S1 2026 Earnings Call

Company Participants

- Alireza Nemati, Chief AI and Innovation Officer
- Markus Blanka, Chief Financial Officer
- Stefan Paul, Chairman of the Management Board, Chief Executive Officer

Other Participants

- Alex Irving, Analyst, Bernstein
- Alexei Dugani, Analyst, JP Morgan
- Harishankar Ramamoorthy, Analyst, Deutsche Bank
- James Hollins, Analyst, BNP Paribas
- Kulwinder Rajpal, Analyst, Bader Europe
- Lars Heindorff, Analyst, Nordea
- Marc Zeck, Analyst, Kepler Cheuvreux
- Marco Limite, Analyst, Barclays
- Muneeba Kayani, Analyst, Bank of America
- Peter Ajose-Adeogun, Analyst, Morgan Stanley
- Sebastian Vogel, Analyst, UBS

Presentation

Operator

Ladies and gentlemen, welcome to the Kuehne+Nagel Management AG Q2 2026 Results Conference Call and Live Webcast. I am Valentina, the chorus call operator. I would like to remind you that all participants will be 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, Valentina. Good afternoon, and welcome to the presentation of Kuehne+Nagel second quarter 2026 financial results. I'm CEO, Stefan Paul, and I'm joined today by our CFO, Markus Blanka-Graff, and once again, our Chief AI and Innovation Officer, Alireza Nemati.

Let's go into page number two, half year 2026 results volume growth and cost control drive recurring EBIT momentum. Over the first half of the year, strong volume growth in Air Logistics and disciplined cost control across the group brought a steady improvement in reoccurring EBIT. In Q2, recurring EBIT rose to CHF381 million, an increase of 6% year-over-year and 24% sequentially, roughly double the typical seasonal gains.

There are several factors behind this momentum. Our cost reduction program first announced last October and largely underway by year end 2025, delivered savings of about CHF50 million over the first half, with a modest incremental uplift from Q1 to Q2. We expect this positive trend to accelerate in 4Q to an analyzed gross run rate of at least CHF200 million in savings by year end 2026. Discipline in cost control enhanced the profitability of the faster growing business units, notably air logistics. It also mitigated the effects of annual wage inflation concentrated in Q2 and the slow development of Sea Logistics volume. The net effect was a group conversion rate of 16.9% in the second quarter versus 14.6% in the first, and 16.2% in Q2 last year on a comparable basis, adjusting for the IMC reclassification. The combined sea and air conversion alone was 30.2% in Q2 versus 26.2% in Q1 and 28.1% last year in Q2, again on a comparable basis. Recurring group EPS in Q2 improved by 6% year-over-year or 11% excluding currency headwinds. Headline free cash flow generation in Q2 was roughly comparable to last year's, excluding disposal proceeds, there was a decline because of higher working capital outlays linked to growth, especially freighter based air freight.

Overall, we see continued evidence of market share expansion across multiple business units. Given the momentum in the first half and our expectations for the second, we are lifting our 2026 full-year recurring EBIT guidance. As usual, Markus will cover this in more detail shortly. He and Alireza will also present our AI update along with our expectations for material productivity improvements emerging in 2027.

Let us now turn to our performance by business Unit. Page number 3, we start with sea freight, as always, cost control drives further recovery of unit profitability -- left volume and GP per container unit and right, EBIT per container unit. In Sea Logistics, unit profitability recovered significantly for a second consecutive quarter, thanks to our cost reduction efforts and improved quarter-on-quarter volumes. Q2 volumes expanded by 8% Q-on-Q or in line with the average Q1 to Q2 uplift over the past five years. Year-over-year volumes declined by 1%. The situation with GCC is still a material drag on volumes.

European and North American import rates from Asia were robust in Q2, but countered by weak demand in backhaul trades to Asia. Our share of SME volumes rose to 52% in Q2 from 50% in the first quarter. EBIT in Q2 improved sequentially by 24% to CHF140 million, mostly due to cost management efforts. Volume growth and improved profitability at IMC also contributed to the increase. Year-over-year, EBIT declined by 6% excluding currency effects, mainly due to lower yields.

Average yields were stable Q-on-Q for the third consecutive quarter, in line with the expectations we shared during our last earning call. We anticipate a continuation of the solid trend in yield. The Sea Logistics conversion rate was 29% in Q2 versus 30% last year and 25% in Q1.

Next is Air Logistics on page number 4, strong EBIT growth driven by higher volumes and better mix. In Air Logistics, strong underlying volume growth, a beneficial shift in mix and ongoing cost control combined delivered a very robust EBIT improvement. Q2 volumes expanded by 13% Q-on-Q. This growth is well ahead of the average 9% sequential uplift over the past five years. Year-over-year, volume grew by 3% in Q2 despite a much tougher comparison of 9% last year. EBIT rose by 39% quarter-on-quarter to CHF154 million in Q2, a 42% increase year-over-year excluding currency headwinds. A very beneficial mix shift helped drive this EBITDA improvement.

We gained market share in higher yielding hard cargo segments, including the technology sector, while the contribution from lower yielding businesses like perishables and e-commerce declined. This positive mix shift is the main driver of better years, 8% better quarter-on-quarter and 10% year-over-year. The Air Logistics conversion rate was 31% in Q2 versus 26% last year and 27% in the first quarter this year.

