Alfa Laval AB
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Chaired by Lars Renström

Lars Renström

Thank you very much, and most welcome to the presentation on the first quarter report. I will start by giving you my three highlights.

First of all, we made a strong recovery from the previous quarter. Order intake in the quarter increased by 22 percent to SEK 7.9 billion, the second best quarter ever, and the sequential increase was 17 percent. Large orders increased to a new record level of SEK 950 million in the quarter. We had a high portion of Alfa Laval core products. The main contributor to the strong order intake was the Process Technology division, that enjoyed a solid demand.

The second highlight concerns the operating margin, and it was negatively affected year on year by lower capacity utilisation in some of our factories, as well as product mix and a higher level of sales and administration costs.

The third highlight concerns demand and we expect demand in the second quarter to be on about the same high level as in the first quarter, excluding large orders, where we expect a more normal intake.

And after that, we'll move over to the key figures. Order intake up 22 percent at SEK 7.9 billion. Net sales increased 16 percent to SEK 6.8 billion, and adjusted EBITA declined 1 percent to SEK 1.1 billion, and adjusted EBITA margin reached 16.5 percent versus 19.2 percent a year ago.

Now we move over to orders received and margins. And on orders received on rolling 12 months, we are now at SEK 30 billion, and the increase in order intake was 21 percent year on year at constant exchange rates. Large orders reached the record level of SEK 950 million, with some orders spilling over from the fourth quarter.

Moving over to the order analysis, you find that year on year acquisitions contributed 14 percentage units and organic growth 6.6 percentage units. We had positive currency effects of 1 percent. Sequentially, we had a strong recovery, and the organic growth was 17 percent.

Moving over to EBITA margin, we see that it declined to 16.5 percent, and the operating result was SEK 1 billion.

Now we move over to the development per segment. Here you see the new setup, with three divisions and their segments, and it's a mixed picture year on year. We have about the same number of plus as minus.

Let's take a deeper look at the divisions; so we move on to the next slide and we start with the Equipment division. Please note that all comments for the divisions are sequential. There you see that Sanitary improved from demand for prepared food, and Industrial Equipment declined somewhat due to seasonality.

OEM was slightly positive on demand from air conditioning and industrial refrigeration customers. And finally, Parts & Service reached an all-time high level. In the table you see that order intake was unchanged year on year.

We move over to the Marine Diesel division, on the next slide. There you see that demand for environmental solutions continued to grow, while demand for other marine equipment stayed on the fourth quarter level. Diesel was down, due to non-repeats. Marine and Offshore Systems was lifted by demand for boiler systems, and we received a SEK 230 million order from A.P. Møller for waste recovery on their newly ordered huge container vessels. The comparison in the table is influenced by the Aalborg acquisition.

Moving over to the Process Technology division, food technology was supported by further investments in brewery and vegetable oil. Large orders for newly developed decanters boosted Energy & Environment. Process Industry was affected by lower order intake in refinery and life science. Finally, a good activity in end markets supported Parts & Service. And from the table, you see that order intake was up 26 percent year on year; excluding Aalborg, it was up 24 percent.

And now we move over to the geographical developments. On the first slide you see that all regions, except Western Europe, had double digit growth, year on year, with Central and Eastern Europe and North America performing the best.

Let's take a deeper look at the regions. Please note that all comments are sequential. Orders increased 29 percent, due to strong performance in the product business of the Process Technology division, as well as part of the Marine Diesel division. Marine and Offshore Systems, Food Technology and Process Industry performed the best.

Moving over to Europe, we see that Western Europe and Nordic grew sequentially, with 10 percent and 7 percent respectively, supported by large orders. Sanitary and Energy & Environment did particularly well.

In Central and Eastern Europe, demand remained on a good level, supported by a strong development for large orders in Process Technology. Equipment division showed a small decline.

Moving over to North America. There we grew sequentially with 38 percent, and Sanitary did very well, as did Energy & Environment, boosted by orders for a new decanter for industrial wastewater cleaning. Demand for Parts & Service was up. Base business rose slightly from previous quarter.

Latin America grew sequentially, with 10 percent, and it was good growth across the line. Energy & Environment and Industrial Equipment did particularly well. Parts & Service benefitted from a high activity level in the end markets of the Process Technology division.

We move over to the next slide, where you see our top ten markets; and in that slide we compare last 12 months with 2011, year on year. And what stands out is our growth in South Korea and Russia. And by that, we move over to the financials.

