ALFA LAVAL AB

Moderator: Tom Erixon
13 July, 2020
8:00 a.m. GMT

OPERATOR: This is Conference # 3126328

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Alfa Laval Update conference call. At this time, all participants are in a listen only mode.

After the speaker presentation, there will be a question-and-answer session. To ask a question during the session you'll need to press "star," "1" on your telephone. I must advise you that this conference is being recorded today, Monday July 13 2020. I would now like to hand the conference over to your first speaker today, Tom Erixon. Please go ahead.

Tom Erixon: Thank you and good morning. Welcome to our conference call with the purpose of introducing our offer for the shares of Neles that has been announced today this morning. Let me – before I start, just point out that this is scheduled as a press conference. I strongly suspect that there are a number of participants that come from the financial community as well.

That's well respected, but please respect that in the Q&A side, we will not go into financial details to the level of the analyst community may wish. We are having an analyst call later today, where I expect we will drill a little bit more. So I think there are other questions than detailed debt ratios and other aspect that may be on the minds of some of the journalists.

So I ask you, from the financial community, to respect the space that we want to give the journalist right now and then we will provide ample room for Q&As regarding financial details of our offer later today. So thank you for respecting that. And I will remember who doesn't.

So this morning we announced an offer for 100 percent of the shares of Neles, Finnish stock listed company. We did that with a full recommendation from the Board of Directors of Neles and we offered a price on the shares of €11.50 per share, which is, depending on how you calculate the baseline, a premium on the trading on approximately 30 to 35 percent.

As part of our offer, we had also secured an irrevocable commitment and agreement from Cevian, the second-largest shareholder, that they would support this offer and they would also, of course, on the level of €11.50. We obviously expect that this offer will be well received in the market. Then we expect that we will eventually get to 90 percent completion of our offer within offering period.

However, the conditionality of our offer, at the end of the day, is at 2/3 of the shares and, with that, we will execute and move forward. So – and I'm struggling to shift the slide – OK. So for those of you who may not know Neles, the company name is new but the company has been around for a long time. It's been known as Metso and Metso demerged the mineral business with the merger with Outotec as of July 1.

Then after that, the already stock listed entity changed its name to Neles and has been trading as Neles since July 1 this year. And the remaining part in the Neles company, as it emerged on the stock exchange from July 1, is a company which is 100 percent focused on the industrial flow control area with approximately 3,000 employees around the world and the turnover in 2019 of around €660 million and a stable profitability.

So that is the Neles Company. And, for those of you in Finland that may not know Alfa Laval that well, we are a company with more than 100 years of industrial history. We are having a turnover of approximately €4 to €4.5 billion, around 17,000 employees worldwide and we are operating within

three divisions, one in industry – sorry, in energy, one division in the food and water area and the third one is the Marine division.

And, for you in Finland, that may be actually the part of Alfa Laval that you know best because we are often compared and discussed in the context of Wärtsilä. There are some areas where we overlap with Wärtsilä as a competitor. Although, of course, they are mainly an engine maker for marine engines whereas we are in adjacent areas in the marine business. So those three divisions form the basis of our industrial activities in Alfa Laval.

That takes us to the question of how come we have made an offer for Neles at this point in time? And let me first say that this is not a short-term game for us. We've been monitoring the industrial flow market for many years and, if you look at the – this slide, that may be a little bit complex, you will see the logic.

We're operating in three divisions, as I mentioned, but we're also operating in on three technology platforms. Platforms of heat transfer, of separation, mainly liquid separation, and in fluid handling. And for our two divisions of marine and food and water, we are in all three technology areas since years back.

Whereas, in our energy division, on the industrial side, we are working only with heat transfer and separation technologies. And we have, for many years, considered the area of industrial flow a white spot where if we could find the right platform from which we can start to build long-term, that will be a strong acquisition opportunity for us.

And it was clear to us, from the way we've been monitoring the market and working with M&A leads over the last few years that when the decision was taken in the Metso board to put Neles as an independent flow company on the stock exchange, that was a perfect fit for Alfa Laval.

