

# Alfa Laval Conference Call

**April 7, 2014**  
**9:00 a.m. GMT**

Lars Renström:

Good morning, and most welcome. I will start with an introduction before we look at the slides. We have been following Frank Mohn AS for several years, and we are delighted that we have reached an agreement to acquire the company. The timing is right for both seller and buyer, and I will highlight three things.

First, we now extend our fluid handling portfolio with high-performance products and systems for customer segments where we already have a strong position. Hence, we stick to the technologies and industries we know, and where we have a common customer base.

Second, the pumping system is critical to the operation of a tanker, which makes this a key decision for the ship owner. For a product tanker, the system normally makes up 5 to 7 percent of the total value of the ship, and boosts productivity and overall energy efficiency.

Third item, the transactional risk is limited, both from a cultural and financial perspective. Our companies share the same core values, and both enjoy a premium position in our offerings. A solid order backlog, and stable historic and operating margins over the business cycle, gives us financial comfort.

Finally, we have successfully acquired 20 companies in the last five years with combined sales of about SEK 7.5 billion. Most of them have been fully integrated, including our previous major acquisition, Aalborg Industries, in 2011. With this good experience, we were ready for more.

And now we move over to the slide presentation.

Here you see a summary of the press release that was sent out this morning. We are paying NOK 13 billion on a cash and debt free basis, and the transaction is EPS accretive as from closing.

In 2013, the sales of Frank Mohn was NOK 3.4 billion, and the order intake was NOK 6.1 billion. Hence, we anticipate a significant increase in sales in 2014 and '15 based on the large order backlog. The operating margin is significantly above Alfa Laval average.

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Moving over to the next slide, Frank Mohn is a global leader in pumping systems for the shipping and offshore oil and gas industries with about 1,200 employees. The vast majority is based in the Bergen area in Norway. The activities in Bergen form a center of excellence for marine and offshore pumping systems.

The next slide, the marine pumping systems made up 50 percent of sales in 2013. Frank Mohn is the global market leader for cargo pumping systems for product and chemical tankers. The company also supplies cargo heaters and coolers. Oil and gas offshore pumping contributed 23 percent. Here the company supply water injection pumps, fire water pumps, and submersible seawater lift pumps. Frank Mohn also has an interesting environmental business, supplying oil recovery systems. It is both equipment that collects oil spills from the surface of the sea, and equipment for emergency offloading, also from sunken ships. Finally, 21 percent came from service, where Frank Mohn has 50 percent of the installed based covered by service contracts.

Now we move over to the rationale. Alfa Laval is extending the fluid handling portfolio by adding high-performance, high-quality product and systems. These traditional systems are critical to the operation of the ship and offshore installations. We are acquiring a market leading position in pumping systems, since Frank Mohn is the market leader in its core business, and it strengthens our leading position by adding another unique high-technology offering. Frank Mohn is benefiting from favorable market trends, and attractive long-term growth prospects.

Next slide, it is an excellent fit, and on this slide you see the segment where Alfa Laval has flow products today. And with the addition of Frank Mohn, we strengthen our offering.

On the next slide, you see all the products that the combined companies will offer on board a ship, which makes us even more attractive to our customers.

On the next slide, you see what Frank Mohn can offer on board an oil and gas offshore installation. Here we anticipate revenue synergies from our combined offering. We will be an attractive supplier with an even more comprehensive product portfolio.

Next slide, Frank Mohn and Alfa Laval share three structural growth drivers – globalization that drives transportation by sea; demand for energy; and finally, increased environmental demands.

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On the next slide you see favorable market trends that affect product and chemical tankers. Refineries are built closer to the source, giving increased needs for transport of refined products instead of crude oil. Shale gas in the U.S. means less import of crude oil and more export of refined products.

Fossil fuel continues to be the dominant energy source with liquids being the larger part. High demand for petrochemicals for plastics production, especially in Asia, means demand for chemical tankers.

The need for larger product and chemical tankers favors Frank Mohn, since this is where they have their strongest position. And ship owners want higher flexibility in transporting multiple products, and maximize efficiency in on-loading and off-loading. Frank Mohn is the given choice for these demands.

