ALFA LAVAL

Q1 Earnings Conference Call
April 25, 2016
13:45 p.m. CET

Tom Erixon:

Thank you and welcome to the conference call on our quarterly report. It's a pleasure to have you online. I haven't had the opportunity to meet you at this point in time; I'm sure I will in the future. For those of you who tend to follow the Alfa Laval conference call, I think you will find that we follow pretty much the usual procedure on how these are taking place. So let me give you initially then, just a few overview comments, before we go into some further detail on the quarter.

We had a clear decline, as expected, and also as communicated earlier, in the order intake on the marine side; and also, to a degree, on oil and gas upstream business. Apart from those two, the rest of the Alfa Laval business portfolio was stable, or slightly in a growth mode. So the decline that you see on the numbers are, to 100 percent, dedicated on those two areas.

Specifically, in the business portfolio, the aftermarket business performed well. We have a good organic growth number for the quarter, both year on year and sequentially, in the order of magnitude to 3 percent to 4 percent organically.

In the situation with declining invoicing and declining order intake, we're obviously looking after our cost situation very carefully, as always. The quarter was characterized by good cost control, both reflecting cautiousness, when it comes to spending and hiring, but also active capacity management at a lot of our production units. Obviously, given the situation, the cost management issues, going forward, will remain on the top of the agenda and we will continue to perform accordingly.

A final point before we go to the details. As you've seen in the report we have initiated a strategic review in the Group. I will not give any detailed comments as to neither timing nor the specific solutions we are coming to. But I will share a couple of reflections towards the end of our presentation on my initial impressions from Alfa Laval. Then at least you see where we are in our reflecting mode.

With that, let's go to the key figures. As you have seen, sales were down 10 percent year-on-year, and 6 percent if you exclude the currency effect on the invoicing.

The EBITA margin was stable sequentially at 16.3 percent. We're down 1 percent year on year.

On the next page, orders received. It is 19 percent down year on year, and I think the numbers reflect very much the guidance that was given at the end of last quarter. It's, by and large, effects from marine, when you look at the year-on-year number. The rolling 12-month number at this point in time, is at SEK35 billion. What was noteworthy also in the quarter was the very low level of large orders. As you have seen, there was only one order announced in the quarter. It was interestingly in Russia, which performed fairly well, given the circumstances. I would say that the limited amounts of large orders, it does reflect a certain cautiousness in the investment climate among our customer groups.

Some comments on EBITA which, as I said, was stable sequentially. We had a good cost development during the quarter. We had some positive mix effects, including the increase, both in absolute terms and in relative terms, of our aftermarket business. On a divisional level, the Equipment division was positive; the Process Technology division was negative; and the Marine Division was stable. That's an overview on the divisional level before we go to some further detail on each one of them.

So let's go to the Equipment division, which had a stable quarter. We had some variations on the order intake. It was mainly on the negative side, impacted by weak market in the comforts area, part of Industrial Equipment. But otherwise, the business portfolio was stable. The underlying business performed as expected. The positive side with Equipment was clearly the profitability at 15 percent. That was a good number for the Equipment division. It was reflecting a number of years of work on the cost side that paid off. We also experienced a continued growth in our e-channel, called Anytime, and the work we've done with channel partners for many years. That sales channel is establishing itself well, and grew in the quarter.

On the Marine & Diesel division, the profitability was marginally down to 19 percent margin. As communicating, the slowdown was largely related to pumping systems, with a lot of pre-ordering taking place in last quarter 2015. In fact, both year on year and sequentially, the downturn on the marine side, was almost completely relating to the pumping systems, whereas the rest of the marine division has remained overall stable up until now. For the division, service grew to a 40 percent share of total invoicing -- of total orders received, which is by historical standard, relatively a high number, in the high end of where to tend to end up in the business cycles for the marine division.