Next is Road Logistics on page number 5. Headline EBIT Growth Accelerates on Market Share Gains. In Road Logistics, EBIT growth showed continued momentum in the first half, building on the signs of demand recovery we first highlighted in Q4 last year. The Q2 EBIT totaled to CHF36 million, a 29% improvement on last year on an organic basis, excluding currency headwinds of 7%. Net turnover grew by 16% year-over-year in the second quarter or 12% organically, both excluding currency headwinds. This marks a clear improvement on the respective 9% and 5% growth in Q1. These positive trends reinforce the view that Q4 marked an inflection point. We feel that the improved shipment volumes of recent quarters, results more from a market share gain than a recovery of underlying demand.

Demand for custom solutions remained firm, a consistent trend since Liberation Day in the second quarter last year. This was also the case for demand in the UAE in response to supply chain disruption from the conflict in the Middle East. And lastly, we now see signs of more robust demand emerging from the tech sector. This was Road Logistics.

Now let's move to page number 6. Our Contract Logistics business. Solid underlying profits with investments in growth. In Contract Logistics, recurring EBIT was solid on an underlying basis. Recurring EBIT totaled to CHF51 million in Q2, is 14% lower sequentially and 9% lower year-over-year excluding currency effects. This result reflects some additional cost due to new contracts going live in Q2, as well as investments in people and systems to meet growing demand as well here in the tech sector.

Net turnover grew by 4% year-over-year in Q2, excluding currency effects. This is roughly in line with the typical underlying growth of 5% over the previous four quarters. We saw continued market share gains once again across geographies and sectors. The conversion rate of 6% in the second quarter roughly matches the underlying prior year result. We are confident that the stable growth trajectory will continue as Contract Logistics currently has more than 30 new contracts in the implementation phase.

This concludes my comments on the performance of the business units, and I will now hand over to Alireza for an update on the progress of our AI initiatives.

Alireza Nemati

Thank you, Stefan. Since I spoke to you in March, we have continued to scale AI across the organization, with the goal of creating sustainable operating leverage. We currently expect AI integration to yield productivity gains of at least 5% across addressable bicolor workforce and significantly higher output per IT engineer, with material traction emerging in 2027. Winning the future in global logistics means using AI to manage complexity and increase shareholder and customer value.

We have built four advantages for exactly that purpose. Starting from the bottom of the slide. We own and control our proprietary cloud-based IT platform and have maintained our own TMS systems for decades. We have made our data AI ready. We are redesigning workflows with AI at the core, and we are equipping our people to scale adoption of AI. These mutually reinforcing advantages create a competitive mode that will help drive our future growth, margin expansion and differentiation.

Integrated data enables smarter workflows. Redesigned workflows free people for higher-value work. Engaged people build deeper customer relationships, and customer relationships not only generate the data that makes our AI models smarter, but also generate the revenue that will drive our profitable growth.

The benefits of our AI transformation will come from four areas of improvement -- operational, developer, individual and customer. These benefits will establish a doable and compelling value proposition for logistic customers. We're increasingly seeking partners who have successfully integrated AI into their own organization.

I will start with the operational benefits because that is where AI translates straight into better P&L performance and stronger customer relationships. Our efforts to centralize and standardize repetitive workflows are already having a positive effect across the group, and they lay the groundwork for AI-driven automation, with material traction expected in 2027.

In sales, AI has begun to generate customer briefings, automate meeting documentation and assist the contract review of incoming RFQs. Presently we expect a productivity increase of around 10%. In coding, we are increasing our daily capacity and customer responsiveness. AI is now processing standard spot codes, and automatically escalates complex cases for human review. In customer integration, we can now complete bespoke EDI and API connection in less than a day. This means we have started to onboard customers faster at a lower cost.

In our global services, we are using AI agents to progressively automate workflows end-to-end. This began with ticket handling, and will extend to route verification, document management and proof of delivery validation, just to mention a few. In shipment visibility, AI agents have started to verify transport milestones autonomously. This improves response time and eliminates manual follow up. In exception management, for temperature sensitive cargo, AI agents work around the clock, verifying compliance and shipment conditions across carriers and languages. This will enable us to focus on fast scalable intervention for high-value goods. Finally, in our warehouses, machine learning dynamically matches labor capacity to expected demand.

Beyond operational benefits, AI is also helping our development teams build and maintain higher quality software faster. A growing share of our code is now AI generated. We already deliver products significantly faster and expect to increase output per engineer over the course of 2027, improving our speed to meet market demand.

We are transitioning towards a state where AI orchestrates the entire software development process, while our engineers retain ultimate responsibility for validation, decision making and oversight. To increase individual productivity through AI, we are putting internal agents directly in the hands of a white-collar workforce, from top management to office employees. As with our other efforts, we expect to see first traction from these efficiencies over the course of 2027, although the monetary impact remains difficult to assess.

We have begun rolling out an enablement program that helps every level of the organization understand AI, trust it and use it to augment their own capabilities. As AI literacy rises, the same workforce can take more volume and more complex work, allowing us to grow without expanding our cost base at the same rate.

The benefits for our customers would also be significant. By integrating our AI directly with our customer systems, we become embedded in the operations, as we expand our strategic partnerships. Speed to market is paramount while the window of opportunity remains open. We have already started to evaluate the readiness of industrial and tech companies for this kind of partnerships.

