The next question comes from Cedar Ekblom from Morgan Stanley. Please go ahead.

Q - Cedar Ekblom {BIO 16687869 <GO>}

Thanks very much. I've just got a question on how to think about the impact from changing supply chain locations as it relates to yields. So, you're mentioning the fact that volumes out of China are down significantly, but that's being offset by volumes out of other Southeast Asian regions. Does that do anything to your yields? Is that helpful in terms of mix, potentially, because you need to be working harder for the customer in order to solve some of that supply chain disruption?

Secondly, is there any way to think about, when you talk to your customers, their ability to sort of substitute one for one, their China sourcing versus other region sourcing? I don't know if you can give a little bit of color on that in terms of how your customers are thinking about these challenges. Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

So, overall, when you talk about sea freight, let's stay with sea freight currently, right? Following up your question. Southeast Asia in general, from a yield perspective, it's normally a bit higher than China. So that is helping us. However, the overall market condition is different, right? Yield is softening, rates are softening. There's a lot of pressure in the marketplace in terms of the rate development is concerned. So, even if we would benefit, and we will benefit from higher freight rates out of Southeast Asia, we are not immune against the total market environment and the total market environment currently is putting a lot of pressure on the rate.

So, that is a little bit of -- that's the situation as on one hand side this is supporting us as a 3PL and in Kuehne+Nagel, but overall, we need to take as well the market conditions into consideration.

So, the second question was around how our customers are capable to substitute production or manufacturing locations one to one if they want?

Q - Cedar Ekblom {BIO 16687869 <GO>}

No, it's more around what conversations -- you've mentioned that volumes out of -- bookings out of China have slowed materially and that customers are looking to solve some of that problem by looking at other Southeast Asian nations. So, what I'm trying to understand is sort of the longevity of this shift, because if there is a view that they can really shift the supply chain quite quickly, then obviously it's a less bearish message for volumes than if this is just a very temporary solution and actually on a more medium-term basis without that China sort of flow or the bookings that actually the volume risk is to the downside. I'm surprised that the impact to your volumes is almost one for one right now, right? It sounds like you're not sort of talking down volumes at the moment. You're saying China's down a lot, but a lot of that is being offset by the regions and I'm surprised that it's that powerful out of other Southeast Asian nations. And I'm just trying to get a picture in terms of what you're hearing from your customers, that sort of one-for-one substitutability, how likely is that to actually persist?

A - Stefan Paul {BIO 19353883 <GO>}

It's too early to give a clear picture. But what we see is that customers are scaling existing vendors wherever possible. So, based on the pandemic, we had this China Plus One or China Plus Two philosophy and that is helping the customers quite a lot right now because quite a few have already production facilities and a large base of suppliers, not only in China as well in Southeast China, whether it's Vietnam, Malaysia, Philippines as well the subcontinent India. So, they leverage as much as they can the supplier base. I think it's a little bit more difficult for customers who have only production -- own production plants in China and less flexibility with suppliers. But what we see is the market is extremely flexible and you see a lift and shift towards the other Asian markets and other Asian countries quite quickly in both in air and in sea. But if that is a long-term trend and if that can be subsidized completely, I cannot answer the question. It's far too early. The only thing what we see is the booking pattern, and this is what I have just shared.

Q - Cedar Ekblom {BIO 16687869 <GO>}

Very helpful. Thank you so much.

Operator

The next question comes from Alexia Dogani from JPMorgan. Please go ahead.

Q - Alexia Dogani {BIO 16686359 <GO>}

Yeah, good afternoon. Thank you for taking my questions. Just firstly, can you give us a bit more color on the significant market share gains you've had in sea freight? What kind of sectors you're winning? Is it share of wallet? Is it completely new customers, new sectors? Just kind of to understand the endurance of those market share gains over the coming quarters.

