ALFA LAVAL Q4 earnings call
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Tom Erixon:
Thank you very much, and good morning to everybody to the fourth quarter earnings call. Let me, as always, start with a few introductory (remarks) on the year and on the quarter.

First, we had in Q4 a strong and continued good demand across most of our businesses and most of our geographies, so the pace, overall, in Q4 was as good and firm as during the other part of 2018. And all in all, the year resulted in a record 45 billion order intake.

We also, for the full year, felt we had good progress on margins and earnings with 16.5 percent margin for the year. And I think especially notable, earnings per share growth of 50 percent compared to 2017. So, all in all, I have to say we are quite OK with that outcome as well.

With that said, in the fourth quarter, we did have a negative margin development, sequentially, in Q4. And mainly, of course, it is driven by currency effects in the quarter, particularly on the Marine side. But we did also have a weaker margin in the Energy, partly, in fact, to some self-inflected problems. But I will come back to some of the margin comments later in the presentation.

Let us go to the key figures. And as indicated in Q4, good pace. Order intake, 18 percent up year-on-year and sales up 11 percent, so good with that. Margin was stable compared to last year. But clearly, we didn't get the leverage on the additional business in the quarter. We do have some variations between the three divisions, and we'll be back on the divisional results. But, all in all, we've (had) pluses and negatives, stable margin compared to last year.

Looking at orders received, as indicated, we continued on a high level, sequentially, and if you can see that the last three quarters, those are actually the three highest quarters in our history so – with small variations between those in (the) very, very firm business situation for us in many ways.

We did have good support from (large) orders in the quarter, reflecting a good investment climate in many areas and not the least in the Energy sector where the running rate on our oil and gas business is now approaching not too far away from our previous all-time high in 2015.

We, obviously, follow our organic growth pace very intensely, especially given macroeconomic concerns at the moment. And if we look at the overall growth rate per quarter as well now the last two years, including the fourth quarter 2018, we're very solid and far above our long-term growth targets.

Obviously, that growth is affected positively by the growth of the Marine environmental business. And consequently, as we did before, we indicated to you where we are, growth-wise, with the rest of the group, excluding the effects from the Marine environmental. And also there, you see that we continue to grow in the quarter, but what is also clear is that the organic growth pace in the second half of 2018 is lower than what's in the first half, reflecting that we are on the high level and we may be approaching some sort of peak in this business cycle.

Some highlights in the quarter. We announced seven large orders. As I've said, mainly oil and gas related. But we also announced two investments supporting our long-term organic growth ambitions. Partly, we took a minority stake in a new solution for thermal energy storage, requiring advanced heat transfer solutions. And as equity investors and technology partners, this opened up a long-term growth avenue for the Energy Division in a very exciting area.

Secondly, we announced the acquisition of, you could say, a product range for what we call asymmetrical heat exchangers, which is a very interesting application, fits well into our brazed heat exchange unit and will be integrated from both the production as well as sales and marketing point of view in that unit.

Now let me move straight through the divisional review, starting with the Energy Division. We had good demand and good growth in 2018, also, not only in the large order side, but also in the base business.

It was a solid year for Service and Energy with big step forward from a period of slow growth on the Service side, so we're so pleased with that development. We did, as I've indicated, have some margin issues in Q4 in Energy Division. And as always, there is not one single reason for why this happens, but in any case, let me give you some comments on it.

We did have, as we quite often have in Q4, an effect of the mix in capital sales in the quarter. But we also did have a bit of a mismatch between capacity and ramp ups and the actual delivery pace in Q4 in certain part of the heat exchanger production. So

maybe you could say that the first ramp up and demand growth in Q2, Q3 put us a bit off balance in the quarter.

There were some other factors as well that did affect the Energy Division. All in all, it was a cost effect – negative cost effect of around SEK 50 million back in the fourth quarter. We have seen the problem and we're addressing the problem, and we expect (inaudible). We may have some lag effects in the beginning of 2019, so we'll be back as we resolve it. Let's not predict too much at this point in time.

If Energy Division was a little bit down on the low side, then certainly – the Food & Water Division came in on the higher side and demand throughout the year and in the fourth quarter was good. The drop-through in Q4 was obviously strong with a record margin of 16.8 percent.

We have a number of times indicated the positive effects from our work with quality and the reduction of the cost of quality throughout the quarters, and this has certainly continued into Q4 and been one of several cumulative factors for the good margin.

All in all, if I were in your shoes, I would look at the Food & Water Division that was very strong for the quarter and Energy Division that was a bit on the low side for the quarter. You may expect that it may even out a little bit going forward.

In the Marine Division, yard contracting was stable in Q4 and in 2018, overall as compared to 2017, well in line with the forecast in the market. We did, excluding the Marine environmental orders, have a stable year and a stable quarter supported by good offshore orders in our pumping system unit.