On the next slide, we see the split between the divisions before and after the acquisition, based on sales in 2013 – Equipment, 29 percent; Marine & Diesel, 30 percent; and Process Technology, 41 percent. We see that there is a more even distribution of the size between the divisions, and the three divisions have different business cycles. This contributes to the stability of the Alfa Laval Group.

We move over to the next slide. Here you see the pro forma distribution of sales for the marine and diesel division. Traditional sales to shipping stands for 40 percent. Sales for offshore oil and gas contribute with 10 percent. Sales driven by environment and legislation, and focus on fuel cost reduction, 10 percent; land-based diesel power stations, 7 percent; and finally, we have service with 33 percent contribute into stable revenues.

Now we move over to the next slide, the role of Frank Mohn in Alfa Laval. The company will be included as a segment in the Marine & Diesel division. The company will be kept together, led by the same management as today, and the activities in Bergen will become Alfa Laval's operational center for marine and offshore pumping systems. As you see to the left, we already have three centers in Sweden and Denmark, and we have a track record of successfully operating from a Scandinavian base.

And now I hand over to Thomas Thuresson for the financial part.

Thomas Thuresson:

Good morning all of you. Let me, as Lars said, give you some numbers related to this transaction. To start with, let me give you a sense of the impact on Alfa Laval in terms of orders, backlog, and sales.

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The slide you have on the screen gives you the pro forma numbers for 2013, including Frank Mohn AS. Note, the substantially higher orders received than sales for 2013. To be explicit, orders received amounted to SEK 6.5 billion in 2013. Sales was only SEK 3.6 billion. This gave a backlog end of 2013 of 5.9 billion SEK. This is of course giving a good deal of comfort for 2013 – 2014, and to some extent, quite some extent I should say, also for 2015.

If we then move on, how are we going to fund this acquisition? Well, let me start with some news. We have, today, a totally unutilized senior facility. We will make use of approximately 40 percent of this senior facility, SEK 2 billion. In addition, we will utilize a bridge facility of SEK 12 billion provided by one of our banks, SEB. We will of course establish a longer term solution gradually, starting shortly after closing.

So what will the implications be on Alfa Laval's balance sheet? Well, to start with, the price agreed will give a value in addition to the net assets value acquired of approximately SEK 12.3 billion, or NOK 11.6 billion.

On this slide, you see the expected implications on our capital structure in terms of debt to EBITDA. On the pro forma basis, we expect to end up at about 2.5x, pro forma 2013. And debt to equity, we expect to be about one.

With regard to rating implications, we've analyzed the possible impact in house of increased indebtedness. We believe that the new situation post closing is likely to render a downgrade. We had dared say one notch. We are currently rated a single A minus, and that will then mean triple B plus. However, we will all know shortly when S&P has analyzed the new situation and come to their conclusion.

And with that, I hand back to Lars for a summary.

Lars Renström:

To summarize, Alfa Laval is acquiring a leader in marine and offshore pumping systems. And extend the current fluid handling portfolio with systems that are critical to the operation of the ship and offshore installations. The combination will provide a very effective offering to the marine and offshore markets. The operating margin is significantly above Alfa Laval average, transactional risks are limited both from a

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culture and the financial perspective and Frank Mohn is present in areas with attractive long-term growth prospects.

And that completes our presentation. And now I hand over to the operator for the Q&A session.

Q

A question on margins, as you haven't given us pro forma EBIT in the presentation. Could you just give me the level of profitability that Frank Mohn had in 2013, and maybe some sense of the range of margin (you've known) over the last few years, and what you would say is the peak and trough range of profitability. Thank you.

A

Well, we will not disclose the details on the operating margin simply for competitive reasons. We think this is in the best interest of Frank Mohn, and then of course going forward, Frank Mohn as a part of Alfa Laval. And we stick to the statement in the press release. The operating margins are significantly above what we generated over the last few years in Alfa Laval. And the company has shown a very large amount of stability when it comes to these margins throughout the cycle.

Q

On orders, you've given us a guideline for sales to grow in '14 and '15 on the basis of a big backlog. (Forecasted a pretty strong market both) offshore, and (in) shipping (over the last 18 months is that fixed to be an order figure sustainable or are there any large orders in there that boosted it, what would you expect for orders going forward. Thanks.

