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Q2 Earnings Conference CAll
July 18, 2016
12:45 CET

Tom Erixon:

Thank you and good afternoon; welcome to the call. You just received our second-quarter report and I will give some initial comments to that and afterwards hand over to Thomas Thuresson, CFO, for some further details.

Let me start with a couple of overall comments before addressing some of the numbers specifically. The year-on-year outcome reflected largely the situation in the oil and gas and marine industry, where there are some clear weaknesses and the year-on-year figures, both for order intake and sales, came in about 11 percent to 12 percent down compared to the same quarter last year.

And also in terms of our cost base and the situation to adjust, we are continuously working with that and you can see that partly reflected in stable gross margins. In a sequential perspective, our numbers are more positive; we see a good development in a number areas and I will come back to that shortly.

In terms of the financials perhaps the most -- strongest number is the cash flow, which came in very strong at SEK1.2 billion in the quarter, reflecting 35 percent growth compared to the previous quarter. So that was a rock solid number for the quarter.

And finally, as an overall comment, as you know and as was indicated at the last quarterly call, we have initiated the strategic review. We were not specific about the timing at that point in time. The work has progressed well and we are now at the path where we will clearly address the details and get back to you on the details of the outcome of that review prior to yearend.

So with that I'll go to some of the key figures for the second quarter. And as I indicated, it was reflecting the market situation in oil and gas and marine to a large degree, with a year-on-year decline of 11 percent to 12 percent, and similarly the EBITA declined to SEK1.4 billion. We were mainly affected by mix effects compared to the earlier year and also the capacity utilization in our factories and in the industrial system is obviously affected by the decline. With that said, we have good stability in gross margin and an active work on the cost side.

If we go to the sequential numbers, order intake grew 5 percent, net sales grew 9 percent and our EBITA grew also 4.5 percent, so sequentially the development was significantly more positive. We have sequentially netted out the decline in oil and gas and marine, essentially, with stability in most parts of our portfolio in the quarter and I would say the picture is similar to Q1. We are relatively stable or positively growing in several areas of the businesses outside those two key segments and I will come back to some details on how that looks geographically and in the different parts of the portfolio.

If you look at the order trends in a bit of longer-term perspective, you'll see that in the quarter we continued with a few large orders. There are not much activities for larger capex projects in the market at this point in time. We announced in the period two larger orders, amounting to total of just above SEK100 million. So it was one more than last quarter, but as you see in a historic comparison, we have been up at SEK300 million-SEK400 million -- even SEK500 million in a quarter -- so it is a very low level.

Other than that, the base business and services businesses are developing OK and as you see, on that note, the development, both historically but also consequentially, it is a relatively strong quarter, I would say.

The 9 percent decline that we have year on year is, if you look on the structure of that on the next page, it is reflecting about 2 percent-2.5 percent of currency effect in that. So organically, it is a decline but the decline is around 9 percent as a whole.

The margin development is slightly negative although the EBITA result as such increased sequentially. We did have a further decline on it. It is a reflection of the invoicing of oil and gas, which is still decreasing, and that is a profitable part of our mix. But -- and there's also some utilization effects in there -- but other than that there is no big drama in the market when it comes to pricing and such.

That takes us then to the divisional reviews. Let me start with the Equipment division. As in the previous quarter, the Equipment division was very stable; we had good growth in the quarter. The strongest part of it was in Sanitary and it related to food and pharma, which saw very strong growth in the quarter, both year on year and sequentially. In Industrial Equipment, we have some seasonal effects in -- especially in Q2 -- and those we had this year as well.

And all in all it was a good quarter for the order intake. We built the order book. Margins remained stable, although we didn't repeat the first-quarter margins. As already indicated at last call there were some one-off effects in that result, so we came in, as expected, on a good level for the Equipment division.

Going to Marine & Diesel, sequentially we were stable in the order intake for the Marine sector. There were variations between areas this quarter. The pumping system area was strong. We had good sequential growth in that area and all in all we stayed stable for the division as a whole and margins remained on a good level with good profitability in the quarter.

In Process Technology, we saw a stable or positive development on order intake; however, the low activities in oil and gas means that our mix is still challenged and our profitability remained at around 10 percent in the quarter, and as indicated in the quarterly report, we don't see the mix change in a positive way coming in during the rest of this year.

And that takes me to the summary for orders received in the customer segments, and there is no surprise in that for you. If you look at the growth, the clear growth areas for the first six months of the year, Sanitary equipment remains very positive. The Process Division’s Service business has grown nicely, particularly in Q1, but all in all it's a good first half in that area, reflecting efforts to develop the business when large orders are not very present in the market. Most of the other areas are stable, with small variations in plus and minuses, with the exceptions of part of the marine segment and Energy & Process, as you can expect.