The environmental business continues to ramp according to the plan we have. And we have indicated to you previously, and we repeat that indication, that we do expect some volatility between quarters when it comes to actual firm order bookings and down payments. And obviously, on the environmental side, the Q4 was lower than in Q3, although for us it is well within the ramping plan that we have.

The activity level in the market remains high, and we have confidence in our previous market scenarios that (were) given last time at the Capital Markets in November with the ramp-up and retrofit period in the PureSOx business, as we have given to you previously.

You may note that the growth in sales and admin is a bit high in the quarter, but also in the year. And you should be aware that part of that growth is in terms of cost related to the ramp-up on the environmental businesses, both the PureBallast and the PureSOx business. So while we do have a cost increase compared to previous years, part of that is clearly building two new businesses in the environmental area.

Going to the Greenhouse. We were happy to announce an agreement to divest the main part of the business of the Greenhouse with an expected closing during the first half of this year. We are pleased with finding a new ownership solution for this, but perhaps we are more pleased with the fact that the operational improvement plan that we set out two years ago has been well achieved in 2018. And a very good and positive margin development of 8 percent in the quarter was really a good way to seeing the completion of the turnaround project that we set out to do. All in all, we have improved the EBIT margin from a negative 10 percent to a positive 8 percent, almost a 20 percent improvement. It's not so often you ran into that level of success within 24 months, so thanks to the people involved in that project.

A couple of comments on Service. I have indicated during some time that we have not seen quite the progress in order intake and sales on the Service side. Looking at 2018 as a whole, we still have to recognize that we've got to a reasonable number. Overall, we recorded 3.5 percent organic growth in the year. And given that we have walked out of certain nonprofitable contracts, the underlying like-for-like growth is somewhere north of 4 percent, not too far away from where we want to be in terms of our growth plan.

We feel we've done a lot of operational progress and invested in a number of areas in our Service business. So while we continue to do that, we don't feel we have the full leverage on all of the investments at this point in time. But we've taken a big step in the right direction during 2018.

Some reflections on business unit level and geography for you to get the full spread of our business. On the business unit level, as indicated, the quarter was pretty good across the board. We had growth in almost all of our business units year-on-year. And I think it reflects a business sentiment across, essentially, all of our businesses that remained positive in Q4.

If we look at the geographical spread, the situation is similar. All regions had a positive year-on-year development. I would specifically point out a very strong finish in the important U.S. market for us with a very firm and strong Q4. We did have a strong development in China during 2018, both for the full year and in the quarter. And the negative numbers you see on the region is an effect of some volatility in the order intake in – on the scrubbers side, more than any underlying change. And in all, the important Chinese markets grew, not only on the Marine side in the year, but also in other parts of our business. So it's been a good year.

In fact, you have to look pretty hard in our numbers to define any impact from trade disputes and geopolitical concerns at this point in time. With that said, we're, obviously, well aware about the challenges that we see going forward, but as we are closing the Q4, those effects are not present in the order book at this point in time.

I will provide some forward-looking comments later on for Q1. I will hand over to Jan for now for some further financial comments. Jan?

Jan Allde:

Thank you, Tom. So I'll start with some overall reflections on the Q4 results from my side. We continue to see good organic growth in Q4 year-on-year. Orders were up 13 percent, and all divisions reported double-digit growth.

The reported EBIT margin was on the same level as last year at 15.9 percent. However, in the quarter, we had a negative FX revaluation effect of SEK 120 million related to our customer advances in the Marine division.Excluding this, the margin would have been 17 percent. The improved operating profit, in combination with the reduced tax rate, contributed to EPS growth of 22 percent in Q4 and 52 percent for the full year. Finally, although we continue to invest in our manufacturing footprint, we could report a good cash flow in Q4 and increase our return on capital to 22.4 percent.

So as Tom has covered order intake, I will move directly to sales. The guidance for sales was that we believe that invoice in Q4 should be higher than in Q3. We realized sales of SEK 11.2 billion in Q4, which is up 10 percent sequentially at constant FX range. This was somewhat below expectations. Let me then give you my view on what to expect from Q1 sales. We believe that invoicing in Q1 2019 should be somewhat higher than in last year and, sequentially, somewhat down.

The gross margin came in lower in Q4 than in Q3, which is a normal seasonal pattern and as we have guided. The reason, however, ended up being a bit different than what we expected, so let's move on to the next slide for some further comments on the gross margin.

So if we look sequentially here, the Service share of sales was unchanged in the quarter, providing no capital sales after-sales mix. However, we did see a negative mix within Service and within capital sales.