As we co-develop AI capabilities with key customers, the integration deepens with every transaction and creates switching costs that competitors cannot easily replicate. For example, better predictive ETAs and proactive exception management enhances customer trust and the durability of our top line growth.

But let me turn to our cloud-based AI platform, which powers this transformation. Our proprietary platform gives us control over quality, cost, resilience and speed of deployment. This approach to AI integration is rare in a market where most of our peers depend on external vendors for their core TMS. Instead of every team building its own AI stack, our platform provides the shared infrastructure once, so teams solve business problems rather than rebuilding plumbing. And every new capability deploys enterprise wide at marginal cost.

Our core AI platform has three layers, again from the bottom of the slide. The foundation layer connects all our internal and external systems. The middle layer lets us ship new AI capabilities across the whole organization at speed by ourselves. No vendor negotiations, no integration queues. Importantly, this means we are not tied to any single model provider. We deploy whichever model is best for each task, and swap as the technology involves. At the top sits a single pane of glass, one access point that puts our AI agents into the tools our people already use every day.

So, let me close where I began. Our AI strategy is focused on creating sustainable operating leverage. This includes at least 5% productivity gains across our addressable bicolor workforce, and significantly higher output per engineer with material traction emerging in 2027. We are embedding AI as a core operating logic, not as a peripheral tool. It is a key enabler for future growth, margin expansion and competitive differentiation. With that, I'm happy to take your questions during the Q&A, and I will now hand over to Markus.

Markus Blanka {BIO 18467945 <GO>}

Thank you, Alireza. Good afternoon, all, and thank you for your continued interest in Kuehne+Nagel. I would like to start where Alireza left off with some additional details related to our AI initiatives. The initial traction we expect to deliver in 2027 relates to our core white collar workforce in Sea Logistics, Air Logistics and functional areas such as Sales, Finance, IT and HR. We are also working on use cases specific to Road and Contract Logistics, but the focus areas we highlight here are expected to deliver the first visible traction in 2027. On the left side of the slide, you can see four pie charts specifying the addressable workforce and the associated cost base. This is the scope for our short and mid-term opportunities. On a long-term basis, this picture may change to a larger population, and we will continue providing you updates on a half-year basis. The size of this white-collar workforce is just over 25,000 FTEs and represents a cost base of approximately CHF1.7 billion Swiss franc. That's roughly 35% of our total staff cost.

Based upon the initiatives that are underway, we see current scope of productivity improvement of at least 5%. Alternatively, a similar increase in business volume without cost increase. We project an annualized EBIT impact of CHF100 million to CHF150 million to be realized by the end of 2027. This estimate is based upon run rate, gross profit and staff costs in first half 2026, alongside the number of processed Sea and Air Logistics orders per FTE and gross profit per order. Let me emphasize that these values are based on current cost levels for AI services. If these costs were to change in the future, we will include this in our regular updates.

When it comes to technology, I'd like to emphasize the strategic advantage of TMS ownership and in-house development, as it should afford us greater speed and depth of AI deployment. Our initiatives to develop a broad-based AI literacy and effective use of co-pilots at the individual level is a critical foundation for all of our AI efforts. All our initiatives pay into better customer experience and service quality.

Lastly, we are assessing additional use cases including potential top line initiatives. We will update on these efforts when appropriate to do so. We will continuously assess the scope and provide our next detailed update no later than March 2027 alongside the presentation of our full-year results.

I would now like to turn to the regular review of our financial performance for first half year and second quarter of 2026. Looking at the income statement for the second quarter, I would like to describe the key drivers behind the year-over-year earnings development. First, we saw an inflection in year-over-year gross profit trends in Q2, with a return to growth led by Air Logistics volumes and yields. Second, a high proportion of these gross profit growth converted to recurring EBIT growth, supported by our cost reduction program, which provided about CHF50 million of savings over the first half year. And lastly, underlying EBIT growth was masked once again by a 6% foreign exchange translation headwind in Q2, as last year's result consolidated at a significantly stronger US dollar value.

Turning to working capital development, we saw the base increase to more than CHF1.6 billion over the past quarter, an increase of 6% reflective of strong sequential volume development as well as higher rates. However, the relative development improved with net working capital intensity declining from 6% at the close of the first quarter to 5.5% by midyear, back within our guidance corridor of 4.5% to 5.5%. This corresponds with a re-expansion of the spread between DSO and DPO to nearly three days. The CHF97 million increase of core working capital in the second quarter contrasts with the CHF86 million inflow during the same period last year. This primarily reflects the growth in air logistics supported by a large proportion of dedicated freighter services.

Now have a look at how this fits into overall free cash flow generation in Q2. In Q2, we produced CHF116 million of free cash flow including CHF40 million of cash proceeds from asset disposals which had no material P&L impact. This was offset somewhat by the cash outflows related to our cost reduction program.

For a closer look at the cash conversion, let me move on to the next slide. Here we see the usual comparison of free cash flow conversion in the most recent quarter versus historical average. What is new in this presentation is a focus on history since the first full year of APAC's consolidation, an event which changed the pattern of our free cash flow generation with a larger proportion of freighter-based air freight activities. The second quarter is typically the second weakest cash conversion quarter after Q1 with an average conversion rate of 54% since 2022. In the current second quarter, conversion was 28% or just above 30% excluding the effect of the cost reduction program outflows. The weaker relative conversion in Q2 is a product of high growth in airfreight volumes supported by dedicated freighters.

