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Moderator: Tom Erixon
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Operator: Good day and welcome to the Alfa Laval Q2 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Tom Erixon. Please go ahead, sir.

Tom Erixon: Thank you. And again, welcome to our second quarter earnings call. Let me start as always with a few intro comments to the report. First, demand was clearly strong. We are 27.7 billion SEK in the first half of 2022, organically up 14% and a new all-time high of 14.4 billion SEK in the second quarter, with a strong support from a growing portfolio of sustainability solutions. The margin remained stable at 16.5, despite volatility in commodity prices and supply chains in all, the operating conditions improved gradually during the quarter. Finally, then, although the group is increasing its readiness to meet the negative macroeconomic situation, market conditions are expected to remain favorable in the short term. I will return to that this year later on. Now let's move to the key figures. As I indicated, order intake strong at 14.4 and organic growth both year on year and sequentially of around 9%. A bit above our expectations, as you saw from the guidance last quarter. Invoicing also grew 9% organically, but still lagging behind the high order intake. We do expect to see a gradual improvement in the supply chains and consequently in invoicing during the second half of the year. On the divisional note, starting with the food and water division, we had another strong quarter after the record first quarter this year, adjusted for the large brewery order that we booked in Q1 this year of more than 700 million SEK. This was, in a sense an even stronger quarter driven by service volumes and transactional business.

The supply chain disruptions for the group are mainly affecting the food and water division with a negative effect on margins, as we are not able to fully ship according to plans with an increasing inventory of finished goods. Finally, then the – on food and water. The antitrust process for this matter is now completed and we have all of the needed approvals in order to close the transaction. We do expect closing during the third quarter and possibly rather soon. I remind you that on a 12-month rolling basis this meant will add approximately 4 billion SEK in volume and some in the region of high single digit percentage margin excluding medium term synergies as we go forward. Moving on to the energy division, we had a new record quarter in order intake at 4.5 billion SEK. The order intake is, in a sense, a turbo effect driven by two factors. First, we continue to see growth in energy efficiency solutions and together with an emerging pipeline, although still small of projects in hydrogen and carbon capture, we see the energy transition playing out favorably for the order intake in the quarter and going forward. That in combination with a return of the CapEx investment cycle into traditional gas markets is now also leading to an increased order intake in especially natural gas in the U.S. and also to a degree in other geographies.

As we have indicated several times, we are moving on a strategy to become energy solutions independent on fossil by 2030. But in the meantime, we have expected one or two further investment cycles of which we have now entered the first. Regarding the margin, we kept it strong also in the second quarter after the first quarter, which was positively affected by inventory revaluations. It reflects a reasonable balance between commodity prices and our price adjustments to customers. Then the marine division order intake was back on record levels compared to 2018. I remind you that this is including a compensation for the approximate 1 billion SEK we had of scrubber orders per quarter during the peak of the retrofit period. You should also note that orders grew in a weaker market for ship contracting. This is a reflection of the growing importance of Alfa Laval's portfolio of sustainability solutions supporting shipowners to reach their decarbonization targets going forward. Margins remain on the lower level compared to recent years due to old backlog prices and mix changes from scrubbers to the less

profitable pure ballast business. Given that we are sharing, as you know, the profitability in that business with our joint venture partner. As mentioned last quarter, the margin challenge will require some patience to work out. In-service, this was an exceptional quarter with organic growth of 20% from an already good level. It is a reflection of good market conditions, but it is also a result from five years of investing and building a competitive service offering to our customers.

Although we are pleased with the results so far, we will continue to build our service capabilities and capacity over the next few years. Then some final comments on order intake. We had, as I mentioned, a new record despite the relatively small impact from large orders reflecting solid business conditions in almost all regions and end markets. We may see some quarterly variations in our order intake over the next quarters, but short-term end markets are expected to remain on a good level. In terms of regions, obviously in this situation, essentially all regions were positive and indeed very positive. And you may notice that even Eastern Europe was stable despite the negative impact from eliminating orders from Russia. Excluding Russia, Eastern Europe grew by over 40%. So let me round off by saying that we have executed well during the five years on our strategy to regain technical leadership, customer focus and service. Going forward, we are increasingly focusing in building additional businesses in sustainable solutions for all three divisions. We will provide you with an update on the portfolio progress at the next Capital Markets Day in late November. And our ambition is if circumstances allow that we will host you in Copenhagen for you to more physically experience what we are doing in products and solutions for the next 5, 10 years to come. And with that, I hand over to Jan for some further details.