It was a company in its entire revenue base and business that fitted into Alfa Laval and it was taking – and it was strong enough and big enough and global enough to be an independent and strong platform from which we can continue

to build in the years to come in order to broaden our presence in the industrial flow market. So that was the white spot and the rationale.

Beyond that, we feel that the business model that we run in Alfa Laval has a very good fit with Neles. And I'd like to highlight again that, although of Alfa Laval is a large company with more than €4 billion revenue, we are operating in a business unit structure with 13 business units that are largely responsible for their business and their integrated business model.

And – so we fully expect that Neles as a company will find its way into operating its business in industrial flow, as strongly and with full control as they do today from a very strong base in Finland and we will continue to invest in the product platform and operational structure of Neles should it become part of Alfa Laval down the road. As we hope.

Now, for us, and I'd like to add that also – this is a long-term growth case when we look at how we are be able to create value as an owner of the company. This is not the short-term cost synergy game.

While, of course, there will be some aspects of where we can optimize short-term, the way we will be able to make this a successful transaction is to support the long-term growth and business plan of Neles in the better way as a strong owner. And if you look at the business model fit with us on this slide it is obviously very good.

We have the experience to run product companies like Neles in Alfa Laval since many years back in – with a good track record. We have the opportunity and the will to invest heavily into new products and technology, as you will find if you look at our track record in Alfa Laval over the last few years.

We have a very strong focus on developing our global service business and that is, at the moment, a real high priority. Not only because it is important versus our customers and our growth but it is also an area which is changing rapidly with connectivity solutions and digitalization that changes the nature of the service business as we've known it.

And we are far down the road in Alfa Laval on that path and we think we can join forces with Neles on that as well given the high dependencies of service and replacement sales that Neles has.

We are used to dealing with supply-chain issues, both in terms of being cost competitive but also in terms of restructuring. We've done it significantly over the last three years, and we did recently have announcement that we're coming out of the big restructuring process in Alfa Laval when it comes to investing in modern automated and competitive manufacturing structures. That experience will come in handy here as well.

And then finally, we do, as an industrial company in Alfa Laval, have a history in the oil and gas sector and we still have a platform in that area. We have come a long way in defining our direction when it comes to the transition from the old economy to the new economy, when it comes to going from the old oil and gas business into biofuels and to green chemicals.

That is a journey that we are on. Obviously, Neles has a similar situation with a footprint in the hydrocarbon chain, as we've known it historically. I think we both have similar opportunities and challenges for that matter when it comes to finding a growth path into the new economy and a green economy going forward. We would have a good opportunity to connect together in that exciting journey.

In terms of our rationale, a few comments. I've already been on to a few reviews of those things. We found Neles as a company rather unique when we scouted, compared to a lot of other opportunities in the market. So the pure play, the focus of the company, fits very well with us.

The business model and the mix of service replacement sales of Neles fits perfect with how we look at business models that typically run in Alfa Laval that we are able to add value to. The financial profile of Neles is almost a copy cat of the way we have pronounced our financial targets in Alfa Laval, I think that is not necessarily a coincidence.

We are in similar businesses with similar business opportunity. So from the margin and organic growth point of view, we have similar objectives and

clearly similar opportunities when it comes to drive our business going forward. And finally, I would like to say that we also have a very positive experience from completing acquisitions in the Nordic region.

Over the last nine years, we've been to executing two major acquisitions. One was Aalborg Boilers in Denmark in 2011 and the second one was Framo in Norway in the end of 2014. Both those acquisitions, I'd like to highlight, have been very successful for them, I think, but also for Alfa Laval. They are still strong product companies.

They have the operational structure as they had it when we acquired them years ago in their respective home markets and they've been able to benefit from our global scale and, to a degree, leveraging on our resources, our balance sheet and our strength as a company in order to continue to develop.