A

Well, if we look at the forecast, for instance from Clarksons, we know that they are forecasting somewhat of a reduction in contracting to shipyards 2014 compared to 2013. And of course, that we expect will have indications on Frank Mohn AS as well. It is not, in any way, a dramatic decline, looking at the forecasts. And then if we look at the lead time from a contract to a yard until there is a contract placed for pumping systems, we have learned during our diligence process that the lead time tends to be shorter than what we're used to for traditional Alfa Laval products of nine months, and for Aalborg products of six months. We're rather talking two to three months as a common delay in placing orders by yards or ship owners.

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Q

Got it. Thank you and final one, you said this deal is accretive from the signing. To help us a bit and give us a sense for how accretive it is, and at what point you would expect that to cover the cost of capital of the deal. Thank you.

A

Well, to give you one number, we can say that our current analysis indicates that we will have something like SEK 120 million per quarter of step-up amortization hitting the P&L. And of course, the deal as such with 12.3 billion or the value paid surplus to net assets, will of course have an adverse impact on return on capital employed. But then again, being EPS accretive, it should have a positive impact on return on equity.

Q

OK. Great. To help us back out the numbers for Frank Mohn. But you won't help us with the accretion or return on capital employed at this point?

A

We will not provide any details because that would mean we are providing a forecast for 2014, and as you know, that is not our tradition.

Q

Three questions, I might ask. First question is can you give us some insight on why the seller is selling. Second question is you say that the Framo submerged pumping systems are unique – in what sense are they unique? And the third one, aftermarket for Frank Mohn is 21% of sales a bit lower than the Alfa Laval group average, can you drive that number higher? Thank you.

A

Well, the seller has decided to sell, and this has been the right timing. The seller wants to sell, and we see it's a good timing for us to buy, since the markets have been good, 2013, and we also see going forward that it looks promising.

And why is it unique? That is to say that Frank Mohn is – if you talk about product and chemical tankers, which is the majority of their business, they are supplying a complete system, not single components. And it is a complete system with a hydraulic power unit, pumps, and pipings. And by supplying the complete system,

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they can guarantee the reliable operation of loading and offloading. And this is absolutely crucial for the ship owner.

That's why in these cases, it is the ship owner that is the decision maker. And when – once the ship owner has specified, usually this system is specified before the ship owner decides what yard that will build the ship.

And the 21 percent, well, they are doing a very good job today with Frank Mohn, however, we believe with our very good presence, we have more than 100 service centers around the world. We believe that we will be able to contribute to continued positive development for the service business of Frank Mohn.

If I may inject, Lars? According to the diligence information we've gotten, they now have service contracts for about 50 percent of their installed base. And well, that of course represents a bit of an opportunity considering, as Lars touched upon, our presence.

Q

Firstly, is Alfa Laval a significant supplier, or a supplier to Frank Mohn? And secondly, is it possible Thomas to give some more granularity on the cost synergies and also touch upon the revenue synergies, not on the service side but on the product side? Thanks.

A

Alfa Laval is a fairly small supplier to Frank Mohn. We are supplying gasketed plate heat exchangers that are included in their systems. But it is a relatively small value.

A

Moving on to your questions about the synergies. Well, the bulk of the synergies specified to NOK 120 million net, gradually kicking in over a three-year period. The bulk of it is – on the cost side, and primarily there it's about procurement synergies. With the size of Alfa Laval, and with the combined base of suppliers, we're convinced that we will be able to generate savings.

For the rest, on the overhead side, is a truly slim organization, and it's a high-performing organization, so of course, there are no sort of regular opportunities to do anything on the overhead side. That is not foreseen. On the revenue side, yes, we see opportunities, but then again, we only see them coming in towards the back end

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of this three year period, because it all takes time to get organized around cross-selling opportunities.

Q

And Thomas, to follow up on the orders. You mentioned earlier short lead times I think most people know about the LPFE order book, so would you say that the order intake is also reflecting a longer term order situation in the order book. Or are they all accounted for or is there a possibility that Frank Mohn's order book will be stepped up to be closer to these ship yards?