Jan Allde: Thank you, Tom. And I will start with covering sales as usual. We expected invoicing in Q2 to be higher than the same quarter last year. We realized sales of 11.8 billion, which represents an increase of 19%. Please note that we had positive FX translation impacts in sales on Q2 and excluding these sales were up 10%. Invoicing in the quarter was negatively impacted

by the supply chain situation and especially the lockdown situation in China. However, invoicing gradually improved as the supply situation stabilized during the quarter. With regards to sales in Q3 my outlook is as follows. Considering the record high order backlog and a somewhat improved supply chain situation, I do expect invoicing in Q3 to be higher than the same quarter last year. Then looking at the gross margin. So, the gross profit margin in Q2 came in at 37.8 compared to 38.2 last year. The overall mix price impact was positive in Q2 as the negative impact from executing orders primarily in the marine division that was priced prior to the material cost increases was offset by an overall positive capital sales after sales mix as the service invoicing was strong in the quarter, as well as price increases coming through in a good way. We had a fairly good loading capacity utilization in most of our factories, with the exception of some sites in China that was impacted by the COVID lockdown situation, making the overall load volume impact negative in Q2.

The PPV matters impact was neutral in the quarter as higher raw material cost was offset by positive impact from metal hedges maturing in Q2. The FX impact on the margin was negative in the quarter. Finally, the acquisition of StormGeo had a positive impact on the gross profit margin overall. Now over to my outlook for Q3. The starting point is 37.3% reported in Q3 last year. We expect a neutral price mix impact, but a similar pattern from Q2, i.e., price increases and favorable capital sales service mix to offset the negative impact from increased material cost on the order backlog in marine. Based on the assumption of a gradually improving supply chain situation, we expect a good load and capacity utilization in our factories in Q3. We expect this volume, positive volume impact in combination with the metal hedges in place to offset the negative impact from higher raw material costs. Finally, we expect a continued negative FX impact on gross profit margin also in Q3. Then looking at the SG&A expenses, they were up 12% in Q2 on a comparable basis. This increase is reflecting the overall high business activity in the company, the inflationary pressure, but also that we are selectively adding resources in our current business with high growth but also in some of our more long-term business development areas.

We do expect to gradually offset the higher SG&A costs by increasing sales volumes as we execute on the large order backlog in the next quarters to come. Finally, given the economic uncertainty, we are, of course, closely monitoring our cost structure and resource situation to be able to act fast in case we see signs of an economic slowdown. As you have seen, the EBITDA margin came in at 16 and a half percent below last year, mainly due to the lower margin in the marine – lower margin in the marine division. However, the profitability in the energy and food and water divisions were on a good level considering the high-cost inflation and the overall challenges on the supply chain. Then looking at some of the key figures. As I said earlier, on a comparable basis SG&A were up 12% and R&D expenses are up 2% versus last year, reflecting the overall higher business activity in the company. Net other costs and income increased by six to 8 million versus last year, excluding the restructuring cost that was booked in Q2 last year. This increase is mainly explained by the high royalty cost paid to our pure balance joint venture partner marine and also higher costs related to the ongoing changes to our manufacturing footprint. Financial net, excluding FX impact was -78 million in Q2, the FX gained losses in the financed net were -90, giving a total financed net of a -168 in Q2 this year versus a-130 last year.