Thomas Thuresson

Okay, good afternoon all of you. This is Thomas Thuresson. So, let's then take a slightly deeper dive into the numbers. If we move on to the next slide.

As Lars as covered orders, let's not dwell more on that and move on to sales. As I'm sure you have noted, we have realised sales of SEK 6.8 billion in the quarter. Sales was then organically up some 3.6 percent over Q1 2011, and then including acquisitions, adding 11.1 percent and positive FX effects of 1.1, we had an absolute increase of almost 16 percent. Sequentially, however, sales was down almost 16 percent compared to Q4, to a very large extent, explained by seasonality, as we had less of revenue recognition on contract-based sales, typically in Q1 as opposed to Q4.

Moving on to the next slide then, gross profit margin. The quarter ended at 38.5 percent, compared to 40.4 percent Q1 2011, and 37.8 percent in Q4 of 2011. And, let me then remind you about what I said with a Q4 report. Then I said, in the near term, we do not see conditions being much different, other than that mix will likely be positive sequentially. I think, with what we have reported today, the actual for Q1 actually came out as predicted. Mix gave a positive effect sequentially, but an adverse effect year on year. Currency was negative, year on year, to the tune of 0.6 percent. The impact from load was negative, year on year, as well as sequentially. And then, in addition, we had a limited negative impact from the margins in contract-based sales.

Then, let me give you our first forward-looking statement. In the near term, we do not see conditions, again, being much different than those that prevailed in Q1. However, with the order levels of Q1, load is likely to improve somewhat, and mix to deteriorate with a relative increase of capital sales revenues.

Moving on, looking at overhead costs we can report the following. R&D ended at SEK 158 million, which is an increase of a mere 1.3 percent, like for like, and continues to represent 2.3 percent of sales.

Looking at sales and admin, they amounted to SEK 1,123 million, which then represents an increase of 5.7 percent year on year, and even more important, a reduction of 17-18 percent, sequentially. Coming back to the increase year on year, this is explained by a generally high level of activity and our build up of the organisation in emerging market, an extended break, if you like.

EBITA margin for the quarter then ended, as you have seen, at 16.5 percent, which is down 0.5 percent sequentially and, in summary, explained by lower sales compensated by gross margin being higher and overheads being lower. The implementation of the savings programme that we launched at the end of 2011 is progressing, and effects will be seen in Q2 as regards, particularly, overheads in Western Europe.

Moving on to profit before tax, they were influenced by positive exchange variations in the quarter to an amount of almost SEK 60 million. Profit before tax was, as a consequence, SEK 1,020 million, an increase of just over 1 percent year on year. Looking at EPS, it was up, marginally, irrespective of whether we include step up amortisation or have them included. Before leaving the P&L, let me just point out is where the taxes ended with a charge of SEK 285 million, representing just under 28 percent of profit before tax. The same level as in Q1 of

2011, and let me then remind you that our guidance remains 30 percent taxes, based on profit before tax.

Cash flows from operations is specified in the slide as well, SEK 1,037 million. It's an increase with 137 percent over Q1 of 2011. I'll get back to this cash flow in a moment. Return on capital employed just over 28 percent, a reduction from 2011, of course, mainly influenced by the value coming from the acquisition of Aalborg. Return on equity, 22.5 percent, a reduction of about 2 percent is of course, again, the Aalborg acquisition and the capital connected is having an important role.

Moving on to cash flow in the next slide, as I just mentioned, an increase in cash flow from operating activities of 137 percent coming, partly, from a reduction in working capital of SEK 100 million, exactly. In investing activities, we have charges for acquisitions of exactly SEK 600 million, of course mainly coming from the delisting in India.

Free cash flow, that is exclusive of acquisitions, dividends, was almost SEK 1 billion, a substantial increase from 2011 first quarter. I think it's fair to say that, again, we've had another good quarter in terms of cash generation in Alfa Laval.

On the next slide, just a summary of the delisting of Alfa Laval India Ltd. You may have noticed from our press releases that we passed also the second hurdle in the delisting process. We got just over 50 percent of outstanding minority shares tendered at the price of INR 4,000 per share. Certainly more than we hoped for, but again, it was really the same opportunity to increase ownership and achieve delisting. We offer remaining shareholders to sell their shares at this price, INR 4,000 for a period of 12 months following the delisting, and this is, of course, entirely as per Indian rules. This may mean, if all of the outstanding shares are tendered, a cash outlay of another SEK 450 million.