Despite increase in sales volumes, load in the factories were lower due to the content on what was delivered, i.e. less spare parts and base business, creating a lower capital utilization in some of our units in the Energy Division.

We did not see the negative impact from metal prices as we had expected as it was compensated by good work in our purchasing department. Finally, and as expected, we did see a headwind from FX in the quarter.

Then the outlook, also sequentially. We do expect the capital sales – after sales mix to improve as it normally does in the first quarter. We expect some of the load issues in the Energy Division to continue into Q1 although the smaller impact due to the mix change I just mentioned.

We see that there is a potential to have a net positive impact from PPV and metals. And finally, we should see a positive FX transaction effect in the quarter. Moving on to looking at the full P&L. We continue to invest in our product portfolio, and R&D increased by 22 percent year-on-year, which equals to 2.5 percent of sales as guided. And today, expenses were up 9.8 percent in the quarter, explained by the increased activity level. One example of this is to support the growth in environmental products and the launch of new products.

Excluding FX and the investment in the Marine Environmental business, S&A grew by 8 percent in Q4 and 5.5 percent for the full year '18 versus '17.

Other cost then came in with a negative net of SEK 94 million in Q4. This number though includes the gain of SEK 14 million related to a positive outcome of litigation. Also, the project cost of the footprint program was smaller than expected and below last year at SEK 45 million. Another reason is that we had low-quality cost in the quarter, as commented by Tom. So the reported EBIT margin was on the same level as last year. As I said, 15.9 percent. And again, excluding the FX revaluation effect, the margins would have been 17 percent.

Tax rate in Q4 was at an exceptionally low level at close to 12 percent and year-to-date at 23 percent due to changes in provision for deferred tax in the U.S. and Sweden and also by re-evaluation of future tax deductions in the U.S. We maintain our guidance, going forward, of 26 percent tax rates.

EPS increased by 22 percent to SEK 3.07 in Q4 and by 52 percent for the full year due to the stronger EBITA performance and lower tax expenses.

Some comments on the divisional performance, specifically with regard to the margins. As always, there was a number of pluses and minuses, but let me focus on the most notable ones.

Energy came in at 13.1 percent. The most important reason for this is the uneven capacity utilization in heat exchanger manufacturing. This under absorption cost us about SEK 50 million in the quarter, and we are naturally already dealing with this. Marine reported a 17 percent margin but the division took the full negative impact of the FX revaluation of SEK 120 million. And finally, Food & Water ended up at 16.8 percent, clearly a great quarter with good project execution and low quality-related costs.

Then moving on to cash flow. Cash flow from operating activities decreased by SEK 83 million in Q4 versus last year, primarily due to higher taxes paid, which is primarily a timing issue. Working capital remained almost unchained – unchanged despite the volume drop.

OK. Investing activities in Q4 was SEK 528 million, which includes CapEx investment of some SEK 559 million. For the full year, CapEx amounted to SEK 1,490,000,000, which is above our CapEx guidance of SEK 1.3 billion. The reason for this is that we have expected approximately SEK 160 million from the sale of our old factory in Qingdao, China, which we now expect to receive in Q1, Q2.

The higher CapEx levels in 2018 was partially financed by close to SEK 200 million of divestments of real estates and – sorry for that. As I said, the higher CapEx levels in 2018 was partially financed by close to SEK 200 million of divestment of real estate and two businesses in Greenhouse division, as announced earlier.

Final – financial net paid, excluding FX impact, was SEK 12 million. That means that our cash flow came in at SEK 862 million in Q4 and SEK 3.3 billion for the full year '18. The free cash flow was used to pay dividend and further reduce our net debt, giving a net debt-to-EBITA ratio of 0.93 at the end of December.

So then the FX impact on EBITA, and it was – for the quarter was negative SEK 90 million. And as you can see, the transaction effect was negative SEK 20 million. And as stated earlier, the revaluation effect in the quarter was negative SEK 120 million due to the weaker NOK versus dollars in the quarter impacting the Marine business. Please note that this is a temporary impact and it will be eliminated once the project are invoiced.

The translation effect in Q3 was positive SEK 50 million due to the weaker SEK versus euro. And looking at the projection for 2019, we expect a positive transaction effect of approximately SEK 200 million, primarily due to the SEK-euro currency situation.

Order backlog at the end of the year. Total order backlog at SEK 23.2 billion, which is an increase due to the positive book-to-bill of 1.3 in the quarter. This means our order backlog has increased by 23 percent since the end of '17 at constant exchange rates and now represents approximately 6.8 months of LTM sales.

For shipment in 2019, the backlog amounted to SEK 17.7 billion, an increase compared to the same period of '17 by SEK 3.8 billion.