Please note that we are higher – temporary higher interest costs in the quarter, which was related to the refinancing of our corporate bond program this year. The tax rate came in at 26.9 in the quarter, slightly above our guidance of a tax rate of 26. Finally, a net income and EPS was higher than last year, partly due to the higher operating income and partly related to restructuring costs booked in Q2 last year of 204 million. Then over to cash flow statements. So, cash flow from operating activities was 192 million in Q2, well below last year due to an increase in working capital. The increase in working capital of about 1.2 billion in the quarter was mainly due to an increase in inventories, partly offset by increasing customer advances. The inventory increase was driven by the strong volume growth, but also to secure deliveries to our customer during the supply chain challenges. The operating working capital as a percent of sales is expected to gradually come down as the supply situation stabilizes. Investing activities included CapEx

investment of 311, slightly higher than last year, as expected, considering the previously announced CapEx program to support our organic growth. The financial net paid was a -134 million in Q2 and again negatively impacted by one-time FX from the refinancing of the corporate bond program, where we issued two tranches of €300 million bonds in February to refinance the 500 million bond that would have matured in September this year, but was repaid already in June.

This means that our total cash flow in Q2 came in at the -241 million. Finally, our net debt position at the end of June stands at 9.3 billion with a net debt to EBITDA ratio of 109. Then looking at the FX impact on EBITDA. So, the transaction FX impact in the quarter was a -25 million and a translation impact was a positive 115 giving a total net positive FX impact on EBITDA in the quarter of 90 million. Looking at the projection for the full year, we do expect a negative FX transaction impact of 40 million primarily as our average euro hedge rate for 2022 is lower than in 2021. On the other hand, if the closing rate at the end of June remains, we would expect a positive, continued positive translation impact that would more than offset the negative transaction impact for the full year. Then regarding the order backlog. So, at the end of June, we had a total order backlog of 29.5 billion, which is 21% higher than at year end 21 on a comparable basis due to positive book to build rates of 1.23 during the first half of the year. The order backlog now represents approximately eight months of LTM sales. For shipment in the remaining part of the year.

The backlog amounts to 15.1 billion, an increase of 3.1 billion compared to the same period last year, which then lets us move to the sales bridge for the full year. Starting as usual with the sales year to date, which has been 22.5 billion and as stated in the previous slide, the backlog for shipment in the remaining part of the year is 15.1, which adds up to a total of 37.6. On top of that, you need to make your estimate on change need for out orders FX effects and so forth. For your reference delivery level or in for out orders during the second half of 21 was 9.1 sorry, 9.9 billion. Regards to the FX impact that's of course, hard to – it's uncertain, however, if we use the closing rate at the end of June, the estimated FX translation impact during the second half would

be approximately two and a half billion positive. And with that, I hand back to Tom for outlook statements.

Tom Erixon: Okay. Thank you, Jan. The outlook as I know you struggle with during the week and other industrial companies is perhaps a bit complex. But let me first say that in the order book, in the pace of Q2, we don't see the first indicators of a business downturn as of yet. And while we remain vigilant regarding the economic development and the possibility of a downturn, we continue to focus on executing the order book and drive our long-term strategy in the right way. After a first half of 22, which has been above our expectations in terms of order intake. The demand in the third quarter is expected to be somewhat weaker sequentially, and that holds true for all three divisions. To a degree this is an explanation by normal seasonality and to a degree based on the way we look at our current pipeline and expectations for the quarter. Finally, then we have announced this morning our next CFO in a separate press release that you might have seen.

Fredrik Ekstrom is a long-term Alpha Laval manager with a strong background in business control. He switched to a leadership role in the business line quite some years ago and has been instrumental and the leading person to drive the successful development of business unit breaks, which you, many of you know from its participation in the heat pump and air conditioning market. As we have previously announced, Jan remains in place, including for the Q3 report and Jan and Fredrik will find a constructive handover during the next quarter so that from November one, Fredrik will have left his operational duties in the existing business and found a good way of introducing himself into his new challenge as CFO. So, I hope you welcome him as well, and you will meet him if not before, at the Capital Markets Day. And with that, we are done with the presentation and we open for questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. A voice prompt on the phone line will indicate when

your line is open. Please state your name before pausing your question. Once again, press star one to ask a question. And we will take our first question.

Nancy: Hi there. This is Nancy from Goldman Sachs. Thank you for taking my question. So just one from me. My question would be kind of given your sort of sequentially lower demand outlook and possible concerns around kind of the current macro-outlook, I was wondering, would there – is there any sort of risk or change in your thinking regarding your CapEx plans?