Moving on, effects in the quarter, negative SEK 25 million. If we look at the full year forecast, based on SEK 8.90, EUR 1.30, we expect an adverse effect for the full year of SEK 105 million, clearly a prediction worse than what we reported with the Q4 report, of some SEK 100 million, following updated exposures, as well as updated exchange rates.

Moving on, on the next slide you find the evolution of our order backlog over the last few years; you find the break up between order backlog for shipment in the current year and for shipment in later years. Total backlog as per end of March, SEK 14.9 billion, out of which SEK 10.7 billion is expected to be shipped in 2012. Let me also point out that the backlog of SEK 14.9 billion for end of March represents approximately six months of LTM sales. What is important is also that, on a like for like basis, our backlog is still some SEK 100 million lower than at the end of Q1 2011. But, this also means that we have improved the backlog for shipment this year with some SEK 200 million compared to the status as per end of 2011, following the good order intake in Q1. So, with that as a base, let's move on to the sales bridge, in the next slide.

And, take a look at the summary of the knowns and the unknown parameters making up sales for 2012. Like for like, again, the backlog will give lower sales in the coming three quarters of some SEK 100 million, compared to 2011. The translation effect is estimated at SEK 100 million, which is less, again, than the SEK 500 million that we projected with the Q4 report. There is certainly an impact from the Aalborg acquisition and, similar to our last report, we expect an additional SEK 800 million of sales from the first five months, coming from Aalborg. This gives us a subtotal for the known parameters of SEK 29.5 billion, a reduction of the number from last reporting worth some SEK 200 million. Then, as always, it's up to you to form an opinion on demand for the full year, which then would give you a basis for estimating in-for-out orders in 2012. The number for in-for-out orders in 2011 was SEK 13.7 billion, a year with a very strong demand situation for the first nine months. And then, finally, with regard to prices, let me just repeat what I said last time. Prices for metals have been going down, compared to early 2011 and we have adjusted prices, as we typically do, as per the beginning of the year. These adjustments have been very limited and, of course, limited to standard products. With that, I give the word back to Lars for the outlook statement and closing remarks.

Lars Renström

So, the outlook for the second quarter is as follows. We expect that demand during the second quarter 2012 will be on about the same level as in the first quarter, excluding large orders, where we expect a more normal level. And then, I have some comments. We expect the lower level of capital sales to the shipyards to continue, given the contracting at the yards in 2011 and 2012. This affects about 10 percent of Alfa Laval totally. And we expect the high activity level in the Process Technology division to continue, especially in oil and gas. And that completes our presentation, and now I hand over to the operator for the Q&A session.

Questions and Answers

Q

A couple of questions regarding first, the pricing involved in these large orders you captured during the first quarter or otherwise, let's say the backup margin of those, whether it is improvement from the levels probably we've seen so far throughout 2011, or is at just the same level. And then a second question, regarding investment: how far are you on your investment in resource organisation on emerging markets process? Will you continue throughout the year, or are you okay at the moment in terms of investment?

A

Well yes, when it comes to the first question, if we look at the mix by application of the large orders, compared to what we've seen during 2011, we have a heavier weight going in to applications like oil and gas, as opposed to a heavier weight into, for instance, vegetable oil during 2011, and that represents a distinct difference in terms of scope of supply, so with vegetable oil we tend to have a wider scope of supply giving a lower margin as opposed to oil and gas, a more narrow scope of supply and, as a consequence, a somewhat higher margin.

And then, when it comes to investments in emerging markets and sales resources, our approach now is selective. So, let me repeat, we're counting back in established markets and we are selectively adding resources in, not only BRIC, but in emerging markets in general. So, based on the assessed opportunity in different end user industries, we are adding resources in the local organisations and, of course, following that, we are also selectively adding support resources for the quotation activities and for the order handling of, specifically, contracts, larger contracts

Q
Can I follow up? Then are you growing your net head count?

A
We are... net, as we see it, we expect to reduce head count in the overhead area still, with this selective approach, if we look at cost of goods sold, it is continuously adjusted to the demand situation, obviously. And our assumption, when we launched the savings programme, you may recall, we expected to take out 253 in cost of goods. With the order levels we have seen now, the situation will be different. For instance, job sharing is no longer on the agenda in Denmark. We've had job sharing in the first quarter. That has come to an end. We have a higher load in, for instance, our air factory in Italy, compared to quarter one. So, right now, we see less of an impact in cost of goods sold.

Thank you very much.