From a geographic point of view, again there is big impacts on marine and oil and gas and you see the marine effects in the invoicing in Asia, primarily, where the numbers are negative year on year and sequentially. But, as in the first quarter, excluding the marine business, China is growing and Asia is growing as a whole. And if you move to the US, where most of the effects of oil and gas are being seen, we are still down year on year but sequentially we are back in growth in the US and it was all in all a good and stable development of the base business and larger orders in the US for this quarter.

Eastern Europe and Russia continues, year on year and sequentially, to grow. We think Russia has turned the page. We have seen a strong quarter there and all in all those numbers are good. We've seen a return to growth in Nordic and Western Europe in the quarter, and that has been reflected, among other things, in the EQD numbers as well, as you've seen before.

Latin America may look negative, sequentially, with the 13 percent, but it should be remembered that the first quarter in Latin America was very, very strong indeed. We are growing year on year and for the first half we are still on positive numbers, so we are positive around Latin America as a whole for this year.

And that is the review on the order situation for the Group and I hand over to Thomas for a further discussion on the numbers. Thank you.

Thomas Thuresson:

OK. Thank you, Tom. Good afternoon, all of you.

Let me jump right in to sales. Let me start off by reminding you of what I said after the quarter one report with regard to expected sales in quarter two. At the time, I said we believe it's reasonable to expect a somewhat higher level of sales in quarter two compared to quarter one. This is explained by the phasing of delivering the order backlog as well as a certain seasonality.

As you've seen from the report, we realized sales of SEK8.95 billion in quarter two. In comparison with quarter one then that was an increase of approximately 9 percent at constant exchange rates. So then, compared to quarter two of last year we were down 8 percent plus, again, at constant rates. So I think, to conclude, in terms of invoicing we ended as expected or even slightly better in relation to our own view of quarter two.

A few words about Service, the service activities represented 28.7 percent of total revenues in the quarter. That is to be compared with 25.8 percent a year ago and 29.7 percent in quarter one. That is to say, aftermarket is providing a positive mix effect year on year and a negative mix effect sequentially. However, the content -- and this is important -- however, the content of service versus parts within the aftermarket activity was higher, having an adverse effect on the service margins, if we look at it year on year.

Let me then deliver the first forward-looking statement. We believe it's reasonable to expect a somewhat lower invoicing in quarter three compared to quarter two and this is because of the following main reasons. It's of course to do with the phasing for delivery of the backlog, the demand development in certain sectors during the spring, and a certain seasonality when it comes to revenue recognition, due to the vacation period in some regions.

Let's then move on to gross profit margin. Gross profit margin for the quarter was 36.2 percent, or almost exactly on the level of last year, and representing a decline of 0.8 percent sequentially. Again, with the first quarter report I said: in the near term we expect adverse effects from volume -- that is to say load and mix, we expect positive FX effects and lower metal prices to provide some compensation. I think it's correct to say that the actual means gross profit margin was influenced by the mentioned parameters as expected.

Let's then move on to the next slide for some further comments on the gross profit margin. As just said, the actual came in on the level of last year and below the first quarter. We were suffering adverse effects from a negative price/mix effect in capital sales year on year to do with declining oil and gas content in PTD and mix in Marine & Diesel, as well as of course a weaker load in certain factories. Compensation was given by positive mix from relatively more after sales year on year, and more so the FX transaction effects.

Sequentially the relative reduction of service was a negative, a worse mix in capital sales and then again a weakening load. Compensation, again, was provided by FX and metals, and of course the number of pluses and minuses gives you a sense of the magnitude of the various parameters.

Let me then give you the second forward-looking statement. In the near term, we expect adverse effects from volume or load to further increase. We expect slightly reinforced positive FX effects and that is of course assuming a relatively weak SEK that is as weak as today. The FX then to provide some compensation.

With that let's continue to look at overhead cost development. For R&D, as you may have seen from the report, we ended SEK213 million in the quarter, which is an increase year on year of 15.5 percent, representing 2.3 percent of sales. That is to be compared with 2 percent last year of sales.

In summary, R&D has consciously been increased to support future sales, despite a declining trend in current orders, but remember, you have seen swings in the development between quarters, and that is of course to do with an uneven occurrence of things like models and test versions of individual product designs. So this is not to be seen as a continuing increase to the tune of 15 percent in R&D, but again, supporting the conscious decision to increase, as I just commented.