Let's then move on to the bridge for the 2019 sales. As always, starting with the sales in '18, which was at SEK 40.7 billion. The backlog for shipment in 2019 is SEK 3.8 billion higher than end of 2017. We got FX translation, this impact, of course, is very difficult to estimate, but our estimate is slightly negative impact of about SEK 0.1 billion based on the closing rate at the end of December. The divestiture of the Greenhouse businesses will take out sales of some SEK 0.9 billion in 2019, and this all adds up to a subtotal then of SEK 43.5 billion.

On top of that, you will need to make estimate of in-for-out orders in 2019 and any – and on price. And for your reference, the level of in-for-out orders in 2018 was SEK 26.7 billion.

And then we move to the dividend. So the board proposed a dividend of SEK 5.

Some information or news on reporting, starting with the implementation of IFRS 16, where long-term leasing contracts for building, company cars, forklifts, service and so on must be booked in the balance sheet or capitalized. This will add approximately

SEK 3 billion to our assets and, correspondingly, increase our capital employed. However, our equity – it will not impact our equity level. This will also have a small impact on our P&L. So in 2018 and earlier, leasing fees for operational leases was expensed in the P&L. In 2019, depreciation of those assets will be expensed in operating income, while the interest cost will be expensed in finance net. We estimate only a small positive impact on EBITA, considering the low interest rates, and we will provide more information on this in our annual report.

Furthermore, we are working on the quarterly reports, which will have a new structure, starting with the Q1 report. Content-wise, the changes will be minor. A dummy based on the Q4 numbers will be available on the website beforehand to give you a chance to familiarize yourself with the new structure.

Also, starting from April 1, the Marine Division will change its structure affecting reporting from the Q2 report. And due to the growth for exhaust gas cleaning, the Boiler & Gas Systems will be split into two independent business units, which will be BU Gas Systems and BU Boiler Systems. So by that, I hand back to Tom.

Tom Erixon:
Thank you. So a few quick comments on forward-looking statements. Let me repeat our view on the macroeconomic scenario and development that we have been working with for some period of time. We continue to believe that we will see a relatively stable 2019, and we are also well aware that we may be reaching the peak of this cycle, and we expect that we will have a slowdown coming at some point in time later on.

For us, that means that, in 2019, we continue to run the change and strategic programs that we announced two years ago, as we've been doing in 2018, related to the footprint changes and on (the) R&D programs and such. However, at the same time, we will be very prudent when it comes to taking additional CapEx expenses and at the same time watching our S&A cost closely so that we are well prepared should we see a different scenario coming down the road.

In terms of the short term, the outlook for the next quarter remains positive. And, overall, we expect a somewhat higher demand in Q1 2019 compared to the previous quarter. On a divisional level, we expect demand in the Marine Division to be higher. We expect the demand in the Energy and in the Food & Water divisions to be on about

the same level as they were in Q4 2018. So with that, we are open for questions. Thank you.

Q: Yes, hi, Tom, and Jan. So a couple of questions from me. On the scrubbers there, obviously, a tough comp and you talked about prepayment issues. I guess, this is down to short-term concerns surrounding the bans of open loop. But if you could comment there on this issue, a bit more detail, Tom.

The bans doesn't seem to impact a big part of the market. It's the bigger liners, the tankers doing long-distance voyages that use scrubbers, and they're not in coastal areas that much and can switch them when needed. Is that your interpretation as well? Because you're guiding for higher demand in Marine, so if there's a bounce back of the scrubbers or driven by other verticals.

Tom Erixon: Yes. I mean, let me, on the general – I'm going to stay out of harbor regulations. I think there is a long discussion that can be had on scrubbers and hybrids and open loops and all of that. I think it takes us too far away in a earnings call to dwell into that. I would say like this, the demand situation and the ramp-up that we have given to the capital markets since 2016 remains. We've been fairly much following it for the last two, three years and the market development up until this point, overall, has perhaps been somewhat more positive than our regional scenario rather than negative.

With that said, we have also indicated to you that we expect to see variations between quarter, depending on at what point in time, given the lead times for deliveries at this point in time tend to be rather long, at what point in time will we see customer down payments and consequently firm order booking. So the volatility you see between quarters are well in line with the ramp-up plan we've seen, and we don't perceive any negative demand effects from discussions or regulations in terms of closed/open loops in certain harbor areas.

Q: Can I then ask it in a different way, Tom? So when you said demand expected to be higher, could you help us a little bit in terms of the verticals? Is it in scrubbers, is it in ballast again, off a very tough – strong fourth quarter or conventional side?

Tom Erixon: Well, we'll – the underlying contracting has been rather stable from 2017, '18, and we don't see that changing overnight in the quarter. So I leave it to your analytical capabilities to figure out where it might come from.