Yard contracting for quarter 1 is still not in a final number, but the early numbers indicating that contracting in the first quarter was low, and clearly lower than last year. We do expect for the full year, the yard contracting number to end up below last year's numbers of 1,300. The market forecasts are, at this point in time, around 900 vessels. We have no other opinion on that matter, at this moment.

Process Technology division came in weak on profitability margin, at just below 10 percent. If you look at the mix in Process Technology, the area that has been in decline has been particularly related to oil and gas upstream. That affects both the mix negatively, and it also brings down the overall capacity utilization within the division's units. So both of those two effects are impacting the result.

At this point in time, the decline in oil and gas has reached a level where we think we've bottomed out. We are probably going to oscillate around this level, before we see any recovery in the market. Although the oil price is stabilizing and improving at this point in time, we believe it's going to take a bit of time before we see any capex expenditure, having impact on our order intake and revenue numbers.

For PTD, the good news was the growth in the service business. It was particularly strong in PTD. We had a 9 percent growth year-on-year, organically, on the service business, partly supported by a couple of large orders that were taken in the quarter.

If we go to a divisional summary of the order intake, you will see on that page, that there are a number of minuses and pluses. I wouldn't over interpret those. The overall story is what I indicated initially that if you exclude the upstream oil and gas and marine numbers, the entire rest of the portfolio remains at a slightly positive zero. Of course, there are some variations in the portfolio, on a quarterly basis, but there are no big trend issues there, other than maybe the fact that specifically, the comfort market in industrial equipment was a bit weak in Northern Europe, Russia, in Q1.

Again, underlying that was a good service development, with order intake of SEK2.6 billion, and an almost 35 percent share of Group orders, both record high for the Group, in absolute terms. So we are pleased with that development.

Finally, then, let me make a very brief summary on the regions, which obviously, to a large degree, reflects the comments that we already made. If I start with Asia, you see negative numbers there, sequentially, and year on year. Obviously, they are largely impacted by the marine segments, so it's the same reasons, as I already mentioned. However, looking at China, excluding the marine division, China is growing for us. It was a good market in the first quarter, with stable growth, and a good result overall.

Going to Europe, Europe was affected by the low level of large orders. So excluding the absence of large orders on the comparison numbers, the rest of the business was stable in Europe. So we saw no big trend shifts in demand, in Europe, other than, as indicated, some of the large orders didn't materialize in quarter 1.

And then finally, in North America and Americas as a whole, you can see that the sequential order intake in United States and North America, was at minus 2 percent, which indicates that the oil and gas decline for both Canada and United States has leveled off on a low level. We've taken that in our books already, we believe. The rest of the portfolio stable.

Latin America performed well, inclusive of Brazil, that grew for us both year on year and sequentially. So from an organic growth point of view, actually Latin America, inclusive Brazil, was best news in our portfolio, for this quarter.

And with that, I would like to hand to Thomas, for some further details on the financial performance in the quarter. Thank you.

Thomas Thuresson:

Thank you, Tom. Good afternoon, all of you. So let's move to sales, as Tom has covered orders received already.

Remember, after quarter 4, I commented that we believe it's reasonable to expect a lower level of sales in quarter 1 compared to quarter 4, due to seasonal variation and a smaller order backlog. As you've seen from the report, we realized sales of SEK8.2 billion, in quarter 1. That is compared to quarter 4, we were down 23 percent at constant rates. But then comparing with the last year we were down 6-plus- percent, applying constant exchange rates. In terms of invoicing, I would say that we ended up as expected, in quarter 1, for sales.

Moving onto service, the service activities represented 29.7 percent, compared to 27.6 percent a year ago and 27 percent in quarter 4. That is to say we got support, mix-wise, from service in this quarter year on year, as well as sequentially.

Let me then give you the first forward-looking statement. We believe it's reasonable to expect a somewhat higher level of sales in quarter 2 compared to quarter 1. This is explained by the phasing of the delivery of our order backlog as well as a certain seasonality.