A

Well, again, the lead time from order for the yard until pumping systems are actually ordered is, as I mentioned before, quite short compared to what we're used to, only a few months. And that, of course, indicates that the uptick that we saw from late 2012 and then on a high level through 2013, is largely reflected in the level of orders that Frank Mohn AS has enjoyed during 2013.

And I mean, you've got access to the Clarkson forecast for 2014. So you know what is anticipated. And then coming back to this backlog. It means a great deal of comfort for 2014. But of course, there is a backlog into 2015, a good part into 2015. And then for the offshore oil and gas, of course, we have orders that are going to be delivered into 2015 as well.

Q

I've got two questions. One, could you give us a sense of how to compare the finance cost on the bridge loan with regular Alfa Laval debt. And a question on the cash flow - how should the depreciation and capex compare with the old Alfa Laval? Thank you.

A

Well, you can look at terms on the bridge loan as opposed to our regular funding. Of course, the validity of a bridge loan is typically shorter. That's the nature. So, even if we have gotten, we think, good terms on this bridge, of course it's a lot shorter. The fees will be more expensive in relation to the time the loan is actually running. But otherwise, not vastly different.

As far as regular depreciation is concerned, and capex going forward, it is not vastly different from what you're used to from, you know, today's Alfa Laval.



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And then, as I said, when it comes to amortization on step up values, our current estimates indicate about SEK 120 million per quarter.

Q

I don't believe this has been asked, but I'm wondering if the current management that you've announced today are having any earn outs? And also, what's the overlap with the retained management and the owners, or i.e., are we now having some very newly rich Norwegians that will be running the company, or are they separate entities? Thank you.

A

We are very glad that the existing management team of Frank Mohn. They are excited about the acquisition, and that they see that they have got another long term owner of the company, with a long-term industrial view, and they intend to continue with the company. And that's the way we normally operate. When we buy well-managed companies, we want them to stay. And they are happy to stay with us. And then you have the second question, I didn't hear fully.

Q

So my first question was, are there any earn outs? Yes or no. And the second question was whether they overlap or if it is the same, the current management and the previous owner or I guess current owner until the deal has closed.

A

Well, there's no earn out. And when it comes to possible overlap, if we look at today's senior management in Framo— they have been co-owners next to the Mohn family for years. And as a well-managed and very profitable organization, of course, they have as co-owners benefited from those profits historically. So, I believe that we have some new colleagues that have been enjoying a good return, historically, and we look forward to continue to work with them as colleagues. And then as Lars said, there is no owner.

Q

Just a couple of fairly simple questions. Firstly, on the geographical exposure of this business. What is it? And especially in the oil and gas offshore segment, whether this is the traditional European customers or there's a significant portion of South American customers etc.? Secondly, the total value on the ship now, you mentioned that FRAMO is 5.7 percent, what would be your value of the ship now with the whole the range of Alfa Laval, Aalborg and FRAMO products ... (Inaudible). And then

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thirdly, you said that the business has a market leading position. Could you comment on what kind of level of market share it has and what the next competitor's market share is for us to get the full picture of the competitive landscape? Thank you.

A

We don't disclose the market shares for competitive reasons, but we can clearly state that they are by far the market leader in their focus areas, and they are significantly - we hear - than anyone else. And you find the installed base, the ship owners, if you take the four biggest that you have Greece, second is Japan, third is Norway, fourth is Germany. So that shows that there you have the ship owner. The ship owners, that are the decision makers. Then most of these types of ships are built in Korea. So the invoicing address is Korea, so it will significantly increase our invoicing to Korea. So Korea as a market will increase significantly.

On the value per ship, and of course as you said, yourself, that can vary a great deal. But just looking at the value of Frank Mohn AS' offering, and what traditional Alfa Laval and Aalborg is entailing, you can easily get to something that is between 5 and 10 percent of the value, of course.

And when it comes to offshore, there Frank Mohn has pretty much the same customer base as we have. When we have been going through their books, we see that they are supplying to a good extent to the same type of rig owners— whether it's in the North Sea or outside, Australian coast, or outside Brazil.

Lars Renström: OK. So, thank you very much for your attention with so short notice. Thank you and goodbye.