Tom Erixon: No, not at the moment. The CapEx plan is probably moving a little bit slower than we expected due to the same bottlenecks that we see in supply chains as we have for our own business. So, we are moving a little bit slower than anticipated with that. I think regarding the CapEx for next year, those decisions are already made and they remain very valid. We may take a somewhat cautious approach in terms of how we pay certain of those investments, although not the ones that are related to immediate capacity constraints. So, answer is probably 60 or 70% no, we go as planned and some judgment on remaining pipeline with decisions coming up over the next 12 months.

Nancy: Okay. Make sense. Thank you. And just a second question, if I may. I just wanted perhaps if you could offer a bit more color on the kind of diluted backlog that you're currently working through, especially in sort of marine and energy. Do you able to offer roughly, you know, how much of that is kind of been delivered on or how much more is there to go?

Tom Erixon: I think the backlog is not a major issue in energy any longer. And for the for the marine, we do still have part of that lagging. It's getting smaller by the quarter. So, I would say by year end, that's not the meaning of the full factor of how other components are going to move let's leave that. So, I always recommend you not to look at the individual parameters and adjust completely. It's a complex world with many moving factors there. But from a backlog point of view, I think for the marine division, by year end, we are pretty much out of it.

Nancy: Great. Thanks very much.

Operator: And once again, as a reminder to ask a question, press star one and if you find that your question has been answered, you may withdraw your question by pressing star two. We will now take our next question.

Speaker: Good morning. This is [inaudible]. A few short questions here. I'm sorry if it's still on the marine segment, but I learned something new in this report about carbon capture and this new product you talk about the PowerPack and it seems to be a significant driver of over waters in the quarter. Could you size those orders already from this product? And how do you see it playing out going forward? Thank you

Tom Erixon: And though the E-PowerPack is still a very small part of the business, we are in the startup. So, carbon capture with respect to marine is non-significant. In the energy division we start to see some embryonic starts on the carbon capture, but if carbon capture goes bigger, then we still have not those effects in the order books. For the marine what you are seeing to take just one aspect is a clear growth in multi fuel solutions which does require more advanced equipment set up on board and that together with continued good demand in pure ballast and then gradual improvements in a number of other areas accounted for the order intake growth in the marine division. And I should say that note that the service side on the marine is very strong in the quarter. I think from our point of view, it's a reflection of high freight rates in many areas, somewhat ageing fleet and consequently a need for owners to keep those assets in good shape. So, it was if you want to have any specific comment on the marine order intake, I think it's the service side that stands out.

Speaker: Okay. And this I mean, previously, when the rates have been so high, the comment has sort of been that they don't have time to take them out to do the maintenance. But now they simply have to. Is that sort of the conclusion we can draw from the quarter, for example?

Tom Erixon: I think, you know, in all aspects, markets are adjusting now to, you know, the reality we live in. You know, they – we learn to cope with the limitations that we have. I think there was a factor before of not only wanting to utilize the ships, but also waiting times and clogging at ports were problems. So, I think scheduling is now working in a better way and we see some sense of normality and maybe a bit of a pent up, as you say, a bit of pent-up demand that is coming through at the moment.

Speaker: And on the offshore side, you mentioned being good as well. It's that sort of idle capacity being refashioned again to put into work or are there any sort of other drivers specifically in that segment?

Tom Erixon: It is a clear CapEx boom in offshore. So, it's not service related as such. It is new capacity coming online. And it's a very clear investment cycle in the offshore as a whole.

Speaker: Okay. Is that gas driven or is it sort of some impact from offshore wind as well?

Tom Erixon: I think wind is a very limited aspect of this, which is to a degree gas, to a degree oil. So, the energy prices as such has been on their up cycles since, you know, some time back is really playing into the equation here.

Speaker: Okay. Thank you very much.

Operator: We will now take our next question.

Aurelio: Hi. Good morning. It's Aurelio from Morgan Stanley. I had a couple of questions, please. The first one is around the margin development in the energy division. Obviously, even if we exclude the one-off effect that he had in one year, the margins seem to be quite strong sequentially. So, I wonder if you could break down how much of that is underpricing and how much there is down to mix. But any comments around that would be helpful.