With that, let's move on to gross profit margin. We ended the quarter with 37 percent gross profit margin, slightly above the level of a year ago and an increase sequentially of almost 3 percent. Then let me remind you what I said three months ago. In the near term we expect adverse effects from volume, load. We expect continued positive FX effects and lower metal prices to provide compensation.

The actual means that gross profit margin was influenced by these mentioned parameters as expected. In addition, there was a positive price/mix variance sequentially for the Group, which is usually the case between quarters 4 and quarters 1.

Let's move on to the next slide, to get a bit more into the details of what actually happened with the gross profit margin. We were suffering adverse effects from, one, a slight negative price/mix effect, year on year, to do with the declining oil and gas content. That is to say, despite the positive effect in mix from the increase in service. We had a weaker load in certain factories, as well as a worse engineering performance, due to overspend on some customer projects. The latter has to do with the Process Technology division. FX transaction effects, they provided compensation.

If we look at the sequential development the relative increase of service, a better mix in capital sales for EQD and Marine & Diesel, as well as FX, contributed positively and load and volume gave an adverse effect. However, I think we would like to say there that the adjustments of capacity, they have certainly reduced the adverse effect from load/volume in the quarter.

Now, let me then give you the second forward-looking statement. In the near term, we expect adverse effects to continue from volume or load, as well as mix. We expect positive FX effects and lower metal prices to continue to provide some compensation.

Let's then move further down the P&L and look at the overhead costs. R&D costs ended at SEK186 million in the quarter. That is a reduction, like for like, of 1.1 percent. If we look at R&D in percent of sales, we were at 2.3 percent compared to 2.1 percent a year ago. In summary, I'd like to say that R&D has been retained to support future sales, despite a declining trend in sales or volume if you like.

Sales and admin amounted to SEK1.43 billion in the quarter, representing an increase of 1.3 percent year on year. This is an increase explained by salary inflation, but also reflecting a cautious attitude to spending, because clearly if we look at our global presence, the 1.3 percent increase is substantially less than the average salary inflation for Alfa Laval. Sequentially, the sales and admin spend represented a reduction of 6 percent. I would call that a typical variation between quarters 4 and quarters 1.

Then profit before tax, SEK1,090 million. In a year-on-year comparison this reduction is largely explained by the lower invoicing and the resulting lower operating profit.

Before I leave the P&L let me say a few words about the tax line. Taxes ended with a charge of only SEK219 million. This is, of course, well below our guidance for taxes. The explanation is mainly to do with the effects of reduced income tax rates in Norway and Denmark. For us, this has an impact on the valuation of deferred tax items for step up and goodwill in Danish and Norwegian kroner.

EPS ended almost exactly on last year's level, SEK2.06 despite this lower invoicing, thanks to the just commented lower tax charges.

Return numbers, 21.1 percent and 21.2 percent respectively for return on capital employed and return on equity; very competitive for engineering activities, we argue.

Let's then talk a bit more about divisional performance. Please note that my comments they relate to operating margin and what you find on the slide is really comments in relation to the absolute development.

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If we start off with Equipment. We came out higher than last year as well as quarter 4 of 2015. The sequential improvement is thanks to a combination of FX, positive price/mix and lower costs. This is then partly reduced by the lower volume and the Equipment division's share of the overall lower load in the supply chains.

For Process Technology operating margin came out lower than both last year as well as quarter 4 of 2015. Sequentially, the reduction in margin is due to worse mix in capital sales; a lower load in certain factories, that is to a larger degree than in the other divisions, as we have some factories specifically exposed to oil and gas. Then, we had a worse outcome in engineering due to overspend in some customer projects. This was then somewhat compensated by lower costs and FX.

Finally, Marine came in slightly lower sequentially in terms of operating margin at just under 19 percent. This is explained by the lower sales volume and its share of general load, compensated by FX.