Looking forward, we expect a continuation of normal underlying free cash flow conversion trends over the coming quarters, and would highlight a long-term average of 90 plus percent conversion rate, heavily weighted to the second half of the year.

Turning to our financial guidance for 2026, we are raising both the lower and upper ends of our recurring EBIT guidance by CHF100 million and CHF150 million, respectively. This results in a new recurring EBIT guidance range of CHF1.35 billion to CHF1.55 billion. Our upgraded guidance for the year implies a stronger recurring EBIT result in the second half of the year versus the first half. This is in step with the historical average distribution of earnings power, given that peak demand is typically weighted to the back half of the year.

We continue to see global GDP growth, but with persistent uncertainty across geopolitics, macroeconomic policy and trade. Our cost reduction program is on track with a faster than anticipated start in Q1. I reported about that, and some incremental progress in Q2 to deliver approximately CHF50 million of savings so far. We expect a run rate in Q3 similar to that of the second quarter, with acceleration into 4Q. The target is unchanged with an annualized run rate of more than CHF200 million of gross savings and an impact of more than CHF120 million in 2026 alone.

Moving to currencies, in terms of currency translation headwinds, our financial guidance assumes no more than a 5% negative impact, with the bulk of this headwind in the first half. Our expectation for a 25% effective tax rate is unchanged. And one final note regarding capital structure, please remember that our long-term preference for a small net cash position remains unchanged.

That leads me to the key takeaways, namely, our unchanged strategic focus is on market-beating growth in targeted attractive sectors. Air Logistics is currently a key driver of profit growth, thanks to market share gains and attractive mix development. Yields in sea and air logistics remain stable respectively, significantly improved. Our cost reduction program is on track with continued confidence in targeted savings. We reiterate our expectation of material AI productivity gains emerging in 2027. Today we provided you with further details around specific initiatives and business areas that will contribute to this initial traction, with the scope of annualized EBIT impact by year end 2027 in the range of CHF100 million to CHF150 million.

Lastly, we are raising our full-year earnings guidance range for 2026 to CHF1.35 billion to CHF1.55 billion. With this, I want to thank you for your attention, and hand back to the operator to open the Q&A session.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from James Hollins from BNP Paribas. Please go ahead.

Q - James Hollins {BIO 16950317 <GO>}

Oh yeah, thanks very much. Just coming on the contract logistics side and the EBIT phasing there, clearly you flagged a lot of investments and new contracts starting in Q2. Is that kind of the peak headwind as it were this year? Or maybe should we be thinking about 3Q, Q4 seeing something similar I guess as a headwind to the overall divisional EBIT in 2026.

And then secondly, I see relative to the Q1 presentation, you removed the comment sea and air freight market demand growth in line with GDP at best. Am I reading too much into that? And is that I guess the uncertainty around that as why you've widened the range on full-year guidance. Thank you.

A - Markus Blanka {BIO 18467945 <GO>}

Hi James, this is Markus. Let me talk about contract logistics quickly. Q1, I think we call that also a non-recurring effect of CHF36 million that has obviously moved the first quarter result quite substantially going forward. Stefan has alluded to contract wins. Contract Logistics is a business that needs couple of weeks if not month to start implementing these businesses. Usually what we see is that as we speak back end of the second quarter and going into the third quarter, we have 300,000 square meters under implementation for various customers. So, you should see a bit of a startup cost situation which goes then into the third quarter and will see the first positive impact from the P&L in the fourth quarter. So, it's really a matter of growing the business in a contract logistics way.

A - Stefan Paul {BIO 19353883 <GO>}

Yeah. And I take, James, I take the second, Stefan speaking. I take the second question in terms of, first of all, is the GDP growth the 1.5 times GDP expectation still our focus, still our commitment? Yes, it is. We have seen a little bit of a dip in Sea Freight, but we remain confident that this is coming back. We have expectations on positive volume development for the third quarter and as well for the fourth quarter. And overall, most likely we will end up the year positive.

In Air Freight, there is a very strong demand still coming in, and that's the reason why we are rather confident to deliver the 1.5 times GDP growth in terms of volume in Air Freight on a constant basis. So hopefully, that answers your question on the uncertainty around 1.5 GDP growth. Yes, no, yes, is a clear yes.

Q - James Hollins {BIO 16950317 <GO>}

Thank you. Can you just confirm you're talking sea volumes expected to grow in Q3 and Q4.

A - Stefan Paul {BIO 19353883 <GO>}

Yes. Yes.

Q - James Hollins {BIO 16950317 <GO>}

Okay, cool. Lovely. Thanks a lot.

Operator

The next question comes from Alex Irving from Bernstein. Please go ahead.

Q - Alex Irving {BIO 19089987 <GO>}

Good afternoon. Two from me please, both on AI. First of all, thank you for the helpful detail. First question, why would you be able to hold onto any cost reduction from AI in the margin rather than using the cost advantage to take volume share? Second one, you highlight your advantages in deploying AI if you have full workflow ownership, TMS ownership, and clean data. But what scope do you see for third-party software vendors and AI startups to help other forwarders match your capabilities? In other words, is this a lasting structural moat, or is it merely a headstart as the rest of the market? Thank you.