Moving on to sales and admin, we had sales and admin of SEK1.55 billion in the quarter, representing an increase, like for like, of 5 percent year on year, an increase explained by, of course, salary inflation, increased pension costs in the US and the UK and I think it's also important to mention that of course housekeeping measures are continuously initiated. We're having a very tight control on headcount. But the resources initiated -- resource reductions initiated in particularly oil and gas -- they will only be coming on stream during the second half of this year.

Sequentially, the level represented an increase of 8 percent. And of course that is more a question of coming back to the kind of level that you saw during the second half of last year. Remember we had a sequential decline of 6 percent between Q4 and Q1. And then on top of that of course salary adjustments from Q2 in certain geographies.

Profit before tax SEK1.26 billion, SEK1.27 billion. In a year-on-year comparison, the reduction is largely explained by the lower invoicing, but of course also the somewhat lower operating margin, then compensated by a better financial net.

Before leaving the P&L, a few words about taxes. We had a tax charge of SEK334 million, which represents 26.4 percent of profit before tax, below guidance for taxes, but still the guidance stays at 28 percent.

Then, EPS SEK2.21. Of course, explanation again lower invoicing and somewhat lower margin. And finally, the return numbers, 19.9 percent and 20.2 percent respectively, for return on capital employed and return on equity. Even if somewhat lower than last year, good levels of return, despite the decline in profitability.

If we then move on to the divisional performance on the -- coming on the next slide, the comments that I will give you relate to operating margins. The comments on the slide, they relate to profit in absolute terms, so again, as I always say, you get it both ways.

Equipment came up higher than last year, however lower than quarter one. The sequential decline is due to a combination of the positive mix, still, but reduced through somewhat higher cost and lower volume or load. Process Technology, operating margin came out lower than last year but slightly above quarter one. Sequentially the increase in margin is thanks to slightly better outcome in project execution, which I think is worthy of note. Margin was negatively impacted by somewhat higher overhead costs, and, again, their share of a lower load in certain factories.

Finally, Marine came in almost exactly on the same level as Q1 in terms of operating margin, and this is of course explained by more positive FX, particularly US dollar

Norwegian krone. And then reduced by lower sales volume, lower load as well as slightly higher overheads.

With that let's move on to the cash flow statement. Cash flow from operations amounted to just over SEK1.2 billion, a reduction of SEK0.3 billion year on year. The explanation is of course a lower profit net of taxes paid and then a somewhat smaller reduction in working capital. Regular capex ended at SEK128 million, as last year, and then remember here, for the full-year 2016 add SEK 200 million to last year's numbers for the investment projects going on in Kolding, Denmark and Pune in India.

Financial net paid was positive SEK21 million in outcome, some SEK100 million better than last year, and explained by, to some extent, lower interest paid, but of course mainly more favorable FX differences.

All in all, free cash flow SEK1.16 billion, compared to almost SEK1.3 billion a year ago. The year-on-year decline is in summary due to the net of lower earnings compensated by better financial net paid.

This cash flow has brought debt to EBITDA to 1.74. We were at 1.97 a year ago.

Then let's look at FX. FX effects in EBITA in the quarter were positive with SEK137 million, an outcome as expected a quarter ago. The forecast, we've updated and with the weakening Swedish krona during the second quarter, we see bigger positive effects from transaction exposures. So a total positive of SEK475 million for the full year. That is compared with SEK350 a quarter ago, so more positive this time around.

Let's move on to backlog then. We had a total backlog of SEK18.6 billion by the end of June, representing 6.6 months of LTM sales. Of that backlog some SEK10.8 billion are scheduled to be shipped before year end. This means a reduction of SEK2.25 billion compared to June of 2015. Then let me just remind you, we were down SEK1.7 billion in terms of order backlog to be shipped in the coming year by January 1. But SEK 2.25 billion less in H2 compared to 2015.

Having said that, let's finally look at the bridge into whole year sales. We have sold -- we have revenues of SEK17.1 billion first six months, down SEK2 billion from last year. To that of course we add the SEK10.8 billion for delivery before year end, and then last year we received in-for-out orders -- orders in with shipment before year end of SEK7.4 billion last year. That gives us a total of SEK35.3 billion.

With regard to demand, you know that we've seen a decline for a number of quarters by now and we, as you have seen, expect the same level or slightly lower level of demand in quarter three. So I think that sets the scene for what kind of development, year on year, can we expect in quarter three in-for-out orders. And then, of course, prices, small adjustments on standard products, as I've commented before. So I think this gives you a good basis for projecting full year sales for Alfa Laval.

And with that I give the word back to Tom for the outlook and the closing remarks.