Let's then move on to cash flow. Cash flow from operations, from operating activities amounted to just over SEK0.9 billion, a reduction of SEK200 million compared to a year ago. The explanation is, of course, the lower profit net of taxes paid, compensated by a somewhat better development of working capital compared to a year ago. If we look at regular capex, we ended just under SEK100 million, SEK93 million to be exact. This is, of course, largely explained by the two major investment projects that we initiated during 2015; that is in Denmark and India. In this context, please allow me to remind you to add about SEK200 million for the full-year 2016 compared to 2015 to do with these two projects in Kolding, Denmark and Pune, India.

Financial net was a negative SEK23 million. And outcome, some SEK100 million better, and this is entirely related to realized FX differences.

The bottom line is a free cash flow of almost SEK0.8 billion compared to SEK0.9 a year ago. The year-on-year decline is, of course, to do with the lower earnings and compensated by better financial net paid. The effect -- or the results of this cash flow is that we've brought debt to EBITDA down to 1.51 percent compared to 2.07 percent a year ago, so quite a decline in indebtedness.

Then a few words about FX. We were positive SEK93 million totally for the quarter, as expected. We've updated our calculations on forecast for 2016 when it comes to certain exchange rates. We've applied the closing rates as per end of March calculating the translation effect. But the bottom line is that we remain with a positive total FX effect for the year of some SEK350 million.

Then the order backlog. We had a total order backlog of SEK19.4 billion at the end of March. This represented approximately six months of LTM sales. For shipments in 2016 the backlog amounted to SEK12.9 billion as per end of March. This means a reduction of SEK2.85 billion compared to end of March a year ago. But let me remind you that, going into 2016, the order backlog was about SEK1.7 billion lower compared to the beginning of 2015. Having said that, let's look at the bridge from whole year sales 2015 to 2016.

To start off with SEK39.7 billion of sales, SEK1.7 billion negative, as I just said, because of a lower backlog going into the year. Applying the exchange rates as per end of March we expect a negative translation effect of about SEK1.4 billion for this year; SEK200 million worse than after December. The small acquisitions - hardly any impact. That gives a subtotal for the known parameters of SEK36.6 billion. Then we're getting to demand as well as price to be considered for the full-year sales. It's important for you when you assess the in-for-out demand, to remember that like-for-like demand in quarter 1 was some 20 percent below quarter 1 a year ago. And, on an LTM basis, order intake has been approximately 17 percent to 18 percent lower than 12 months ago. With regard to prices, we've only made smaller adjustments to prices for standard products at the beginning of the year.

With that, I have completed my presentation and give the word back to Tom for the outlook and the closing remarks.

Tom Erixon:
OK, thank you, Thomas. On our outlook: we expect that demand during the second quarter will be on about the same level as in the first quarter. On a divisional level, our outlook is for Marine & Diesel and Process Technology, on about the same level as in the first quarter. For the Equipment division, our outlook is a somewhat higher demand, mainly driven by normal seasonal effects.

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So that was the financial report and the outlook. Let me just round off this before we start to take some questions, with just a few reflections after six weeks on the job.

The answer that you are getting now is not what Alfa Laval is going to do in the next five years. It's just giving you an opportunity to hear where we are as a team, and where I -- initially, after a couple of weeks in the chair, what I see and hear.

I indicated when I started this that I think I come to a well-run Company, and so is the case. We have a lot of good things in the Group that we have to take care of going forward, whatever changes we decide to do. There is a great deal of competence and a strong culture in the backbone of this Company. As you all know, culture beats strategy, as they tend to say, so we don't want to gamble too much with that.

Alfa Laval has a fantastic global sales network and the strength in the sales muscle is substantial. The knowledge that has evolved in our sales companies in all local markets around the world is a great asset. That's another thing that we are going to make sure we take good care of going forward.

We have very strong technology platforms. With technology platforms, I specifically refer to separation, heat transfer and fluid handling, which are the three basic core product technologies in our portfolio. We are very likely to continue to develop those three in the future.