And can I also just ask a clarification on your air freight comments in Q2. You expect kind of positive development despite the changes in de minimis that are coming in in early May. Just clarify that point if that's possible. And then finally, could you also give us a bit of an indication on the road? And you mentioned things remain relatively weak in that market. The German IFO was positive today. Do you see any signs of improvement there? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

I take the first one, the market share gains in sea freight which commodities or verticals, and increasing share or new customers. So, first of all, is both, is increasing share and new customers and it's particular in the consumer vertical, right. We are growing quite nicely. Our sea freight business in the largest vertical we operate is consumer. This is valid for both for SCL and for LCL. LCL is a very -- sees very good development right now. So it's consumer existing shares and particular new customers which has driven the positive development in the first quarter.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

The second one was to follow-up on the air freight volume and impact of de minimis. I think currently, and as we speak last week of April, I think until now air freight has seen still very strong volumes because of many uncertainties around terrorists. On the e-commerce part, when de minimis comes into force, which is more or less, then we do expect that there is going to be a certain drop in volumes clearly. But also on that side, that is a drop in volumes from Asia to the U.S. It doesn't mean e-commerce would not, you know, start to be very or start to be active or more active than today in other markets. Since we have -- since we are a global player, you know, that can help us certainly in other markets as well. And I think that is where, with all the caveat around what we know and I think that is where we were thinking about the flattish volume going forward.

A - Stefan Paul {BIO 19353883 <GO>}

I take the road question. So, the challenge or the problem statement, so to say, is still Germany and France, which are our core markets from an international road and domestic perspective, mainly in the domestic in France. And for Germany, we expect, due to the stimulus program, a positive trend but the impact will be seen earliest in Q3, maybe even later as of Q4. So, the market will not recover quickly even if we see a slightly better booking pattern, more volumes on a daily basis in April, but we should not estimate a significant change in the dynamics in the road market in Europe as it looks now.

Q - Alexia Dogani {BIO 16686359 <GO>}

Thank you. And can I just ask a follow-up on the market share gains? Obviously, you know, you're talking about the consumer vertical. Obviously, we have seen a bit of front loading ahead of tariffs. I mean, the consumer sector tends to be one that does the most. Would you say your ability to win market share has been influenced by the market backdrop, or do you think it's more structural and these consumer wins will stay in the base in the next couple of quarters?

A - Stefan Paul {BIO 19353883 <GO>}

So, when we talk market share gains, we always look at our pipeline and the hit rate we see on a rolling basis, right. And we quite still have seen now, since the end of the third quarter when we started to push market share gains, that the hit rate is going up. The assertiveness of how we deal with customers with the RFQ cycles and in particular SME customers. As mentioned, SME is close to 50% and we are gaining quite nicely still with the network expansion but as well with the focus on our field sales, we are gaining SME customers which is as well part of the market share gain. So, it's both and -- it's strategic and will stay longer as we can basically evaluate that right now.

Operator

The next question comes from Michael Foeth from Vontobel. Please go ahead.

Q - Michael Foeth

Yes. Thank you. Good afternoon. I have a question on whether you're seeing any bottlenecks or disruptions currently in your network. And, I guess, the question points to the sentence that you have written somewhere that if supply chain complexity would be reduced, then you would see gradual reduction of yields. Are you observing any or expecting any reduction in the complexity of trade currently, or is it rather the opposite?

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Hi, Michael, it's Markus. I think that was the answer to a hypothetical question that was asked, like what if all disruptions and everything would, let's say, turn back to square one? So, no tariffs, no Suez, no geopolitical risk zones. And I think this blue sky scenario with the current situation would potentially have a certain overcapacity in the markets, and overcapacity in the markets would potentially lead to a pressure, but has nothing to do with the current situation.

Q - Michael Foeth

Okay. So, any bottlenecks or disruptions you're seeing right now? I think some of your, you know, peers basically have even stopped some imports into the U.S. on customs bottlenecks. Do you think (multiple speakers)

A - Stefan Paul {BIO 19353883 <GO>}

Yeah, yeah, yeah. Okay. Stefan speaking. Michael, this is the parcel basically business, right? The private B2C or B2B parcel de minimis above 800 commercial value per parcel or higher, then -- this is, I think, what one of our competitors in Germany has stopped. So, from our perspective, there is no real bottleneck at the time, right? So, we don't see that for the time being but it might change.

Q - Michael Foeth

Okay. Thank you.

Operator

The next question comes from Arthur Truslove from Citi. Please go ahead.