Tom Erixon:
Thank you very much, Thomas. We'll go straight to the outlook comments for the Group and for the divisions. For the Group you already, in the quarterly report, have seen our outlook, which is that we expect demand during the third quarter to be in line or somewhat lower than in the second quarter. And as per the divisions the outlook goes as follows: for the Marine division we believe demand to be somewhat lower. In the EQD division we believe the demand will be on about the same level or slightly lower. And in the Process Technology division we believe demand will be on about the same level as in quarter two. And as you realize, these are our expectations also based on what's happening in the marketplace. You've seen downgradings in the expected number of contracted vessels in the marine area and that was as expected from our point of view. And if you look at the Process Technology development, you've also seen rig count stabilizing or even slightly improving, and we believe that all in all for Process Technology the same level is the most appropriate forecast.
So there you have it. I think I'll leave it at that and we'll go to questions and answers. I hand over.

Q: Yes, hi, Tom and Thomas. A couple of questions, please. Firstly, on the margin, process tech margin continues to disappoint a bit as the backlog unwinds, negative price/mix and factory load. The margin in marine and diesel is still holding up. Obviously different operational gearing to volumes in marine and diesel, but still difficult for us with visibility here. Could you comment a bit on the backlog whether we're just waiting for a big margin decline in M&D as well, or if we could hold the margin here?

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Thomas Thuresson: Well, I'm sure you would love to get the forecast margins in the various divisions, but you know that we are not providing forecasts as far as margins are concerned other than what you have just gotten. But this is -- and this is where we are. Please have in mind that the aftermarket content in the marine business is the highest of the three divisions and I think that is a factor to have in mind when you assess the margin development in declining sales -- in declining sales for the various divisions.

Q: Yes, exactly because it feels like the service business took a leg down here in the quarter, and I mean, just obviously going into the second half this is short in-for-out, so some sort of margin decline should be expected, I guess.

Thomas Thuresson: I think now you're referring to orders. The percentage of aftermarket revenues, the total revenue is higher in marine and diesel than any of the other two and that of course provides more stability to operating margins than for the other two.

Q: OK, my second question is on oil and gas. Orders are bottoming in energy and process. Oil price is moving higher. I appreciate what you said, Tom, but have we seen any positive development at all on the quotation side? Your discussion with your customers, with the oil price moving higher, or is that still too early?

Tom Erixon: Well, let me say that the -- there's certainly one area in oil and gas where we see a high level of quotation. That's related to the changing situation in Iran. It's not going to mean a total turnaround for Alfa Laval as a company, but we see spots which are positive. We see a breakeven situation or even a profitable situation for shale oil and gas, at least in the Texas region, based on current levels, and that drives the stop of decline in rig count and probably turning to a higher level. We see announcement in Kazakhstan, as you might have seen, which is one of the biggest CapEx projects announced in recent year in the sector.

So I think there are -- as to be expected, there is some underlying positive fundamentals to the business, going forward, but we still have to take a fairly prudent view here in Alfa Laval when it comes to how will that move towards possibly materializing in our order books. And we feel that after the big capex write-downs in the sector there will be some time before the investment decisions are being taken and the capital is committed, so we are not -- we are obviously very positive to what has been happening over the last six months in the sector. We have to be, but we are still cautious in terms of how quickly we expect that to come into the order book. So as we speak today, we are -- I would say our focus is to make sure that our cost base is in shape, as opposed to hoping for a big order book to fill in the short term.

Q: Then, finally, on underlying demand versus seasonal, it's obviously good to see that we're improving quarter on quarter, but the second quarter is always stronger on seasonality. Could you help us understand what surprised you positively quarter on quarter, if anything, thinking particularly about the equipment division?

Tom Erixon: Yes. I think it's clear to us that the areas within food and pharma and to some degree water, came in strong in the quarter. You see that in the sanitary business in EQD, but it was also true if you look at some of the sectors in the PTD, especially for the brewery and the vegetable oil side. So we had a good quarter in the food and pharma sector as a whole, and I think that came in perhaps a little bit stronger than we had expected, I have to say, especially given the fact that also in the food sectors the amount of large orders is not terribly big.

So I think the organization is working well in the absence of these large orders as sometimes drives our sales development. There is an increased focus on the base business, to a degree, on the service business, and I think when you look at the incoming orders, excluding the large ones, we feel that that was a relatively good performance overall, but especially in the food and pharma sector.

Q: Thank you.

Q: Hi. Thank you. Two questions from me. Just firstly on the process technology margin, I think you said in Q1 there were a couple of exceptional items in that margin where you had cost overruns on a few projects. Was there anything in the Q2 margin that we should think about as exceptional? Or was that 300 basis points …

Thomas Thuresson: No. I tried to express that in my comments just before. There was a better engineering performance in process technology. So no mishaps in Q2 in PTD as far as engineering or project delivery is concerned.