A - Markus Blanka {BIO 18467945 <GO>}

Hi Alex, it's Markus. First question on the cost reduction. Spot on. You're absolutely right. I think, I'm a believer in when the cost benefits are being created, eventually they will move on to the customer's benefit, rightfully so, over time. So, you have benefits as a first mover, hence I think, Stefan's comments were clear. Our clear preference is to take on over proportionally more business with the existing, well-educated expert workforce rather than not growing or leaving some of the business opportunities on the table, and just chase cost opportunities that might transfer to the customer. So, answer is very clear. Preference of growing over proportionally to business with our experts than the second option.

A - Alireza Nemati

Hi Alex, this is Alireza. I will take the second one. As I mentioned, one of our strongest moats is that we have the in-house development as you rightly called out on the TMS and on a data layer that we currently have. There's a couple of plays that we're doing, that we're playing right now. One is that we're currently developing initiatives in-house, obviously, given that this space is moving so fast, we also partner with external companies and startups to either co-create together or utilize the latest technology and bake that entirely into our AI core stack. That is one of our biggest advantages so that we don't have to negotiate with third parties, and can straight implement the effective of the latest AI models right into our systems.

And when it comes to partnering up, it's obviously important for us to be more agnostic. Because, for example, it does not make sense to use a very expensive frontier to read a field in a database. Here we're looking at the latest modes that are currently available and can either use a small language model to do that, which is cost efficient and lower cost, or develop the technology in-house to exactly execute on that.

Q - Alex Irving {BIO 19089987 <GO>}

All right, thank you very much.

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. I have a follow up question on your estimate of under CHF250 million cost savings on AI. Shall we think about it as addition to EBIT, or in other words, how have you been factoring in your calculation also some pricing dilution, as most of the other freight forwarders we also try to implement some cost savings. So is the under CHF250 million net EBIT increase or that's just a cost gross of some possible pricing dilution, would be my first question.

And second question is on OpEx. There have been some headlines out there where you're suggesting or headlines suggesting a potential disposal of a 20% stake or an IPO. Can you just clarify what's going on there? Because clearly you bought OpEx, then you sold a minority stake, then the option was triggered, and now this headline. So, yeah, just while you're considering a disposal? Is there anything going wrong there? Or you just think that makes sense to crystallize value? Thank you.

A - Markus Blanka {BIO 18467945 <GO>}

Hi Marco, it's Markus. So, first the question on the CHF150 million and how they arrive into the EBIT line, and I think however you want to look at it, I can confirm that this is a gross amount at the current stage, and I'm emphasizing to gross because we are currently not 100% sure how the cost development of AI services will continue into 2027. But this is something we will see as we go into the year. But how it's going to get into the EBIT line can be different routes. One can be the straight-out cost reductions, manpower reductions, FTE reductions or alike, and the other one is again our preference growing the business. And we have assumed in our models that growing the business we would do at the current price, productivity and unit economics that we currently enjoy. So, it can be through both ways, clear in our mind is that the CHF100 million to CHF150 million will arrive at EBIT level. That's your view on -- you can probably look into this from a calculation or modeling perspective in both ways.

Apex, I can only say Apex continues to be our strategic investment is a massive growth opportunity and growth organization within the network of Kuehne+Nagel. I have also seen commentary out in the market but there is nothing that we could comment or confirm or make any statements around that other than Apex is a part of Kuehne+Nagel organization, and a very high valued growth machine for us.

A - Stefan Paul {BIO 19353883 <GO>}

Marco, let me -- it is Stefan speaking, and I think we have mentioned it already a couple of times since now almost two years we are leveraging Apex as well as our carrier. So, the Kuehne+Nagel legacy basically is using their expertise, their expertise in terms of the charter capacity and the operation which is managed out of Hong Kong. And this is as well an enabler, was an enabler and still is an enabler for significant growth in particular in the tech sector. So, this is an integral part of our business offering.

Operator

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

Q - Muneeba Kayani {BIO 15241083 <GO>}

Yes, good afternoon. Thanks for taking my questions. Just coming near term, I wanted to talk a little bit on what you're seeing in the ocean market right now. Do you think the strong demand we've seen was a pull forward, and you talked about volumes higher, growing year-on-year in ocean, and then just want to make sure how are you thinking about ocean yields in the third quarter at this point, and then secondly just on Contract Logistics. So, with this growth on the hyperscaler side, where do you see potential for the Contract Logistics business, and how much can it grow, not just this year but as you think about the next couple of years. Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Muneeba, thank you very much. This is Stefan. First of all, as we all know, we have seen strong demand coming into the second quarter, especially in the Transpac business, a lot of demand in Asia, especially China to the US and the benefit from, and this is the second question from a yield perspective, will be seen in the second quarter. So, the yield will go up. I have mentioned, I think, in the last two calls that we have started to focus pretty much on the new giants in China and on the prepaid market. We see already decent success, and that's the reason why my statement was made a couple of minutes ago that we expect a positive volume development for us, low single digit, of course, but positive development supported by the Chinese prepaid market into Europe but particularly the US when it comes to the Sea Freight. So overall rather or slightly positive in terms of the volume outlook driven by these trade lanes. And the yield will be higher going into the third quarter.