Tom Erixon: Well, I would – that's a difficult because it depends on what baseline you're looking at and all of that. But you can – what we can say is that compared to Q1 we had – we largely eliminated the revaluation as a factor. And for the rest, it's obviously a combination. What I would say is that we have, as a result of the Russian situation, as a result of the previous oil and gas crash, which left us with weak order books in certain areas. And as an expectation of moving ourselves to less fossil driven energy makes to something else. We do have change – changes and to some degree challenges in the energy division, which remains. So, both in the energy division, we have certain parts of our business that are not performing according to expectations, and we have the same situation in the marine division.

In some areas where we are left with changes that need need to be addressed. So, we are looking at those in both those two divisions. Leaving that aside for the energy division specifically, we clearly are in tailwinds with respect to all energy efficiency related businesses. And that is the big volume and profitability drivers force right now. I think on the pricing side, largely, we are compensated for the cost inflation that we've seen that that's the order book that we are building now. It's difficult for us to track on projects and all individual articles exactly where we are on the pricing versus the costing side. But as a whole, we see that coming through in an acceptable way.

Aurelio: Thank you. That's helpful. And my second question is around your invoicing in the second quarter, because you mentioned some supply chain constraints and obviously China was locked down. And quite interestingly, China sales were up sequentially. So, I wonder how much of your

– how much the 9% could have been have you not had any supply chain issues or China lockdowns? I'm not sure if you can quantify those impacts.

Tom Erixon: I think we are starting to learn how to operate in China inclusive in lockdown. So, while the beginning of the quarter was complicated for us, we came out from a production supply point of view quite well. In China, we have managed to move employees into factories in a closed loop type of cycle operating at decent capacity even during lockdown periods. So those effects were not so big, but to the extent they were there, they were certainly impacting food and water more than any other part of our business in the second quarter. I think the bigger effect is still related to electronic components. And electronic components are – has its largest presence in rotating equipment in food and water. And consequently, the finished goods inventory and the possibility of increasing shipments in second half is mainly related to food and water, whereas for the energy division, which is more metal related, I think we've been in better balance all along between order intake and shipments. So, we indicate that last quarter we had an increase of delays and I think we indicated 600 million were sort of tracking behind schedule. I wouldn't say that that number has changed very much. It's probably at around the same level now. So that's why we're saying that we think we've hit the bottom in this. We see a better operating conditions through the quarter and we expect that to remain during the second half.

Aurelio: Thank you very much.

Operator: We will now take our next question.

Sebastian Kuenne: Hi, gentlemen. It's Sebastian Kuenne of RBC. I have a question regarding the price volume blend and I want to understand that a bit better. So, year on year you have 20% revenue growth. But when I look at the gross margin bridge, it indicates that volume didn't really support. So, is this 20% growth mainly pricing? That would be my first question. Secondly, in marine, just to drill down a little bit more, April, May saw port closures in China. Could you kind of quantify

again the impact that you had on your revenues? Is that part of the 600 million you've just mentioned? And lastly, on input costs, steel prices. When do you expect steel prices to become a tailwind, given that in North America, steel prices halved and now we see nickel prices dropping quite sharply and also actually being down year on year? So stainless steel should become cheaper. When do you think this becomes a tailwind? Thank you.

Tom Erixon: Let me start with the pricing. I think that's a very relevant question. You should be alert on that issue. I think in general and certainly related to two Alfa Laval, it is, you know, we are not giving a precise number of, you know, on a complex portfolio of transactional projects, you know, mixes of invoicing and numerous product lines. So, you know, we have variations. But our expectation is that when you look at the organic growth number, whether, you know, whether it's especially on the year-on-year numbers, we feel that we are probably on high single digit price effects. And so, if you look at price versus volume, we are probably somewhere north of 50% of the growth in volume and somewhere south of the 50% in terms of price, that – that's about how we feel about it. If you look at the sequential growth numbers, of course, the pricing effects is less between Q1, Q2, but there is still an element of pricing also in that, although at a smaller level. So, I think that's as good as the guidance that we can give. We certainly don't have price increases of 20%, although I wish that would have been true. On China, it's difficult to break down. It's not a, as I said in the previous question, the main issue for supply chain is not Chinese lockdown. It is component availability and to some limited degree logistics related. And that's why I feel that as we return to a slightly more stable sourcing situation, we have moved incoming goods through working process to finish goods. And we expect to have somewhat of a positive effect on the invoicing on the second half and the last quarter – question was.