Q: OK and when you look at the mix of orders coming through that division as we move into Q3 and Q4 of this year, is the mix incrementally worse than we've seen currently? Or is it actually stabilizing in terms of the share of oil and gas versus other end markets in that division?

Thomas Thuresson: No material variations at this point. We cannot see any material variations in the coming quarters.

Q: OK and I guess a second question on the marine and diesel business, the current mix -- we don't see it anymore, the current mix of Frank Mohn revenues versus the original Alfa Laval orders in that division. But should we assume that actually in the order backlog, or the orders being currently taken now, the mix is very different than the revenue mix between Frank Mohn and Alfa Laval? And obviously we know the margin differential between the two, I guess what I'm asking is, is that going to be a mix headwind as we move through the back end of this year and into next year?

Thomas Thuresson: Well, as we have commented already late last year, Frank Mohn is full for 2016 in terms of delivery. So a decline in revenues, material decline in revenues, in Frank Mohn is only to be expected later or really late in 2016.

Q: And have those -- I mean has the Frank Mohn business -- I mean it seems to me that the Frank Mohn business has underperformed the overall Alfa marine and diesel business year-to-date quite considerably. Is that a fair assumption?

Thomas Thuresson: No, it's not. I cannot see how you came to that conclusion, no, not at all. And then, of course, the FX effect, of course, we got some support from the weak NOK to dollar.

Q: Sorry, I meant the Frank Mohn business in terms of orders relative because of the SEK1.2 million …

Thomas Thuresson: No, when it comes to Frank Mohn, remember after quarter four when we had an extraordinarily strong booking we said we expect a large decline in quarter one, and remember that really happened and it happened exactly as we predicted. We have now seen a good recovery in orders for pumping systems in quarter two, so we were right in that we said we believe that we will have a pickup from the very low in quarter one as well, so no.

Q: OK, thank you very much.

Q: Thanks very much. Hi Tom, Thomas, three questions, Tom. First of all, on strategic review, you see a comeback before yearend, I wonder whether you can talk a little about what you're doing on the side -- outside of the review currently on costs. I think I've heard Thomas talk about a resource reduction in oil and gas. I'm not sure whether that relates to your cost levels and if it is, what are you doing there specific?

And perhaps just more generally on your strategic review, what's holding you back from announcing something earlier than yearend, particularly on costs? If I want to just maybe just take them in order, in terms of -- secondly, in terms of your outlook for marine into Q3, just on pumping systems in Q2 can you talk about what drove that? I mean I see tanker orders still running at very depressed levels according to Clarksons, I wonder whether you are baking in a reversal of that recovery you saw in Q2 on pumping systems in Q3. And maybe also if you could talk a little bit about what you see in marine services as you go into the third quarter, obviously down year over year and Q-over-Q in Q2. And then finally, just Thomas, a quick one, a bookkeeping one, net interest in Q2, the interest expense, a positive SEK104 million, can you just talk about what that was and how we should think about modeling that net interest level for the remainder of 2016? Thanks.

Tom Erixon: All right, let me start with some comments on the cost side. The work that we call the housekeeping work is ongoing at full speed as normal and you should look to the gross margin numbers being stable at just over 36 percent as an example of what's being done in terms of efficiency and in terms of sourcing in a situation where we are struggling with smaller volume and lower capacity utilization. So there is a program in place for handling a decline and that's running up until yearend with clear targets and we are following that as a matter of business as normal.

It is clear that where the declines that we have, we have reason to consider what in addition to the normal measures do we potentially need to consider and the reason we are not dealing with that as a specific issue is that I want to make dead sure that what we do in the short term is consistent with what we want to achieve in the long term. And consequently you will have to wait for our announcement in this case.

The guidance that we are giving you on the timing is that it's going to happen within this year. So you should not expect the next conference on the topic to happen on New Year's Eve; we haven't given a particularly timing due in the second half as to how things will play out. We just want to signal what is coming out of this review is happening in the second half.

Regarding the marine and the pumping system, our opinion in the market is first of all, there is a lot of the order negotiations ongoing is not happening on the ships that are contracted right now or in quarter 2. There are still negotiations ongoing with already contracted fleet, which sits in the book of the yards at present. So the activity level in pumping systems in quarter 2, as you've seen and looking forward, is not necessarily reflecting the, let's say, the Clarksons numbers on where is the total ship contracting going. It's also so that the product tankers, which is one of the main drivers of the pumping system business is a relatively healthy business with both ships and ship owners making money. And we see a growth in the downstream oil and gas side in general when it comes to the refinery business in general and related to the product tankers and transportation needs in general. So there are variations in the marine sector when it comes to the health and I would single out the cruising segment and the product tankers as two areas which are still in good health, while certainly we are impacted by the overall difficulties in the sector as a whole.