Q
Firstly, on Marine and Diesel, which I guess, is a new business for us in terms of the breakout or the disclosure. Can you give us a little bit of help around the seasonality in this business? How pronounced the kind of the swings we like to see over the year in terms of orders, sales and margins, and particularly on margins, I think you did close to a 30 percent margin in Q3 in Marine and Diesel; that's come down to 20 percent. How much of that is seasonal, how much of that is the underlying business trend? That's the first question. And then secondly, a much shorter one, just on a net financial, which I think was overall positive for the quarter. Just what, if any, gains you saw in there and what you would guess for the rest of the year? Thank you.

A
Well, when it comes to the seasonality of Marine and Diesel, the answer is simple, that there is no seasonality in the order intake of Marine and Diesel, and... but in order intake, its nature, is a bit cyclish, whereas if you come to sales, to invoicing, that is much more stable, since we have quite a long backlog, so that is the

situation. Then, when it comes to margin, two comments. The first one is that, in Aalborg there was a routine for the recognising discounts from certain suppliers at the back end of the year and that gave a boost to the margin in the fourth quarter for the Aalborg activities and, of course, we will account for input materials in a more appropriate manner, at least try applying the Alfa Laval principles for costing. Then secondly, of course, there is an underlying impact as volumes have come down in the traditional marine shipbuilding market. So less revenues is, of course, having an impact on marine as a whole.

Thank you.

Any interest that then, to finish off with, you should model with an interest net of say SEK 40 million per quarter. As far as effects variations are concerned, well, I have to say that your guess is as good as ours.

Q
Okay, thanks. And, maybe if I just follow up on the margin comment then, in Marine and Diesel? So, if you did just over 20 percent for this quarter, as far as you're concerned that's fairly reflective of what the business should do, and it's not seasonally depressed or, you know, just low-loading this quarter and it ramps up over the year? That is what it is, basically?

A
I have two comments for that. One is, we're doing our best to apply Alfa Laval costing principles and secondly, I am not providing a forecast. I am just stating the facts, when it comes to margin.

Got it. Thanks very much. Thank you.

Thank you.

Q
Yes, good afternoon gentlemen. Three questions please, from my side. First one is coming back to the emerging markets head count. Given that your order intake in the quarter was quite slow yet the outlook is okay, do you see that investment actually already paying off? In the order intake, is that what we actually see already, or is that still something in terms of sales force efficiency that you would expect further down the line? Second question is basically, I think last quarter you mentioned there was some extra IT cost in the other expense line, but other expense was again relatively high at over 200 this quarter. So, was there still some cost related to that? And then, finally, just getting your sales cost right, you had about 900 million in Q1. What was the like for like number in Q4? Because, I think Q4 was impacted by reallocation within (), so what's the like for like comparison there? Thank you.

A
Your first question on payoff in the emerging markets. The investments that we are making, both in the local manufacturing and in sales presence in the emerging markets, that will pay off during 2012 and 2013. So, we haven't seen the full effect of that.

Well, to the other two questions. To begin with, the extraordinary IT cost in Q4, we said at the time that they will continue into the first couple of quarters in 2012. They have continued on a somewhat lower level, as we anticipated. But these cost, their charge not to other cost and income; they are into the part of sales and admin. And then, finally, if I understood your question correctly, on a like for like basis, sales and admin was sequentially down between 17 percent and 18 percent.

Q
And maybe one follow up question? There was, probably as you said, on the pre-close call still a negative impact from Olmi on margins thus far, right?

A
Yes. () is dragging down margins, yes.

Q
Thank you. Good afternoon, ladies and gentlemen. If you look at the base orders and sort of take out the large size orders, we see sort of a flatter situation in the quarter. Were you surprised to that level, because of the very strong orders in large size orders? And maybe you could also, in that answer, try to explain the seasonality ahead. You showed the book to bill the quarter in the slide pack, and typically we have a... is that a seasonality, do you think, would prevail ahead, given new businesses? Those are my first questions. Secondly, on the savings, you talk about the European overhead coming down, Thomas. I mean, is it possible to quantify the savings here? You have to give us an update; and is that all sort of on the overhead side in terms of a reproduction or overhead administration? Finally, in the outlook we talk about, you mentioned sort of flattish demand if you exclude for large size orders and leave it to more normal level of large size orders. Should we look at, sort of a full year basis last year and divide it by four to get what you think is normal? I guess there is no normal here, but could you please help us out here? Thank you.