Q: All right. My second one is on Energy. SEK 50 million impact in the quarter, still a drag in the first quarter, you say, but better mix can sort of help that balance. Can you say exactly what you're doing here again? Are you adding more capacity to solve these issues? And should this be done by the second quarter, perhaps, or more back end in the year?

Tom Erixon: I'll back out from the question a little bit and tackle it from a broader perspective and then I'll come to the specific. I mean, the broader situation is, of course, that across the board in the 12 business units, we've been under tremendous delivery pressure and demand growth, which put a lot of strain in our organization. In some areas, I have repeatedly said, and it even remains in some areas, that we are still our own bottleneck and it's not only scrubbers where order intake has been limited by our supply capabilities, but there are also some other areas.

So in that sense, we've been running hard to keep delivery times and customer service on a good level. And I think what we've seen in Energy Division in the quarter is, to some areas, a bit unbalance where we went on extremely high order intake and demand pressure in the middle of the year and while we are, obviously, as you can see from the order intake on a very strong and high level, we came a bit unbalanced in the quarter when it comes to quarterly deliveries and capacities.

So yes, we are reviewing, at this point in time, to adjust capacity where we need, and maybe we've overdone it in a few areas. With that said, the SEK 50 million, it doesn't account to headcounts on the quarterly level. It is one factor, which explains where we are. I would say that where – it was a quarter for Energy in certain areas where we came on the weak side, part of the change program was more heavily affected than Energy in the quarter, than the Food & Water.

And so looking in the Food & Water result and the Energy result, I would encourage you not to overreact on the positive news on the Food & Water side as well as on the negative aspects on the Energy. But with that said, when you have an operational problem to fix, and we're already in the first days of February, I would be a little bit cautious to declare victory on the cost situation on the Energy Division at this point in time. So we'll address it, obviously, as quickly as we can.

Q: That leads me to my final question on Food & Water and the margin. So you're saying here that, obviously, Energy maybe should recover, but Food & Water, maybe it's outperforming a little bit right now. So to what extent should we think about this

product selectivity, the execution? When will this annualize? Or is that what you're saying, that you're done in terms of expanding the Food & Water margin? Obviously, it's been a job well done. I just want to hear your thoughts about what's left in the bag for Food & Water.

Tom Erixon: We are very cautious to give the forward-looking statements on margin development. If you look at – we've been seeing a strengthening in the Food & Water margin, in general, for quite some period of time. So in that sense, you can say there has been a trend line during a much longer time than just the Q4 and the effects we've seen on project selectively and product quality, overall. It has been increasing.

So I think, with that said, I think my overall comment is that certain quarters come in, we feel they come in well and sometimes you get it by a couple of bad news. And I think it fell certainly on the positive side on Food & Water and a bit negative on Energy. I think that gives you, perhaps, a bit more of a guidance comment than I would be willing to give, but I understand also your difficulty when the numbers shift as large as they did in the quarter.

Q: OK. Fair enough. Thanks.

Q: Yes, good morning. A couple of questions, please. First one is on your Q1 guidance. Obviously, you see it slightly higher, with flat in Energy and Food. And obviously, you had quite a strong big-ticket activity in Q4. So I take it from your comments that you see those big tickets also developing relatively stable here on a sequential basis. That's the first question, please.

Tom Erixon: We don't give a full prediction of how we expect orders to – the mix between large orders and base business. But if – we look a lot on – when you look at business cycle things, what is important to look at is following the rates. Not what it was versus last year, what it was two quarters ago. It's the rate on a monthly basis, on a quarterly basis that we are following.

And as I've indicated in my comments, we see on our base business on the transactional side and the volume side that we have a very stable and good base business on that on a high level. And I think that's at least what we see in the last, let's say, three record quarters that really are record quarters from many points of view.

Q: OK. The other question I had, sorry for that, coming back on scrubbers. I mean, we're all discussing this individual harbor bans, which is fair enough. And I appreciate this only impacts a limited traveling time, but isn't the real concern of clients that there could be a global ban, eventually, and this is that what really on minds of people or don't you see that at the moment?

Tom Erixon: No, we don't see that and we don't believe it. We don't believe in it either. And we are absolutely not of the opinion that scrubbers are environmentally bad solution. We, in fact, think for several very good reasons that scrubbing is a significantly better environmental solution than desulfuring fuel at the refinery.

So when you dig into the details of what is the current climate impact, both from a particle point of view and from a common outset point of view. You would find that the scrubbing solutions, even with an open loop, is a far better way to deal with it. With that said, we will face different – I think we are – what we should be aware of is that the initial regulation of both ballast water and sulfur caps were the first steps taken by the marine industry for a stricter environmental control, and I think we are in the beginning of that journey. And I don't see that, that journey is going towards some sort of ban or discontinuation of the scrubber solutions for the marine industry.