And I think I'll leave that on those two and then on the third point, Thomas, if you would …

Thomas Thuresson: Yes, when it comes to marine services, what creates a certain amount of lumpiness in the numbers is that the contracts for overhaul of larger boiler systems is no doubt lumpy. So that sort of creates variations in marine service. There is stability in the underlying spares volumes. Then finally, Lars, you said we had a net positive interest net, but we didn't; we had a positive financial net, but we had a negative interest net. And we will continue to have a negative interest net, but what the FX difference is in financial net will be, well, your guess is as good as mine. Will we have another Brexit? Will we have another issue similar to what's going on in Turkey and so on? Again, your guess is as good as mine as far as interests are concerned. Let's say that we are in the neighborhood of SEK30 million to SEK40 million per quarter of interest paid, so no change there really.

Q: That's helpful, thanks.

Q: Perfect. So I would like to come back to the sales bridge that you provided and ask a question about in-for-out orders. Could you please explain how in-for-out orders in the first half of this year compares to in-for-out orders in the second half of last year?

Thomas Thuresson: From the top of my head I can't give you a number, Andreas, but of course, if we look at the base orders, they to a very large extent come from aftermarket which has shown a slight increase in volume over the last 12, 15 months. If we look at capital sales in equipment, that is basically base business, again flat to slight growth. And then the third component of base business is a share of process technology capital sales, where of course, it's more of a mixed bag. But all in all, I would say with a decline in base business in process technology there is some decline in in-for-out orders.

Q: But not a big one?

Thomas Thuresson: It's not, of course, not as large as the decline in overall orders, because there, of course, you have longer lead time contract orders as well.

Q: Yes, OK, perfect. And then regarding to marine and diesel division, you are referring to a negative price mix when you discuss the year-over-year margin drop that you have seen there. Could you please just explain where you're seeing this negative mix, or if it is also on the pricing side?

Thomas Thuresson: There is a negative price mix effect and of course again, the mix is not the same from one quarter to the other and we have seen a decline because of the price/mix effect. And remember, many of these orders, the vast majority of these orders, they're based on negotiations between us, the yard and the ship owner. So of course, there are variations in both elements.

Q: But would you say that the pricing pressure becomes bigger and bigger now when we are seeing fewer and fewer ship orders?

Thomas Thuresson: No, there is nothing that proposes that pricing pressure is different to what it was three months ago or six months ago.

Q: Then lastly, on quotation levels around large orders, during your presentation I felt that you did not expect a significant pickup in large orders during the second half of this year. Would you say that it is correct interpretation from my side?

Tom Erixon: We're not giving an outlook on large orders specifically, so you will have to look at that overall demand outlook as a basis for those assumptions.

Q: Yes, OK.

Tom Erixon: It's also like this that, I mean, these large orders are from a communication perspective, we draw a firm line at EUR5 million and consequently a EUR4 million doesn't hit the communication line, whereas a EUR5.1 million does. So from our perspective there is a spectrum of from small to large and while the ones that are communicated are few and clearly fewer and it reflects a reality, in fact we do negotiate ongoing as part of what you see as the other report.

In addition to the base business, there is a healthy pipeline and there's been a healthy closure of projects. For example, the brewery and the vegetable oil revenues -- or, sorry, the order intakes from the quarter, there are a number of those products involved. So the market for projects is certainly alive, but the large CapEx spendings are very, very limited.

Q: OK, perfect. Thank you very much.

Q: Thank you, hi Tom, hi, Thomas. Can I just ask on a sales and admin cost please, it says in the text that they were up 5 percent and 3 percent year on year organically and sales are obviously down 10 percent. Just maybe more comment on why there is such a mismatch on the overhead and I guess why you're not squeezing it harder. Is that something that you'll be addressing in the strategic review? That's the first question.

Thomas Thuresson: Well, as we've tried to vocalize earlier here, we are having a tight control as we have for a very, very long time through our processes in terms of headcount and that is providing some effect. We have initiated adjustments of capacity as referred to earlier, particularly in the oil and gas area.

We do have some effect going in the other direction, as you know and as I mentioned, we have the salary inflation, we have some pension issues in the US and

UK, we see increased cost for pensions. But it is now housekeeping and we will see more of the effects from the referred oil and gas adjustment during the second half. But as Tom commented earlier, we combine the short and the long term in the strategic review and that's why you have not seen any kind of programs for adjustment as you are asking for.

Q: Got it, OK, thank you. Then on the currency, the tailwind you had of SEK137 million in the second quarter, Thomas, can you give us any sense as just to how that benefit is split across the different divisions, just so we can work out the kind of underline development?