Sebastian Kuenne: Positive effects from lower on [inaudible].

Tom Erixon: Yeah. Yeah, we got it. I mean, here is how I would look at it if I were you when commodity prices shot up in the air, you were all hugely concerned about our ability to

compensate. Now, through net working with price, through metal hedges, through inventory revaluations, we managed to move through the up cycle in a relatively stable way. And the bad thing with stability in headwinds is that unfortunately, it will also remain the same when you have tailwinds. That is, you know, we will see over time if commodity prices are significantly and quickly reducing, we will have negative hedges effects. We will have some negative ripple effects and we will clearly have positive PPV effects. And so, you know, I wouldn't bring in, you know, the commodity price issue to haul in the equation. We manage those cycles in a good and a constructive and stable way, but we don't by eliminating the upside, you know, on short term swings, you know, it goes both ways. So, I think that's the best guidance I can give you.

Sebastian Kuenne: Understood. Thank you very much.

Operator: And we will now take our next question.

Speaker I [inaudible]. And so, I just want to come back to the energy margin. It doesn't seem like there is any real value effect. It's a solid underlying margin, which is great to see. Are the new growth areas linked to energy efficiency mix enhancing at home as you invoice more out of the backlog or do you simply gain from volume leverage from low levels in oil and gas? And do you think there's more than is sustainable into the second half i.e., about 15%? I know it's more in throughout easier to increase prices in energy against cost. But just wondering if this is a new level, I'll stop there.

Tom Erixon: We don't guide on margins. I will not confirm nor deny your speculation. The – it is clear that in the quarter we had mixed effects also from a well growing service business. So, all in all the mix was good and there are always moving parts in the P&L, also in energy. So, there may be a fixable positive and negatives on in terms of raw material. I mean, the raw material dependency is high in energy division. So, it moves quickly in that division as you saw in Q1. What I would say, though, without raising expectations too much, is that the improvement in the

oil and gas cycle has not materialized yet for us in terms of invoicing and consequently not on result.

We are still working through the aftermath of the fossil fuel downturn that hit the order books quite hard, including the elimination of the Russian orders and the stop of taking new Russian orders from the fossil. So, we are not through with that. And, you know, we are troubleshooting as we speak, although overall on the energy division side, it looked good.

Speaker: As a follow up to that and would be as you're invoicing and I appreciate it hasn't moved through the backlog yet but as you're invoicing more oil and gas orders are that mix neutral or will it be mix negative given that we are coming from 2014 levels when the margin in that business was very high and I guess might not be as high now?

Tom Erixon: No, it will. We're not going to be back in the booming days, I think, without guiding to, you know, and it's sometimes I'm not sure what is adequate. I wouldn't – it doesn't move the needle too much in either direction, I think. Jan, I don't know if you want to be more specific than I am on that.

Jan Allde: No, I think that's a fair –

Speaker: Okay, cool. My second one is on the – is on marine then. And the margin is obviously very good to see that you recovered quarter on quarter. But can I ask it on new orders for invoicing further out and the margin here. Obviously, you're talking about that the content per vessel is going up. I guess your customers must be very receptive to price increases. How are we on new orders? Is that sort of 15, 16% back to where it should be initially? And you said that a backlog impact should be gone by year end. We're trying to think when we can bridge the two old versus new backlog.

Tom Erixon: As you know, the challenge is that there will be 20 new issues to focus on. So, I wouldn't predict, you know, the exact development of the results side. But it's clear that and you have to remember that the mix aspect is a long-term issue. It's not a short-term issue. So just adjusting the backlog will not automatically bring us back into the historic level. With that said, I think, you know, certainly the pricing is much better adjusted to the current operating environment than we were with the backlog in Q1 and the two degree and in Q2. So that in and of itself would certainly have a positive effect together with possibly a somewhat better share of service in the mix.

Speaker: Yeah. Very good. Very, very quick final one is on biodiesel. It doesn't get that big, even with the estimate as a percentage of the group when we back out to exposure. But we're getting some questions to what extent this can take a hit from food inflation that we see out there. I mean, doesn't look like a big impact. But if you could comment what you've been seeing in the border pipeline discussions, if anything, on biodiesel have changed at all. Thank you.