The hyperscaler question on the Contract Logistics side, we have mentioned, or maybe take it a little bit different spin here. We have started one and a half two years ago with airfreight first with the inbound legs to the US, then followed by the last mile the installation activities, leveraging our road business unit and then on some of the power lanes as well. Sea freight, and now, last but not least, but a very important aspect is the nomination of some of our customers, large customers, very large customers for the Contract Logistics business we have in implementation, roughly 300,000 square meters in the US which is brand new to us. The question was, is that to be replicated and what is ahead of us in terms of how many contracts do we believe we can gain in this marketplace? And I think this is the beginning. We expect that looking at the pipeline in the US and other markets for this tech hyperscaler marketplace, that the stickiness of our contract logistics organization and the capability now, including vendor management has been proven. And I have no doubts that we see more contracts coming in our way.

Operator

Thank you. The next question comes from Alexei Dugani from JP Morgan. Please go ahead.

Q - Alexei Dugani

Hi, good afternoon. Thank you for taking my questions. Just firstly, Markus, very helpfully you mentioned about the cost development of these AI tools. We're hearing kind of increased cost inflation for cloud, for tokens. Can you give us a sense of what the basic cost base is relevant for this kind of inflation trends, and how do you see kind of the evolution forward? That's one. And then secondly, if possible, can you give us a little bit of a sense of these CHF100 million to CHF150 million annualized gross savings by the end of '27, how they phase in, and do these give you confidence that basically the organization has enough levers to offset any potential kind of pressure on the Sea Logistics vanilla brokerage yield? Thanks.

A - Alireza Nemati

I can take the first question on the token side. This is Alireza. We can all see an ongoing public debate around the future cost of compute, especially around the AI deployment. But given the rapid pace of technology development, we emphasize the flexibility building our AI stack, and that our approach is model agnostic. This affords us to have the freedom to deploy wide range tools with varying capabilities cost that are best suited to the task. And I double click on the example I mentioned before. If you consider that you want to utilize AI for small tasks, it's not necessary to use the most expensive frontier models. Instead, you would focus on a so-called smart language model that could give you the same results at a lower cost base.

A - Stefan Paul {BIO 19353883 <GO>}

And I take the -- Alexei, I take the second question on the phasing. Practically, what we're looking at is where processes have been already standardized, automated to a certain extent. I think this would be the, or these are the first areas where we can see quick wins, I would call it, low-hanging fruits. Typically, these are already situations where we took some wage leverages from higher-cost countries into lower-cost countries. So, I would look at the phasing of -- look at the two pie charts that we have provided, that maybe from a pure FTE perspective, things are going to move a little bit earlier than on the cost side because they really -- the juicy, I would say, the juicy opportunities you have might actually only get into full scale in the second half of 2027. That's why we have a phasing that is, I would call it, backloaded in a very traditional sense.

Operator

Thank you. The next question comes from Kulwinder Rajpal from Bader Europe. Please go ahead.

Q - Kulwinder Rajpal {BIO 21949411 <GO>}

Hello. Good afternoon, everyone. So, two-part question on Road Logistics. Firstly, I wanted to understand how much of the EBIT growth in Road Logistics stemmed from you going from sea to road in the Middle East, because if I remember in the last quarter, we had 90% to 95% of EBIT coming from the base business in Europe, plus some growth in us. So wanted to understand how that's changed sequentially. And then when you talk about the emerging demand from tech sector within Road Logistics, is there any carry through from your other businesses that is translating into that demand on the roadside? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Yeah, Stefan speaking. So, no change to my statement during the Q1 call. The business in the Middle East is good and developing quite nicely, but it is far too small. So, 95% of the business is still again Europe, US and Asia. And even if we see growth based on the current situation, that is not moving the needle significantly on EBIT level. That's the first one.

The second one is I think what we need to understand and what we really push is the cross selling between the different business units. As I mentioned before, it's not only the inbound for the tech sector when it comes to air freight is as well, certain power lanes where we come in with our sea freight offering. In particular the last-mile opportunities leveraging our road business unit, and now last but not least, but very important vendor management and contract logistics capabilities with large warehouse operations coming in for us in the US So here you clearly see that we leverage all of four business units in order to support the customer end to end and we cross sell as much as we can between the different units in order to get a higher share from this industry.

Q - Kulwinder Rajpal {BIO 21949411 <GO>}

Okay, thank you Stefan. And just a quick clarification on volumes in air. Was there any element of pre ordering that you saw in air freight volumes and do you see that happening in your current discussions? Customers?

A - Stefan Paul {BIO 19353883 <GO>}

This is difficult. This is. You mean in techmos, probably right? So pre ordering, there was, there was a. So the second quarter was definitely strong and we had a discussion with some of you already. Is that front loading or is that sustainable in terms of restocking? I would, I would exclude the tech sector on that because the dynamic here is completely different. So I would not believe or we do not see that from a tech sector hyperscaler there is any shift in demand or softening in demand coming into the next couple of quarters. So I would say this is an ongoing high demand request from customers on the inbound flows.

Q - Kulwinder Rajpal {BIO 21949411 <GO>}

Thank you Stefan, super helpful.