Q: Yes. The last question on my side is just on LNG carriers. Obviously, should be benefiting your inert gas systems. I mean, is the strength that we've seen on LNG carriers last year fully reflected or is that also part of the reason why you see higher Marine orders in Q1?

Tom Erixon: No, it's – I wouldn't sing aloud the LNG side as a huge driver in the overall mix. What I would say is that if you think about the way the mix have developed over the last year, 1.5 years, it is – it has been, for many points of view, a rather positive mix situation. So while the overall contracting numbers are low, they've been good for LNG, they've been good for product tankers, they been reasonably good for crude and, certainly, cruise. So we've seen a mix where bulk carriers, dry bulk carriers, have been way lower than their historical average. And that is, of course, low-value vessels from our product offering. But I wouldn't say that the inert gas solutions for LNG is a big driver in the overall mix.

Q: Understood. Thank you, Tom.

Q: Yes, hi, this is Johan at Kepler Cheuvreux. Just a question. You mentioned that PureSOx and PureBallast is, in aggregate, SEK 5.6 billion of your orders last year. Can you just split that between the PureSOx, PureBallast to some degree as we know that, on the bottom line, there might be a big difference because of the JV structure of PureBallast. Thank you. Hello? Did you hear me?

Tom Erixon: Yes, I'm thinking what – it's slightly more than 2/3 on the PureSOx, then slightly less than 1/3 – on the ballast water solutions, that's approximately the way it sits.

Q: Yes, good. And looking at the delivery volumes of PureSOx this year, I understand you're already sold out in Q3. Are you doing anything to increase the capacity for deliveries maybe 2020? Or how do you look at it?

Tom Erixon: As we've been in constant ramp-up mode, and I think I indicated at an earlier earnings call, I think we're on supply plan number four or five at this point in time. So yes, I think, in reality, our delivery capability will be somewhat higher in 2020 than in 2019.
But I think, given where we are, I would expect that we are reaching the full level. At some point in time, we will hit that level sometime during 2019. So I think our delivery pace is going to increase in the second half versus the first half for 2019. Beyond that, there is no further decision taken on capacity expansions.

Tom Erixon: But really, where we are, I mean, you can go out and fill order books in this business very, very easily. We've taken a view on where our solutions are good and what type of customers we want to serve and how we want to dimension ourselves, and we are not rushing to build the biggest order book in the industry. We are following our plan, and we are pretty good with where we are.

Q: OK. Excellent. Thank you very much.

Q: Thank you. Just a question on Energy. You talked about your oil and gas business being close to peak, and I think if you go back a few years ago, some of the negative mix you saw was from less oil and gas activities. So I just wanted to understand, when I look at sort of 18 percent margin that the Energy Division was doing in 2014, could you talk a little bit around sort of what's different today, whether in this kind of environment you think you can get back to those levels? And, I guess, that

would involve some sort of comment on pricing of the orders that you're taking in oil and gas today versus the previous peaks.

Tom Erixon: Well, as you know, I'm not going to predict our margin development, but I (can't) comment on what is the as-is situation on the Energy side. When it comes to the mix in our oil and gas business, we – you can say the big difference compared to the peak that is still remaining is that the business remains softer and smaller on drilling application, particularly land-based, compared to the previous peak. So in other areas, certainly in offshore, it's picked up. And if you look at the order structure in that business, it means that we are running more of the larger offshore tendering projects than the ongoing base business, on land-based drilling applications.

So I would say that the mix is different compared to the previous peak. And that is, in itself, a negative effect on margins compared to the previous peak, leaving everything else equal. Then when you look at the Energy Division, there are, obviously, a lot of other factors that is affecting the profitability margin.

So everything else is not like-for-like and the difference between the previous peak in Energy versus now, there certainly are multiple factors on that. So the answer is a bit more complex than deriving it towards just the oil and gas pricing and competitive situation. But I think for – if you want to think forward, obviously, if we see a continued growth on the land-based side, on the drilling, it will be good for the Energy Division. That's I think (what we can) ...

Q: I mean, is it fair to say – I mean, my understanding used to be for the Process Technology division that the oil and gas-related activities were higher-margin than most other things in that division and is that still true of the Energy Division today?

Tom Erixon: The Energy Division today is very, very different from the Process Technology division. And you never – and you know well the profitability which we have – we had with the Process Technology division over quite some period of time. We had – I would say, we have a more stable and more attractive business mix in today's Energy Division than we did. The baseline for being successful in Energy Division is much different than the baseline for being competitive and a star performer in the PTD division. So you can quite do it like that. I think we had some great businesses going in Energy Division that is not related to oil and gas.