As you know, the aftermarket, the service business, has been in long development for Alfa Laval. I think we've done a good job in covering our installed base in a better way. With the infrastructure built up around service networks and spare parts, we have created a big muscle. We are sure to continue to take good care of that. In fact, the first investment decision that I made in my new role was the approval of a service center in the very promising market of Iran, which will be up and running as of October, probably, this year.

Finally, on the strength side, Alfa Laval has succeeded well in the M&A strategy I think, both in terms of the acquisition part, but also the integration part of companies. I find that the big acquisitions that we've made are strong; find a good way to develop within the Alfa Laval brand and Alfa Laval portfolio. You can rest assured that Framo, as being the biggest one up to date, has performed very well, certainly up until today. We made a very strong 2015, even performing above expectations from the management at the time of the acquisition. So there's a lot of good strength to continue to build on.

We also are fairly clear that we have challenges to address. Maybe the first one, the organic growth issue, is the number one, for good reasons. We have struggled with our organic growth over the last five years. It has been below what we would like to see. Although we have some temporary difficulties in some of our customer segments, related to the cyclicality of those businesses, we are going to take a hard look as to ways to find organic growth to develop in a more positive way.

We live, as you know, in very exciting times, technology-wise. There is a lot of things going on. Sometimes the buzzword digitalization is being used for a lot of different things. But it's true that the development of electronics is very important for our customers and, to a degree, affects our products and our system solution in the future. It also affects distribution and sales channels. While I think we've taken good advantage of the development of an e-commerce platform, we probably have, on the technology side and product technology side, some opportunities to think whether we could do more in that area.

The resource allocation has been both in terms of people and in M&A, have been driven by the way the market has looked over the last 10 years. If we look at our footprint and our customer segments today, we need to take a step back and see where is growth coming in the next five to 10 years? What are the areas where we will decide to play more? And, what are some areas we maybe decide to play less? That will not only affect the M&A programs, but it may also affect the way we allocate sales resources, R&D and other resources within the Group to develop in line with our future goals.

Finally, a word on complexity. Alfa Laval has grown tremendously since the organization was set up some 12 years ago. We are now a lot bigger company. We have a lot more products. We have a lot more companies. I'm not a big advocate for big reorganizations just for the sake of it, but I think we will look through to find better processes and easier ways, and clear lines of accountability to drive our business forward.

Let me conclude with that as the four areas, which will be under scrutiny as part of our strategic review. With that, our presentation is at an end and we hand over for questions. Thank you.

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Q: I have three questions, please. The first one is on Process Technology division. The margin of 9.9 percent was very low from a historical perspective, and you are referring to mix, volume, load, and also project-related issues. Two questions on that one. Firstly, if you can quantify what kind of project-related issues you had in the quarter. Then secondly, if you look in the backlog, do you see a continued negative mix in capital sales?

Thomas Thuresson: OK, if we look at the adverse effect of cost overruns in individual projects, we're looking at a cost to the tune of some SEK40 million in the quarter.

Then, secondly, as far as the backlog is concerned, we have seen a decline in oil and gas for a number of quarters now. Of course, the continued decline in oil and gas will mean a smaller content of oil and gas in sales in PTD going forward. So an adverse mix effect, because of less oil and gas.

Q: Yes. Thank you. Secondly on your outlook, could you please confirm that you are taking an expectation of large orders into account in your outlook? And what do you expect in terms of large orders in Q2?

Thomas Thuresson: We have taken that into account when we say that we believe that demand will be on about the same level. As Tom said, we qualify by saying that we believe marine and PTD will be on about the same level as well. That is, of course, considering the opportunities for large orders.

Q: OK. Then lastly, I'm sorry, but I have to ask about the strategic review. When should we expect you to communicate something around this? Also, I sense that you are talking more about a longer-term review, how to maybe change the Company. But do you also feel that you need to adapt the cost base to the weakening demand?