Operator

The next question comes from Sebastian Vogel from UBS. Please go ahead.

Q - Sebastian Vogel {BIO 16903693 <GO>}

Hello and good afternoon. The first question is on the air volume side. You mentioned there's some positive volume growth ambition for the third quarter and second half. Is there any chance that you give a little bit more granularity what you have in mind there something like mid single digit up year over year or something in that direction? The second question is on the seaside. Of course there is additional containership capacity coming into the market over the second half and also beyond, is that in your understanding a risk to rates over time or do you see that can be used by incremental demand or there is more scrapping or what's your thoughts there?

A - Stefan Paul {BIO 19353883 <GO>}

I take the second, Sebastian. So, this is an ongoing debate, right? Since now more than a year, is the additional capacity larger than the incoming or substituting the incoming demand from customers so far. I would say with all the disruptions we see in the Middle East, the shortage of boxes, steel boxes in Asia, the high demand in Asia, I would not basically bet on that. There is a significant change of rates. Of course, the volume demand is cooling down a little bit right now, but I would not say this is a shift, and I do not yet see that the additional capacity coming in the second half will change the picture significantly.

A - Markus Blanka {BIO 18467945 <GO>}

And on the Air Freight side, I think yes, we have higher growth in percentages than in the second half. But I think what we should also see is air freight has typical seasonality. The third quarter is a bit of a lower quarter. I think that seasonality still holds true. So, I would phase if I was to look into that still into a very solid growth continuation and good performance into the second quarter with maybe relative stronger fourth quarter.

Q - Kulwinder Rajpal {BIO 21949411 <GO>}

Thanks.

A - Stefan Paul {BIO 19353883 <GO>}

Just to one figure maybe, right. I've forgotten to mention, right. The congestion and the disruption currently is observing or taking 70% of the global sea freight capacity out of the market. So just to give a little bit of a flavor why I'm -- what I have said right.

Q - Sebastian Vogel {BIO 16903693 <GO>}

Got it. Much appreciated for the additional color.

Operator

The next question comes from Marc Zeck from Kepler Cheuvreux. Please go ahead.

Q - Marc Zeck {BIO 22637860 <GO>}

Thank you for taking my questions. Two if I may. Could you provide a bit more color on Apex and IMC? What is their current trend development? I would assume that the cost savings you enacted are more for the, let's say core of Kuehne+Nagel, not so much for IMC and Apex themselves. So is the EBIT development for those two branches of subsidiaries going up from last year recovering from all that happened in the US for IMC and the abolishment of the minimus for Apex.

And the second question is on road. I guess when you discussed road you said you saw some market share gains. Would it be fair to assume that those market share gains were kind of taken from one of your larger competitors in Germany/Denmark, and would you expect to hold on to those market share gains or is there a chance once those competitor gets this house in order that they will take back this market share? That's my two questions. Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Yeah, Mark, I take the road question. So, the road business traditionally in Kuehne+Nagel is very much SME related business 60, 65 in certain markets up to 70% is SME small and mid-sized customers, less of the larger ones. So, it's difficult to see from whom do we take market share. Of course, in certain markets, let's take France, maybe a little bit Germany and others. There is an inroad from the competitor you have just mentioned but I wouldn't overstate that too much. But overall, we see that there is quite some nice volumes coming our way especially the SME. But I do not want to point out to one particular competitor. But we see that now since a couple of quarters, and I believe from everything, all the signals, everything, the booking patterns from customers, this is an ongoing trend, and we should see that continuing in the next couple of quarters.

A - Markus Blanka {BIO 18467945 <GO>}

Very good. And Marc, I take the questions around Apex and IMC. I think, Apex we have described and answered quite extensively already. It's clear it's one of our strategic elements in our Air Freight strategy, very much centered around good performance or very good performance on Transpacific. And I think also how Stefan has already talked about it, the way how the business operation is being integrated gives us additional leverage.

The IMC side, we haven't talked to about it yet. We can say that since acquisition we have developed that business jointly, and it is currently certainly the strongest that we have seen since the acquisition driven is that surely by volumes and also most recently I would say some pricing power due to the reduction of certain driver groups from the US market because of the well-known government actions.

Clearly also here the outlook for the second quarter is we expect a very strong performance today, maybe just for everybody on the IMC side itself, the acquisition was mainly driven from our wish to extend services alongside the supply chain and the value creation, and that certainly is a very strong argument for that.

Q - Marc Zeck {BIO 22637860 <GO>}

Thank you.

Operator

The next question comes from Peter Ajose-Adeogun for Morgan Stanley. Please go ahead.

Q - Peter Ajose-Adeogun {BIO 23661108 <GO>}

Thank you. Just one question for me. I just wanted to ask around pricing power. How would you describe pricing power for your business, and do you think it's better or worse versus the peer group say from two years ago? If I can just ask around that?

A - Stefan Paul {BIO 19353883 <GO>}

I answer that in the following way. Right? So, we have only three large competitors left, right, and that has definitely increased our pricing power as the largest in volume and sea and air, we have a certain pricing power. I think we should not overstate that. But at least we see in certain markets where we really have a high market share, it helps us in terms of the pricing towards the market.