Q: OK. Just my second question was around raw materials and pricing. Obviously, you mentioned that, in Q1, you expected raw materials to become a tailwind. Could you talk a little bit around sort of pricing in that environment and whether to offset inflation in other parts of your businesses, you will still be able to put up prices? And, I guess, inflation outside raw materials, things like wage inflation?

Jan Allde: Maybe I should give answer to that, Jan here. I mean, as always, we take (hikes) for the cost both on the salary inflation and on the material side, and we update our pricing accordingly. And as I said at the Capital Markets Day, we have already done so in Q4, so a little bit of heaven than in previous years, so we feel comfortable with that.

Q: OK. And I think, previously, on the raw materials side, you talked about sort of headwinds of a couple of SEK 100 million. Should we be thinking that in Q1 we get a similar reversal and a couple of SEK 100 million becomes the tailwind?

Jan Allde: I don't think we have mentioned those type of numbers. I'm not so sure where you get that from.

Q: OK. Thank you.

Q: Thanks very much. Good morning, gentlemen. A couple of quick questions. If you could explore for me a little bit the momentum in your in-for-out business because sort of crude calculation suggest that it dropped a little bit in Q4. So just if you could give us any real color as we look forward to Q1 and (obviously) into '19 when we think about the bridge?
And perhaps in the context of that, could you talk a little bit about your Service business and the growth that you're seeing there? I think the order intake was a lot stronger than the revenue growth in Service. So any kind of comments you can make around that would be very helpful. Thank you.

Tom Erixon: (Inaudible).

Jan Allde: Yes, I mean – you mean the in-for-out, (not) particularly in Q4. I mean, I will just say that I think you should look at it, we had in-for-out in '18 of SEK 26.7 billion,

and it was on a – that is on a fairly high level in Q4. Particularly, as we said, we were – invoicing came (through) maybe a little bit lower that we had expected.

This was, as I said, partly due to the mix within Service and mix within capital sales. We have now indicated, as I said, for Q1, that we believe, year-on-year, it should be a little bit higher, but a little bit lower than sequentially. So I think you have to kind of make your – draw your conclusion from that. Service ...

Tom Erixon: I don't see any big deviation between order intake and invoicing on the Service side for the full year. So you may have some variations between individual quarter. But, all in all, the pace of invoicing and the pace of order intake for Service has been well in line for 2018. So there's nothing out of the ordinary going on there.

Q: OK. And it's not a function of the sort of customer behavior or decision taking at the Service level?

Tom Erixon: I'm not sure what you refer to. I mean, it's – order intake is 3.5 up and invoicing is 4.1 up for the year. So I just don't see where you're getting at. I think it has developed. The thing on Services, we see some variations between divisions, so it's been strong in Energy, it's been flattish on Marine, and it's been – it's more positive in Food & Water. So we're not exactly where we want to be. I think we have more work to do, but there is no – what concerns me is the long-term growth in Service. I don't see any oddities in how order intake and revenue is coming in for 2018.

Q: OK. Thanks very much.

Q: Hi, thanks for taking my questions. First one was just on the issues in Energy you called out around the lower capacity utilization. Is that specific to a certain region or certain sort of factories? Maybe just give us a little more color on that?

Tom Erixon: I don't want to go too deep, but it's very well defined. It's not – as you can understand, with the order intake we have, it's not like we sit with a big overall overcapacity in our manufacturing system. It's more that it becomes over quarters and over month, loads that hit different factories and different situation in a different way, so it's more of an imbalance than a general overcapacity.

There are some places I'd like to have seen a bit more capacity and perhaps a better ability to ship and even take orders. And there are some areas where we were unbalanced for the quarter. So, all in all, together with a couple of other factors, it had the effect that it did.

Q: OK. And then my follow-up question was just really around this, obviously, the movements in oil price. We saw nearly a 40 percent correction to the fourth quarter. I just wondered how much, if any, impact you've seen specifically from changes in oil price over the fourth quarter in terms of customer (behavior) or what they're saying to you. And if you've seen any sort of change in sort of early trading in 1Q. Thanks.

Tom Erixon: You will not get a comment on Q1, but you will get a comment from year-end. And I think what we've seen in the oil and gas business is a belief that as long as we look at the oil price around 60, we are well in moneymaking projects for our customers. And consequently, the CapEx programs that we've known, been around in boardroom decisions at the oil majors, they're coming through and have been coming through as expected up until Q4. I don't think that the volatility in the oil price up until then has really had a major impact on those decisions. So as we closed Q4, we were comfortable where we were.

Q: That's great. And maybe if I can just ask a final one, just on the Marine side. Just if you could give us some color on incoming orders, the relative profitability versus maybe what's in the backlog. Do you see sort of change in profitability as that business sort of ramps up?