Thomas Thuresson: Relative to the size of the divisions, one division got a bit more than its relative weight and that is clearly marine and diesel because of the weaker NOK today than a year ago or two years ago. So somewhat more benefit to marine and diesel than its relative weight.

Q: Great, thank you. And then just finally on the backlog, are you seeing any delays or deferrals, revenues being pushed from this year into next year in any parts of the business?

Thomas Thuresson: Nothing worth reporting, nothing material. There are adjustments in both directions continuously to adapt to customer demands, depending on where they are in their installations.

Q: Got it. And then maybe just finally on the gross margin, it was flat year on year but you're probably getting a reasonable boost from currency transaction, so on an underlying basis it is down year on year. Is that because of divisional mix in the marine business which is higher margin and started to come down? Or is that gross margin pressures within the individual business areas?

Thomas Thuresson: Well, it is load and it is mix in year on year in PTD and in marine and diesel where mix is negative and in equipment, we have seen positive price mix effects year on year.

Q: Got it, OK. Thanks very much.

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Q2 Earnings Conference CAll
July 18, 2016
12:45 CET

Q: Yes, good day, Tom and Thomas. Just a couple of questions, my first question on the service, you mentioned the different mix between parts and services. Do you see that as a temporary change, or is it something that you see will stay this current breakup?

Thomas Thuresson: Well, there will be variations between quarters going forward. If we look at orders received, certain quarters we have a good inflow of boiler refurbishment orders, others we have less of that. And of course that influences margins when these orders are completed.

Then, of course, we do see, if we take a longer-term perspective, an opportunity to build the service business by expanding the service as in services part of our aftermarket business. But that is more of a longer-term direction.

Q: Thank you, that's clear. And then the question, you mentioned that the US, excluding oil and gas, started to show some signs of strength. Is it more connected to food and sanitary, or is it also industrial demand?

Tom Erixon: I think for the US it was pretty good across the board, including the base business on the oil and sectors was positive in the quarter. So I think what it reflects is what we said last quarter, that we think we've taken -- essentially we've taken the downturn in the books on oil and gas already and we have a bottom-out scenario and we'll see where we go from there. And US was solid, including a base business in oil and gas, it was broad based.

Q: Thank you, that was all from me.

Q: Yes, hi, a couple of questions from my side as well. The first one is coming back to your strategic review, because I think one of your targets that you've also said at the last Capital Markets Day was on M&A, but so far you haven't announced something big. Is it that the strategic review is keeping you so busy at the moment that there is no resource for M&A at the moment? Or is it just the pipeline is empty? Maybe some color on that.

The second question on the increase in the R&D, was one of the reasons behind that also you making the ballast water equipment ready for the type approval in the US?

And then the last question also coming back on marine and diesel, you said a slight decline in Q3. Is it that you also continue to expect order intake related to ballast water equipment and scrubbers to be relatively good? Or is that a reason that keeps the decline limited? Thank you.

Tom Erixon: OK, so let's start with M&A. I think we've said actually on the M&A side that certainly that has been an important part of Alfa Laval growth historically and it will remain an instrument going forward. I think it's rather natural when we are trying to assess our future growth opportunities and focus within the strategic review, the highest priority right now is not closing deals. But with that said, as you know, when you work with an M&A pipeline, if there is a wonderful bride and it's only available at this point in time, there is no total stop in those processes. So I think we are comfortable in this situation of working through the Group and the Group's priorities. M&A will be a part of that going forward, but I would say it's a conscious decision at this point in time not to chase every possible target to the very end. We will be back to that.

On the R&D side, I think we will be back in the strategic review in terms of how we look at it, but we don't see -- and as Thomas said, there are in terms of -- there are some periodization questions in terms of how those R&D costs comes in, so the numbers look perhaps a little bit more elevated in the quarter than they will be at the full-year level at the current status. But as you've seen so far, we will make sure that we have a competitive product platform in place now and in the future and we don't see the R&D spendings at the current level as a big problem. But we will come back and qualify how we look at those programs and what they're supposed to deliver to us as a group as part of going forward in the future.

Thomas Thuresson: The outlook for marine and whether it's supported by ballast water and exhaust gas cleaning, the ballast water, we possibly all know that it might be close until the ratification process is completed and the clock starts to tick. But there is one important other hurdle that many ship owners require to be in place before they really push the button and that is US Coast Guard approval. No one has gotten that. We've done tests and we believe that we'll submit application shortly, so we're among the first ones in the line, as we know it at least. So ballast water, no material change is what I'm trying to say, in the short term.