So, in terms of cultural fit, our ability to work in the Nordic region with strong product companies' investments, we are very positive to what's been happening in Alfa Laval over the last 10 years. And we hope that we would have the same opportunity with Neles going forward from end year or so going forward.

Finally then, any thoughts on how we would combine Neles into Alfa Laval. I would first like to say that any integration plan and any detailed thinking on this will require significant working sessions with the management of Neles. This is nothing that we sit in Alfa Laval and decide what's going to happen with the company in detail.

There is a capable management team in Neles that has a plan and has a view on how that company should develop. So I really would like to highlight that we are not introducing a different plan for Neles. We are in full support from what we've seen on their business plan and how they outline their future as an independent company. So that is the starting point. And executing, that is the starting point.

With that said, if you look at Alfa Laval and our platform and what are the opportunities that are potentially there, I'd just like to highlight a few items that may give you some idea of the type of opportunities that exist. First of all,

we have a really big, large global network when it comes to services. It consists of more than 2,000 service technicians.

It consists of around 100 service centers around the world in pretty much any market where Neles is present. We have a structure in place that can be utilized for Neles in terms of being closer to its customer and leveraging in a more cost-efficient way to be able to reach them. Secondly, we are partly complete and partly still investing in a really world-class global parts distribution system.

We have automated warehouses in Europe, US and soon in Asia. We are able to serve customers around the globe with short notice on a low-cost, very well invested and developed global parts distribution structure. That structure is perfectly suited for a company like Neles when it comes to the size of products and the type of business that they are executing. So, obviously, there are opportunities to leverage on this.

Thirdly, we are in the vales business. Although, that is part predominantly related to the – to the food and hygienic applications. In biotech. In beer. In processed food. In various beverages. But the valves and the valve control technology is something that we are very well aware of with 50 years of work.

So we hope and expect that there are probably mutual benefits of comparing notes as to how do we develop the valves technology and the control technology going forward. The whole business model is very, very similar although applications and the specific products are very, very different.

So again, there are two parallel paths to the market, two parallel supply chains, but certainly an opportunity to compare notes and learn from each other. And lastly, let me point out that our customer structure in the energy division, which you see down towards the right hand corner, that is – it's not a copycat but it's pretty close to the end customer segments that Neles is operating in. And that means we are already there.

We know those customers. We are working on many big projects, actually side-by-side, because we are – we are facing the same type of quotations and contractors in our end application. So we are well-positioned, both of us, into

those end customer segments. We have a similar technology profile, we have a similar market appeal and we feel that, although we would not start to cross-sell an awful lot, we will have power in the channel towards those customers by showing up with a strong profile on both of those areas.

So that is why we are here today. Why we decided to make the offer. And, with that, I will hand over to Jan for some more financial details on how we have been executing the offer.

Jan Allde: Thank you, Tom. So I'd like to start with a saying, one of the key rationale, as we see it, Neles has an attractive financial profile. They have shown that they can grow above the market. And, as you can see can see from this graph, about 5 percent growth here since 2011 and about 10 percent since 2016. They have also shown a strong, resilient possibility. Around 15 percent over the cycle.

They do have a very attractive stable and recovering revenue stream coming from the parts and replacement business. And finally, they also have a track record of a strong cash conversion around 90 percent. So if you put Alfa Laval and Neles side-by-side, you see a company with increased scale with sales of around 53.5 billion SEK and 20,000 employees with a strong possibility level here, looking at 2019 proforma around 16.8 percent.

And finally, a good and well-balanced geographical exposure. So this tender offer is fully financed with a combination of our own funds and fully committed their facilities from SEB. And, yes, our leverage would temporarily increase from this, but we are confident that we can remain a solid investment grade company going forward.

If you look historically at our gearing, or at our balance sheet in Alfa Laval. You can see that we have generated significant cash flow in those years, which has enabled us to deleverage the company significantly. And today we are financial gearing, which at the same level as before we made the large acquisition of Framo back in 2014.