Tom Erixon: Well, let me give you one clear answer and one highly unclear answer. On your question number two, you can rest assured that we will address the short and the long term at one go. Regarding the time plan, we will not communicate anything on that specifically at this point in time. We will get back to all of you in a coordinated fashion, but don't expect us to think for two years.

Q: OK. Thank you very much.

Q: Just firstly regarding something you mentioned on the strategic review and the performance of your organic growth versus end markets, that it had been not where you wanted it to be. When you talk about improving that, do you think about investing more in new products? Do you think about investing in sales and marketing? If you could just give a little bit more about how you think about picking up organic growth in this business. That would be the first question.

Tom Erixon: Yes, I tend to be clear whether I answer questions or not. This is -- the questions on strategy and what we're going to do different is something that we're going to work through thoroughly. We're going to be united in the management team on what we feel is the right measures to take. But I think it's fair to share with you the fact that I think both you, and we, have seen organic growth in the past as a bit of a question mark. The first steps that you need to take then, is to get your arms around what are the root causes, and is there something we can do about it? We will come back with our view on those topics in due course. But -- so what you will know, at this point in time, is that we've seen it, and maybe that's enough for now.

Q: OK, and just a second one would be on the implied operational leverage in the quarter. If I look at the sales decline ex-FX, it looks like it's about SEK600 million. I then look at the EBITA, the decline, ex-FX, it looks close to SEK300 million, so kind of implying decremental margins of 53 percent in the quarter. Consensus, obviously, has that getting materially better through the year. What gives you confidence, is there further cost taken out through the year? Is there an improvement in pricing and the backlog? Is there some confidence that we can get that EBITA declines on topline declines will be less negative than they have been in Q1?

Thomas Thuresson: Well I think I'd like to come back to what Tom said a few minutes ago, he said that you were -- you can rest assured that we will address not only the long term, but also the short-term requirements to adjust capacity and adjust cost to a lower level of activity, particularly in marine, and oil and gas. So we are certainly adjusting capacities. We are cautious on spending, as you have hopefully seen from the outcome in quarter 1.

Tom Erixon: We might add the comment to that, the adjustment in PTD for oil and gas upstream is painful, and we believe we've taken that at this point in time. So sequentially, those effects are probably fully taken, although they may have some -- although decremental, or were smaller effects as we go by the quarters in the year compared to the previous year.

Q: OK. And just a final one would be on; I think the comment that at the full-year results around the SEK1.2 billion of pumping orders that we didn't have this quarter, that negative should be becoming less as we go through the year. Has anything changed in the market that doesn't give you confidence that we will see some of that negative impact caught up through the rest of the quarters this year, or is that still the outlook for the remaining quarters this year?

Thomas Thuresson: We do not have a materially different view on that particular part of the marine market today, compared to what we had two-plus months ago. Then, of course, the allocation between quarters can vary, but the underlying assumption is the same as two-plus months ago.

Q: OK great. Thank you very much.

Q: A couple of questions from my side, the first question being on the impact of currency on the backlog. I know you didn't specifically mention a negative impact of backlog revaluation, but is it still fair to assume that there was a slight negative one?

Then the second question, just coming back on what you said on the pre-close call, in terms of the activity on the big ticket, that we should not see Q1 as being representative, would you repeat that?

Also, I think in the call you said that some of the orders were dependent on when you received the pre-payments, but given that you haven't announced anything so far, I guess that this was not really an issue for Q1?

And then just the last question on cash flow, despite the sales reduction you still had a slight build of working capital, so is it fair to assume that in the next nine months you should have an inflow from working capital reduction? Thank you.

Thomas Thuresson: OK, if we start off with your -- with, obviously, your first one. The revaluation of the backlog, well, yes, there is a slight negative on the backlog, on changes in exchange rates from end of December to end of March. But it's not material to the kind of extent that we have seen in some quarters historically, particularly related to Framo.