Exhaust gas cleaning, yes, there are some opportunities for exhaust gas orders in this quarter and also later on. But again, the expected decline, or somewhat lower level of demand in marine and diesel, is only a reflection of all of the different segments, all of the different product groups weighed together.

Tom Erixon: Yes, it's not a huge mix change assumed in the quarter.

Thomas Thuresson: No.

Q: Thank you.

Q: Hi, just coming back to the environmental things, could you give us an idea what proportion of the overall sales are related to all the environmental products that you sell? And also is there a material aftermarket in any of these products yet, or does it take a long time to materialize?

Thomas Thuresson: Well, if you with environmental products are referring to the environmental products in marine and diesel and then specifically thinking about ballast water and exhaust gas cleaning, then we are currently in the neighborhood of say EUR90 million to -- no, sorry, EUR80 million about, about EUR80 million on an LTM basis, that's where we offer the two combined.

Q: OK.

Thomas Thuresson: But then, of course, there is a number of other environmental products. We could add PureDry and PureBilge in marine, we could add the crankcase gas ventilation and we have a water product and so on. But concentrated to those two, in the neighborhood of EUR80 million on an LTM basis.

Q: When you're talking about good level of interest in environmental, it's those particular products you were talking about?

Thomas Thuresson: Yes, particularly those that we are talking about in relation to marine, but then again, of course, we have a number of other products that are directly or indirectly having an environmental effect.

Q: OK and the aftermarket for environmental, is it too small to be of any consequence still?

Tom Erixon: Well, yes, but again, let's be precise; there's a whole host of our products that are serving energy efficiency or wastewater applications which involves the normal part of our product program. So in that sense, the environmental trend and what it may do for us is, I would say, not generally changing the structure and the mix of our business. We think it's a long-term growth driver for us, but looking specifically at the marine side, as long as we define it only in terms of scrubbers and ballast, then I think it's fair to say that that doesn't have the same amount of consumables and all the spare parts in it, other than scrubbers will go through boiler renovations.

And we already talked about the boiler services business for other applications that are today a little bit down, they come and go a bit. They are a bit more capital intensive than, let's say, for lube oil separators or freshwater generators or some of the other areas where we are more typically working with spare part sales.

So I think the day when you see a substantial growth in the marine, ballast water and also on the scrubbing side, we may see somewhat lower services, at least initially. That's probably a fair assumption, but...

Thomas Thuresson: And as far as ballast water treatment systems are concerned, they are largely not in use at this current point because of course the regulations are not in force. So no, but it will even be fairly low once they're used.

Q: OK, thank you.

Q: Hi, yes, good afternoon. Just two from me, thanks. Firstly, on your ongoing cost measures, could you give us an idea roughly what amount of cost that's aiming to take out, or what you typically do in a year given it's something that happens on an ongoing basis?

And secondly, I was interested to hear whether you've seen any difference in your shorter cycle business in Europe, so mainly equipment, I guess, since the referendum result in the UK, so at the back end of the quarter. And since then, whether there's been any change in the customer behavior.

Tom Erixon: Well, let me start with the second one and, Thomas, you can take the first one largely. I think as Thomas was onto before, we don't expect that the referendum as such will have any major effects on our business. We hesitate to comment what already is happening in our business in quarter three, we don't typically do that. But let me say that the forecast, or the outlook that we have presented has not been materially affected by the referendum as such. It would have remained the same in and out. In fact, we still don't know whether you guys are in or out, so we will see what happens on that one.

On the COGS side, we are not -- we have not announced the housekeeping as a program, so we haven't given a detailed account of that. We've done that to some degree in the discussions on the COGS and the gross margin, but Thomas, I leave it to you for...

Thomas Thuresson: Yes, well, I think to begin with to give you an amount, I think the only relevant amount is to the extent we're talking about overheads, because in COGS, well, I think the ambition must be to adjust capacities to the prevailing demand or the prevailing low and we are doing that to the extent possible within the framework of our current structure.

So that is being done; that is being done by applying reduction in working hours in a number of jurisdictions. It is done by adjusting the number of consultants, the number of temporary staff. But as far as the overhead is concerned, yes, there are certain adjustments to amount of resources in particularly oil and gas.

For the rest it is by keeping control of the hiring, the replacement hiring is very, very restrictive at this point. But we are not providing any specific number around the housekeeping measures. There are many, many small things continuously happening to adjust.

Q: OK, got it, thanks.

Operator: And there are no further questions at this time.

Tom Erixon: Thank you. Well, ladies and gentlemen, thank you for a good interactive session and I look forward to speaking if not later, when we arrive with the third-quarter results. So thank you very much.

Operator: Ladies and gentlemen, that concludes the conference. Thank you for your participation, you may disconnect.

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