Q - Arthur Truslove {BIO 22574895 <GO>}

Good afternoon. Thank you very much for taking my questions. First one from me, please. If you think about the gross profit per TEU in the sea freight division in Q1, are you able to give us an idea of how much this benefited from the reduction in freight rates that you saw? And, I guess, second question. Can you just give us an idea of how you're expecting gross profit per TEU to evolve in the second quarter, and indeed as we work through the year? Thank you very much.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Hi, Arthur. It's Markus. Good to hear you. So, I think, the development how we see it right now -- I think the impact from reduced freight rates in the first quarter, indeed, is absolutely minimal, if at all. So, there is no identifiable number I could give you of any meaningful size. What we said on the second quarter is, we assume going forward that there will be pressure on the rates and on the yields. So, I think there is a certain likelihood that pressure will be there in the second quarter. How it looks like Q3, Q4 or until the end of the year, we really have no reliable information to have any view on that right now.

Q - Arthur Truslove {BIO 22574895 <GO>}

Brilliant. Thank you very much. And second question. With air freight, how are the rates progressing? Have they really spiked as people rush to get trade into the U.S.?

A - Stefan Paul {BIO 19353883 <GO>}

I think what you see currently in the charter market out of Vietnam, some of these markets, right, Southeast Asia, where there's a lot of demand now shifting in from China into these other Asian markets, especially in the charter markets. Of course, the rates are spiking and you have to pay significantly more for getting your commodities or your cargo uplifted. You see that already. There's a clear yes.

Q - Arthur Truslove {BIO 22574895 <GO>}

Thank you very much.

Operator

The next question comes from Gian Marco Werro from ZKB. Please go ahead.

Q - Gian Marco Werro {BIO 20798220 <GO>}

Good afternoon, everyone. Two questions from my side. So, first of all, we already talked about the bookings from China into the U.S. and declining meaningful. Can you already say how it looks from Europe into U.S. and how European customers manage to find maybe alternative end markets?

And then the second question, can you maybe quickly elaborate on the non-current liabilities of over CHF660 [ph] million that you have now on your balance sheet? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Okay. Hi, Gian Marco, Stefan. So I will take the first one. So, what you see quite clearly is that some of our customers try to get as much as possible out within the next 90 days to the U.S. because there is still a certain uncertainty what is going to happen with the tariff structure after this grace period. And there is a certain demand. So, volumes are not spiking but not decreasing at all. So, I would say low single-digit higher demand than in the last couple of weeks and months. So, Europe Transpac is or transatlantic, sorry, Europe Transatlantic is quite active currently from a customer perspective in both sea and air.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

And Gian Marco on the non-current liability situation, I think this is the reclassification from the split from current, non-current on the put options from partners group as well as you have seen that we have acquired IMC 51%. There is also an element of this on the non-current liability part.

Q - Gian Marco Werro {BIO 20798220 <GO>}

Thank you, Markus. Can you split that for us somehow? How much is for IMC and how much for Apex?

A - Markus Blanka-Graff {BIO 18467945 <GO>}

I think we can do that if you contact Chris. The PPA is not concluded yet. As you know, we have a preliminary purchase price allocation done for the first quarter, which usually is fairly accurate, but if you contact Chris, he has the details.

Q - Gian Marco Werro {BIO 20798220 <GO>}

Thank you.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Sure.

Operator

The next question comes from Marco Limite from Barclays. Please go ahead.

Q - Marco Limite {BIO 20988128 <GO>}

Hi, good afternoon. Thanks for taking my question. A quick follow-up on your comment about volumes. So, you said air freight volumes may be slightly up versus Q1 in absolute terms. Just wondering if you can clarify your comment of flattish volumes in sea freight, whether that refers on a quarter-over-quarter basis or year-over-year basis.

My second question is on -- year-over-year, is it?

A - Stefan Paul {BIO 19353883 <GO>}

Yeah. Yeah. Quick, quick, quick answer, year-over-year.

Q - Marco Limite {BIO 20988128 <GO>}

Yeah. Okay, amazing. Thank you. Second question is on your gross profit per ton in air freight, that you are saying are, you know, going down slightly quarter-over-quarter. Can you just clarify why given that the underlying spot rates and the chartering rates are actually going up that doesn't mean that you are not able to pass through the higher cost of capacity.