Then I didn't quite get your question on big ticket orders. We have seen a low level of large orders in quarter 1, and when we provide our qualification of the outlook for quarter 2 then, of course, we've taken the expectations of large order opportunities into consideration. But as you know, we tend to have variations between quarters, because it boils down to the decision of one specific customer when that is taken, and when the advanced payment actually lands in our till. So variations are not possible to avoid.

Then finally cash flow, if we look at cash flow we've seen quite a reduction in accounts receivable. If you look at it year-on-year, quite a reduction on the level and, of course, that is reflecting a lower business volume.

If we look at inventory or the net of inventories and advanced payments, a slight increase in the net of these too. That is to do with, on the one hand, a certain increase of the inflow of materials, but less inflow of advanced payments from customers, but very, very small variation. If you assume a decline in the business volume, yes, then, of course, there should be a release of working capital as well. But please remember we are enjoying substantial advance payments throughout a cycle in this business.

Q: Thank you.

Q: Just a couple of things from my side, on the marine and diesel outlook for Q2. Tom, it sounds like it's very much predicated on larger orders here, perhaps marine pumps are coming back a little bit. I wonder whether outside of marine pumps you can give us some sense of what you're seeing both in the short term, and the slightly longer term. You mentioned obviously they're sort of contracting very weak in the last six months or so. But, also, outside of that on your offshore segment, what are you seeing here both on pumps and across the broader (inaudible) and Alfa product portfolios?

Tom Erixon: Yes, just an overall comment, I don't want to go too detailed into specifically areas. What we can say is that, actually, in the quarter that there was -- we had a good development on the boiler side; was favorable for us in the quarter. So as I mentioned apart from the pumping systems, the portfolio in marine was pretty stable. Our outlook for the quarter being sequentially stable reflects that we are working off a project backlog in this quarter that was contracted last year, so we don't see any immediate changes versus the last quarter. Offshore is, obviously, affected by the low investment activity in the oil and gas side, and that was true already last quarter for your information.

Then the question of the contracting and its effect on the second half is too early to say. We, in fact, don't know the number of contracts that were made in the quarter yet. There is a lag time also for registering them and there is quite some volatility between quarters and months in this business, so we will have to wait and see. But at the current levels, the number of contracts are lower than they were last year, for sure. If that continues, it will have impact on our order intake second half of this year/first half next year. To what degree, we cannot possibly guide you on in a good way, but that's a trend that we see in the market.

Q: That's clear. Secondly, and lastly, if I just could on your reflections, as it were, your reflections in the presentation, you really sound and feel like there's more incremental changes and you're looking for areas of improvement. In the report, of course, a review of strategic direction, clearly, is more of a, shall we say, profound assessment of where the business is heading. Can you give us some sense or some color around where you see the greatest scope for improvement, whether that's by division, by end-market or product area? I appreciate you're somewhat constrained in what you can say about this, but, obviously, it did sound like you're going through a larger rethink of the future of the Group.

Tom Erixon: Well, I refrain from going into the content. But it's clear that when you think about an organization of the size of Alfa Laval, we need to both have a long-term tenure perspective of where is our end segments and end markets going, and what do we do, as well as being responsive to the more short and medium-term situation. So I will just say it like this. I'm very comfortable that, on the one hand, we need to adjust ourselves into the business environment and context that we are in right now and that will have to be a part of the plan, obviously. But with that said, we're going to develop that in a way that we think it's in line with where we think our business can develop in a sound, and good and profitable way in the next five to 10 years. So I think you will see that we are addressing both of those areas in, hopefully, a very good and pragmatic way. The only color I would give to you apart from that was that I really do not believe in large organizational changes or large splashes just to be -- appear to be decisive. I think we're going to take care of the good things in this Company, but I'm sure we're going to end up with a couple of profound areas where we want to do a few things differently, but let's see where we come out specifically on those.

Q: Thanks.

Q: Can I just ask you a follow-up on the process technology margin, which was quite a bit below expectations, I think, for Q1 and you mentioned overrun costs or cost overruns of SEK40 million, Thomas; and you basically said that the mix will stay unfavorable. Looking forward, should we just exclude these SEK40 million and then stay with the same mix as we model the coming quarters in terms of profitability for process tech?