Obviously, you're going through a sort of kind of a nonexistent business to having an established business there. How was the sort of profitability change and should we think about that impacting the mix in terms of sales deliveries in 2019 at all?

Tom Erixon: Well, I think – I will give you two comments. The main change for profitability in the Marine that I expect is related to, hopefully, avoiding the SEK 120 million headwind in currency. That was obviously hitting the margin pretty hard in Q4, which was otherwise a good result. We are quite comfortable where we are in the underlying profitability on the various aspects of the Marine business throughout 2018.

So 2018 was fairly stable from that point of view. The forward guiding that we've been giving on the Marine profitability is that we expect that the ramp-up of the environmental applications taken as a whole will not have a negative effect on the group

margin. That's the indication we've been given on what is predominantly an order backlog and yet a full business to materialize. And we remain with that in terms of being comfortable that we can ramp up those businesses well in line with the profitability of the group.

Q: That's great. Thanks a lot.

Q: Good morning. You mentioned that you're at capacity for scrubbers and you've added a lot of capacity in some segment to the Energy business. Are there any other business segments where you're running at capacity or set to add a big chunk of capacity?

Tom Erixon: Well, with the – I would put it like this, we were relatively transparent with you guys in terms of what we felt we needed to do with our operational structure, and that was included in the footprint program, and that was in Jan's comments about the guidance on our CapEx program for 2018 and 2019, fully transparent.

And that includes a number of changes that covers, in reality, a lot of our product areas, including decanters and high-speed separators and whatnot. My assessment at this point in time is that, given where we are in the cycle, I think I would be pretty hard-pressed to resolve further bottlenecks with additional capacity expansion beyond those that are already taken as decisions and committed in the existing CapEx plan.

So I think what you should expect is to see a decrease in our CapEx program as we come into 2020. There may be – the footprint program is not finished on December 31, 2019, so there would be some gradual overlap from 2019 to '20. But, certainly, in terms of additional CapEx, where we are in the cycle right now, those will need to be very well motivated.

Q: And for early equipment, can you give an indication of which end markets you've seen the best pricing development and the worst?

Tom Erixon: For what? For …

Q: For the different – just for the whole of last year, which end markets or product segments have you had the best development in your pricing and which segments have not been so good?

Tom Erixon: It's a good question, but I will not provide that transparency.

Q: OK then. Thank you.

Q: Hi. Good morning (inaudible). Just a quick question also in Energy or in the oil and gas. You've said they don't impact the orders, per se, but is there a risk that some oil and gas companies might push out some order deliveries? And second one, just to clarify, do you have any exposures to any political difficult regions, like Venezuela, at the moment, where we should – what we should keep in mind. And final question also on scrubbers. How much of the 2020 order book is already filled from your side? And just to give us an idea how the speed is continuing because you are filling it up quite quickly.

Tom Erixon: Yes. Venezuela is not an issue for us. If you look at the global oil and gas market, the – of all of the disputes and trade disputes and sanctions and all of that, I would say the one that is affecting us is the fact that Iran is not the market that is available, obviously, to us or to the markets any longer. And I would say that is the piece that would have provided a certain level of business, including in the oil and gas sector, had that been the case. Other than that, looking currently up until Q4, on Britain, on Turkey, on Venezuela, on you name it, it actually has been quite OK. So when I say we don't see a lot of impact on these troubles that covers essentially most of the hotspots you see, including U.S. and China, obviously, right? So that's that side. I will not speculate whether anybody starts to move projects around, but my sense is that there are CapEx guidance and investment plans reviews out in the external market and external research report as well that are available to you.

We feel the – you can say like this, if you can make money on large offshore projects right now, which are actually being taken on today's decision, then certainly land-based projects are profitable as well. So I'm not, on the current level, worried that that in itself triggers a downturn. But of course, I will not be the expert for predicting the oil and gas markets in the future that – it remains to be seen.

Q: OK. And on the scrubber order book for 2020?

Tom Erixon: Yes. My honest answer, I don't know exactly how much of our order book is open. There are still – if you have an order for me, I will try to book it in 2020. But it's obviously, right now, that the orders are negotiated at this point in time. They are

looking into 2020 and 2021, if there's any substance to them. So – but I will not be able to provide you with a percentage term in terms of how much is available.

Q: OK. Thank you.

Operator: Thank you. No further questions at this time. Please continue.

Tom Erixon: OK. So with that, I think, thank you very much for your attention, and we wish you a good day. And as Jan said, next time, we will sit with a different format on our quarterly report. We hope you will like it and you will have a download available well ahead of time. So look forward to see you in a quarter. Bye-bye.

Operator: Thank you. And that does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please stay on the line. Thank you.

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