And very quick third question if I may. When we think about Kuehne+Nagel exposure to China to the U.S., is Kuehne+Nagel, in general, equal weight versus the market or is less exposed than the market, and does that mean that Kuehne+Nagel is more exposed to other trade lanes that are actually growing faster? So you are getting market share because of the trade mix you have got. Thank you.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

So, Marco, let me take the question, the air freight GP per ton. I think there is a scenario clearly if the e-commerce volume would stop entirely because of de minimis or any other reasons, right? Then, there is that scenario in place that would certainly put pressure on the yields as well when all this capacity becomes available, right, in the market. So, that could be a short-term impact, or as I mentioned before, it would take a little bit of time obviously when the e-commerce other markets are picking up volume as well, but clearly we have to be also looking at a scenario where that volume is away or gets away very quickly.

A - Stefan Paul {BIO 19353883 <GO>}

And maybe on the exposure, right? So we know of course our market share and how much volume. Not the market share maybe, but the volume we are generating out of China to the rest of the world and to the U.S. I think we are less exposed on China versus Carrier Direct, the BCO business, and we have a better balance most probably or a quite healthy balance versus the other Asian markets. So, in other words, we are not completely dependent on the China trade lane to the U.S. So, even if that would further collapse, so to say, which we don't believe will, but just in case, it will have only a certain impact on our overall volume and profitability.

Q - Marco Limite {BIO 20988128 <GO>}

And do you disclose how much of your volumes are on the China today as trade lane?

A - Markus Blanka-Graff {BIO 18467945 <GO>}

No, we do not provide that detailed information.

Q - Marco Limite {BIO 20988128 <GO>}

Okay, thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Thank you.

Operator

The last question for today's call comes from Sebastian Vogel from UBS. Please go ahead.

Q - Sebastian Vogel {BIO 16903693 <GO>}

Good afternoon. In the past, you mentioned that you can get more out of the additional complexity that comes around with the current backdrop versus potentially lower volumes over time. Can you share a little bit your thoughts on where do you get this confidence from and is the confidence still applicable at the moment?

And the second thing is with regard to the industry consolidation that we have seen, did you or can you share some additional observations if you gained additional volumes out of that one already?

A - Stefan Paul {BIO 19353883 <GO>}

I will take the second one on the market consolidation, right? So, nothing new since the Capital Markets Day. So, there is no major shift. We have a lot of discussions with customers we have gained here and there, but not significant business. And this is not expected for the time being. I think this will only start potentially, right, depending on the integration, when is it going to get started. This will not start before summer this year, right? So, no change since we have seen each other a couple of weeks ago.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

And Sebastian, let me take the complexity versus volume question. I think just being descriptive for a moment, right? What we have talked about in this call now is we talked about ramp-up or upscaling of production in Southeast Asia sites versus China sites. So, we help our customers to facilitate that, to actually create that opportunity that upscaling is actually being done. And we have expanded our value chains. You know, IMC was the latest expansion of our value chain, where we can control and also create opportunities for our customers on the inland transport. Customs clearance. Customs clearance is --besides the clearance efforts and processes itself, it's the consultancy piece to it, you know, that customers are asking similar questions that probably all of us have in our head. You know, when a cargo hits the U.S. customs border today, what does it actually mean? What do I really have to pay or not to pay?

So, all these things -- and, I think, I mentioned in some of our communications today, you know, sometimes this is very important from a customer retention, from a customer value perspective, you know, because you remember as a customer when you're being helped in difficult situations. When everything is nice and dandy and blue sky, then, you know, there is less memorable moments, let's say. And I think that is something that we talk about, complexity and the value to it, right?

Q - Sebastian Vogel {BIO 16903693 <GO>}

Got it. Very clear. Many thanks.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would now like to turn the conference back over to Stefan Paul for any closing remarks.

A - Stefan Paul {BIO 19353883 <GO>}

Thank you very much for listening, and I think very much exciting times ahead of us and looking forward to see and meet you in the next couple of weeks and months to come. Thanks again and have a good remaining day.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.