A
Okay. First of all, there is very limited seasonality in Alfa Laval. It's only in the Equipment division that we have some seasonality. So, from that perspective, I think you can disregard it when we talk about the order intake here in the first quarter.

And that, when you take the order intake in the first quarter, if you deduct the large orders that we have communicated in press releases, and do the same for the fourth quarter last year, you get the delta of SEK 400 million. So, that means that the business of orders smaller than EUR 5 million, grew, in fact, with 6 percent sequentially. So I wouldn't call that flattish.

And then you had the third question was, what is normal when it comes to large orders? And we can see, if you're in the fourth... before the drop in the fourth quarter we were hovering around the level of around SEK 500 million, so that was the run rate before the downturn or the blip of the downturn in the fourth quarter. Then, to your question about savings. As I stated before, predominantly Western Europe, when it comes to cutting back on overhead, and the majority of that is coming in the sales and admin area, and only to a limited extent in cost of goods. Of course, influenced by the strong insight we say in Q1.

Q

Good afternoon, everyone. I have a few questions, please. Can you just comment on the strength of marine boilers in the quarter? It seems, both from the () effects in the numbers and comments that that was quite strong. Can you just comment, is that seasonal or what drove that? First question. The second is on marine environmental. Are you seeing any changes in terms of the pickup, especially for SO2 scrubbers? We saw a few orders unrelated to marine environmental in the quarter being announced. Can you just give us a read on how that is progressing? And then, finally, on Energy & Environment, can you give us a read on how comfortable you are with the strength you're seeing in terms of the order cycle there and, you know, how long and, you know, at what pace you can expect that to continue?

A

All right. Well, I'll take the last question first. We take on quarter at a time, and when it comes to the demand situation for the Process Technology division, we see a solid demand and, especially, in oil and gas and in power generation, and there's a high activity level when it comes to the tender activities are quite high. And, given the high price of oil, it looks quite promising. Then moving back to your question on marine boiler systems, the main drive for the order intake was this large order of SEK 230 million, that was communicated in a press release, and that was waste heat recovery boilers for the huge container ships that A.P. Møller have ordered in Korea. That was the main driver. And, finally, when it comes to the environmental products in marine, we see a continuous good activity level, when it comes to ballast water, and when it comes to SOx it's still quite a limited activity.

Q

Just a follow up on the ballast water? Do you expect the treaty ratification this year? What is your expectation on the treaty and progress there?

A

Time will tell. It's hard to give a forecast. It has been dragging on now for several quarters, so it's hard to know.

Q
Good afternoon. I just had a couple of questions on the capacity utilisation. Sort of trying to get a sense of how much lower it was in Q1 versus Q4. Would it be possible to give some quantification on that?

A
The impact on the margin was in the neighbourhood of 40 basis points.

Q
Perfect. And just looking forward, because I think you mentioned that capacity utilisation would be slightly higher sequentially going into Q2, you know, I understand that you can't give any numbers, but are we talking a significant increase or a limited one?

A
I think that somewhat is a synonym for limited. For somewhat was the word I used in the presentation. Load is likely to improve somewhat, and don't forget, mix deteriorate with the relative increase of capital sales revenue. That's what I said, when it comes to forward looking statements for margin, gross profit margin.

Q
Hi. I had a question on the US. Gas prices have come down very sharply this year. Just wonder what you saw in terms of prospects for higher investment in the petrochemical industry, LNG and so forth, and whether you'd already seen a pickup in tendering activity or whether, you know, it's happened too quickly and these things take time? Thank you.

A
Well, we see a high tendering activity in North America, and we are active both in shale gas, where we have seen a high activity for a long time, and we also see now that there are plans to start exporting natural gas from North America, that they are busy preparing, or let's say preparing terminals for export. So, it's a high activity level, high tendering level.

Q
Thank you. And can you give us a sense on how big, you know, US petrochemical or LNG would be as a portion of your sales?

A
No, we don't provide that information, and we don't have that break up. Sorry.

Okay, no. Thank you.

Q
One follow up question, please, on Marine and Diesel. Wärtsilä said that Marine & Diesel service revenues were up 12 percent in Q1 for the first time in a while,

seeing Europe recovering. Have you witnessed the same already in your Marine and Diesel division?

A
No, we have not seen that.

Okay, well thank you.

Closing Comments

So, thank you very much for your time and your attention. Looking forward to hearing and speaking with you within a quarter's time, at the latest. Thank you and goodbye.