Q - Peter Ajose-Adeogun {BIO 23661108 <GO>}

Thank you. And maybe just a follow up. Outside of market share, is there anything where you think maybe your business position has changed versus peers that has helped with that at all?

A - Stefan Paul {BIO 19353883 <GO>}

The consolidation helped definitely on the two lanes to Europe, but more to the Transpac. If you look at the statistics, we are amongst the top two now in terms of the Transpac volumes are concerned, and this has considerably changed over the last two or three years. Much stronger than in the past. And for Air Freight, I would say it's the quality stamp, right, which is convincing and the quality which we are executing and producing is second to none in the marketplace.

Operator

The next question comes from Harishankar Ramamoorthy from Deutsche Bank. Please go ahead.

Q - Harishankar Ramamoorthy {BIO 19128119 <GO>}

Hi, good afternoon, everyone. Thanks for taking my questions. Just a couple please, if that's okay. Firstly, on the AI benefits, it's helpful to have a range of number for 2027. But do you think it's slightly too early to think about how this progresses into 2028 or beyond? And maybe I missed this, but did I miss any numbers on the cost around the AI benefits? I believe you said it was a gross amount. Just wondering what the costs might be, and maybe one another question on Air Freight. I believe you've mentioned that yields probably in sea hold up really well into H2. But any indications on yields in the Air Freight segment? Thank you.

A - Markus Blanka {BIO 18467945 <GO>}

Harishankar, I hope that that was right. So, Air Freight, Stefan is going to talk about it. I'm going to do the AI part. Cost savings, I think I would call them structural by nature because when you think about when we have processes that are currently being executed by a certain workforce, and tomorrow they are going to be executed through AI. I think it is inconceivable that in two or three years' time, we would go back and reinstate workforce for that. So, I think once these processes are being put on an AI execution, they will not come back. So, savings that we generate in '27 should compared to the baseline where we started, should stay savings also going forward as a structural change.

On the cost, you are spot on, we currently and Alireza has talked to it, we currently and certainly enjoy as a global phenomenon, I would call it, relatively low cost for AI services. I think everyone's expectation is that's going to raise, but frankly I've got no idea what's going to be the next cost level or what's going to be the cost level next year. So hence, we said for the time being we consider that as gross savings, and we will have to update you on the cost during our next update in March 2027. Unfortunately, I can't tell more than that.

A - Stefan Paul {BIO 19353883 <GO>}

On the airfare yields, last part of the question is I believe that and what we see is that the yields will stay somehow stable into the third quarter with a stronger peak in the fourth. So, third quarter stable, fourth might be a little bit higher.

Q - Harishankar Ramamoorthy {BIO 19128119 <GO>}

Thanks, very helpful. Thank you.

Operator

The next question comes from Lars Heindorff from Nordea. Please go ahead.

Q - Lars Heindorff {BIO 22572161 <GO>}

Yes, afternoon. Thank you for taking my questions. It's on the tech vertical and the hyperscalers. I realized that you are now investing a bit in that area. The reason for the results in contract logistics. Can you say anything about the length of those contracts that you engage with these hyperscalers? Normally I would say that in contract addresses will be at least three years. Are these significantly longer or shorter? I mean, how's the contract backlog looking? That's the first part, and then the second is on the share volumes. I don't know if you want to reveal or say if you can or will say anything about it. But both in Air and Contract Logistics, how much is the tech vertical and specifically the hyperscalers? If you can say it or will say it, then maybe, I mean, will there be any growth in the air freight markets both for you and in the market if it wasn't for those hyperscalers right now?

A - Stefan Paul {BIO 19353883 <GO>}

So, Stefan, I take the first one, the contract logistics question. So, our contract logistics normal lifetime or contract time is 10 years, sometimes with a break clause after seven years. Similar here to the hyperscalers, as a long-term engagement it's not three years or short. So, we only engage if we have to have a back-to-back for longer than five, but normally we go for 10 years in our investments or core investments with customers. So, it's not a short-term engagement as well not for this industry.

Q - Lars Heindorff {BIO 22572161 <GO>}

And on the volume side?

A - Markus Blanka {BIO 18467945 <GO>}

Lars, this is Markus. You were asking around the share of on the tank vertical, right?

Q - Lars Heindorff {BIO 22572161 <GO>}

Yeah, yeah, more specifically the hyperscalers. I don't know if it's all of it. Yeah, I don't know.

A - Markus Blanka {BIO 18467945 <GO>}

Sadly, silence is going to be our answer to this. You have to live with that for a moment unfortunately. Sorry about that.

Q - Lars Heindorff {BIO 22572161 <GO>}

I thought so, but can you say, I mean, what would it be if, I mean, would the growth there -- would there be any growth there if it wasn't for this vertical right now?

A - Markus Blanka {BIO 18467945 <GO>}

Yes, absolutely. Let me put it in a different way. Hyperscaler is not the only area of growth. We do grow in quite a number of other specific areas very solidly as well.

Q - Lars Heindorff {BIO 22572161 <GO>}

Okay. All right. Thank you.

A - Markus Blanka {BIO 18467945 <GO>}

Thanks, Lars.

Operator

Ladies and gentlemen, that was the last question. 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 your interest in Kuehne+Nagel. Thank you very much for your questions. Much appreciated. I wish you a good summer break and talk to you soon. Thank you and goodbye.

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.