Thomas Thuresson: Well, if we look at the SEK40 million, we have made an assessment of the outcome of the relevant projects, as best we can at this juncture. Of course, we believe and we hope that there's nothing further coming. Looking at the mix, well, we have not seen the full impact of the decline in oil and gas on sales yet, so that will give further adverse mix effects to process technology. But, again, the SEK40 million, we believe, at this point that they will not be repeated.

Q: OK. So the mix will be unfavorable, then maybe a bit more so in the coming quarters and then sort of a non-repeat on the overruns, of course, is that –

Thomas Thuresson: That's what I said, yes.

Q: Yes, yes. OK. Then maybe for Tom, on your strategic review you mentioned technology transformation as one part. Way I understand it, there is more to be done in Alfa and maybe there has been some under-investments. When you look at this particular area, does this include ERP systems as well in terms of investment?

Tom Erixon: We have not -- let me guide you in the following way. At this point in time, I would not, let's say, put into a model that we're going to increase capital expenditures or spendings, in general. We are a profit-oriented company and we will seek very hardly to find profitable ways to grow, as opposed to finding a different way forward. With that said, we are in the beginning of a process. I know I open up to a lot of questions by being explicit about the review work that we are doing, but I thought it was better to communicate it clearly to you. You could have suspected that anyway. It's not a big cliff-hanger, I think, for you that this is what we need to go through. But, bear with us for a little while and we will be very specific on what we want to do down the road.

Q: Sure. All right, thank you.

Thomas Thuresson: Can we take a final question please?

Q: I have just a couple of them. You mentioned cost-adjusting capacity and cost savings. Do you think that the cost savings and adjusting capacity will fit into the normal frame of your cost budget or do you think that you will, going forward, might need additional cost to take out or to adjust your cost structure and cost (inaudible) to the new volumes?

Thomas Thuresson: Well, we've said that we're continuously adjusting. To the extent that there will be something on top of continuously adjusting, we will, of course, communicate that to all of you at the same time if, and then when, this is concluded.

Q: OK, I understand. Then just a question on the e-channel. Could you just share with us how much part of your current equipment sales are going through the e-channel; and also, how the margin structure looks at this distribution channel? Is it better, worse or in line with the rest of division?

Thomas Thuresson: Well, it's a good question. In terms of the share of e-commerce on the equipment division, it is at around 30-plus- percent at this point in time. It is still growing and we still haven't implemented it in all markets. There are special local conditions in many places which -- although technically we could perfectly well run it globally, there needs to be commercial conditions and taxation issues to be handled in this. So we have some work to do to roll it out steady and we will continue to do so. We will not comment specifically on the margin, but let me just give you an indication that we don't see it as a below-average margin business for EQD.

Q: Thank you. And just on refining, you got -- you mentioned in the report that you got good refining orders. Are there any similar or common characteristics from your customers' order refinery, or how they refine their orders, geographically or were they independent or were the majority of them integrated? Just to understand who the customers behind are.

Thomas Thuresson: From the top of at least my head, Tom, I cannot say exactly who the customers were for the refinery orders in the quarter. But, let's say, that we realized some of what we had in the tender backlog, obviously, and I think that's a good thing as such.

Tom Erixon: I'm sorry, we don't have the customer names.

Thomas Thuresson: No, not specifically. I think we feel that it's a fairly broad-based ordering pattern. The big one we announced was in Russia, but we see, now, tendering activity; and, in general, that I don't neither see any particular geographical aspects there. They tend to be a bit all over the place I think. But we may need to come -- maybe we can come back at a later time. We haven't seen the signs of a geographical difference right now.

Tom Erixon: OK, with that I think we're done with the Q&A. I'd like to thank you all for participating in this meeting and wish you a good day. Thank you.

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