So we have strengthened the balance sheet and built up firepower to act – and going forward, we believe that – well, I'm confident that the combined

company will have a good and high cash conversion so that we can reduce the leverage going forward. And finally, the indicative timetable looks like this.

The estimated data for publication of offer documents is on or about August 13. And start of the offer acceptance period starting about the same time, August 13. And expiration of the offer acceptance period on about October 22. That concludes the presentation. And we – I guess we open up for Q&A.

Operator: Ladies and gentlemen, we will now be in the question-and-answer section. As I reminder, if you wish to ask a question, please press "star," "1" on your telephone and wait for your name to be taken by an operator. That is "star," "1" if you wish to ask a question. First question comes from the line of (George Haye). You line is (open).

(George Haye): Good morning, everyone. I just had some financial questions. Do you have any figure for synergies that are going to arise in the field in terms of either cost savings or revenue synergies that you expect on annual basis? And do you also have a figure for an assumption of what Neles' net debt is?

Tom Erixon: Well, let me address the synergies, we will, in due time, present some clarity as to what we expect. But, at this point, of course, if you offer a premium on 33 percent of the – what the market values the company to, you've got to have an idea that you can do things a bit different or that there is a potential going forward.

But I will refrain from starting to put numbers on those areas at this point in time. Regarding the opening balance sheet, I think – that would be clarity on this with the Q2 report from Neles, which is coming in two weeks? Something like that?

Jan Allde: (Inaudible).

Tom Erixon: (August 5th). We do not expect to see a lot of debt as part of that balance sheet.

(George Haye): OK.

Tom Erixon: (Inaudible).

(George Haye): Sorry. Go on.

Tom Erixon: I'm just saying, the net debt position the company had after Q1, which was described at their capital markets day, there was around €92 million and the net debt to EBITDA ratio about one. So, they did not have a significant net debt position.

(George Haye): Right. And just on the synergies again. Could you – could you give an indication of – even if you don't give a number, you could give an indication of whether you think their synergy potential is more from a cost saving point of view or from a kind of increasing the top line revenue or both?

Tom Erixon: I think I was very clear that this is primarily a growth and – build a long-term industrial presence in these areas, as opposed to a predominantly – a short-term cost-cutting exercise

(George Haye): OK. Thank you.

Tom Erixon: It seems to have been a very clear presentation. Are we having any further questions?

Operator: Yes. Next question comes from the line of Kati Pohjanpalo. Your line is open. You may ask your question.

Kati Pohjanpalo: Good morning this is Kati Pohjanpalo from Bloomberg News in Helsinki. I wanted to ask you whether you've had any dialogue with Valmet on this deal and whether you expect any competing bids to come. Thank you.

Tom Erixon: The answer is that – we have not been having any contact with Valmet obviously in the transaction of this the nature. The amount of contacts that you can have at all is extremely limited due to insider rules and other things.

So no, the answer is there is no contact. The question of – we think the offer that we have been given to the market is attractive. It is a significant premium. It is at 44 percent premium to the price that Valmet paid for the shares prior to the independent listing. So I think my interpretation is that they made their

interpretation on the value of Neles as respect to what they can create with Neles going forward.

We made our assessment and that is obviously a very strong industrial case. So I should hope that all shareholders, including Valmet, will find our offer attractive and support it. But I will leave that to Valmet's management to decide.

Kati Pohjanpalo: If I may ask a follow-up quickly, do you plan to have any dialogue with Valmet on this?

Tom Erixon: Well, we will go out with the – I don't have the intention to call Valmet today, no.

Kati Pohjanpalo: All right. Thanks so much.

Operator: There are no further questions at this time. Please continue, sir.

Tom Erixon: OK. And with that, thank you very much for listening in. And for those of you on the analytical side, we will be back at 2:00 with the full range – a similar presentation with certainly an opportunity for further questions. So thank you.

Operator: That does conclude our conference today. Thank you all for participating. You may all disconnect. Speaker, please stand by.

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