Tom Erixon: No, I think the biodiesel is still moving. It's correct. Correct, as you said. You know, one reason why the biodiesel and biofuels discussion, at least as long as it's based on vegetable oil and residual fats, is that there will eventually be a bottleneck and an inflationary pressure, you know, in between the fuel side and the food side. So, we think there are capacity limits down the road when it comes to the expansion of vegetable and animal fats as a source of supply into this chain. But we have not really experienced that that is a big issue here right now with the higher energy prices in general. I think the investment case still remains solid in the biofuel pipeline.

Speaker: Thank you, Tom.

Operator: And we will now take our next question. Please go ahead. Your line is open.

Speaker: Okay. Thank you. Good morning, Tom, Jan and Johan. A couple of follow up questions and sorry if I missed that, I've had some technical issues this morning. On ballast water

treatment systems. Have you started to see a decline in order intake now or does the order levels remain high? And what's the absolute level compared to sales for ballast water treatment systems?

Tom Erixon: The market remains stable. We expect to see a decrease in the market, but so far, we are pretty much flat compared to rolling 12 months.

Speaker: And that's around 3 billion SEK?

Tom Erixon: Yep.

Speaker: Yep. And on price increases. I understand on average, your price increases are high single digits right now. Is that also true for the backlog that you have? Or shall we expect your price increases when it comes to sales to increase further in the second half of this year?

Tom Erixon: Well, on average on the backlog, it will have to be somewhat lower. But now we've been working with throughout last year gradually. I think if you take an average, we had approximately three price increases during the last year or so. And most of what was done on the price increases in the beginning of last year is probably shipped at this point in time, except some larger projects there with longer lead time. So, expect the average on the order book to be somewhat below. But we think the orders that are taken Q1 and Q2 are very much adapted to the current cost scenario.

Speaker: Understood. The high single digit price increase is on the new orders that you are taking. Understood. And if steel prices or some steel prices have already started to come down, do you see a risk that you would have to lower your selling prices again if we head into a recession and steel prices continue down? Or have they historically been very sticky? When you've raised your prices, you are able to keep them.

Tom Erixon: Well, we have various parts of our portfolio and I think at the end of the day, you know, we need to be competitive in the market and there is no reason why profitability should be substantially enhanced just by a temporary spike in raw material prices. With that said, I just want to remind everybody that while commodity prices and steel prices have been one part of the cost inflation, you know, we've seen it in salary and wages. We've seen it in transportation, we've seen it in logistics, we've seen it in commodities, you know, in all the commodities needed for consumables and production. So, the cost inflation is still moving very, very strongly in most items other than the commodity side. So, I have a hard time to see that there will be a very quick and fast adjustment based on low nickel prices alone.

Speaker: Yeah. Okay, that's true. And then lastly, on supply chain issues and logistics, et cetera, I think we've seen an impact in the food and water division now also in the second quarter. How – yeah, what are the problems now going into the third quarter? Are you still seeing the same kind of issues or are they easing and you think it will be easier for you to ship products in the third and fourth quarter?

Tom Erixon: We as we have indicated in some places here, there not only we feel the operating conditions are improving, the supply chains are getting used to dealing with the challenges that are there. So, underlying that will still be, you know, problems to resolve. But I think gradually we are dealing with them better and better in our global supply chains. And we think that shipment will increase as we move into the second half of.

Speaker: That's great. Thank you very much. And have a good summer.

Tom Erixon: Good. You too.

Operator: And we will now take our next question.

Speaker: Good morning, Tom. Can you hear me?

Tom Erixon: Yup.

Speaker: Sorry. I got some technical issues as well. Sorry. I had two quick questions if I can, please. One on the gas situation in Europe and secondly, on tanker contracting. I appreciate the situation in Europe is rather dynamic. I think the long-term potential is fairly clear both on energy and marine. But can you talk a little bit about the near-term tailwinds and headwinds associated with the gas situation in Europe? Specifically on the tailwinds, have you seen any level of sort of preordering, if you like, across the business in anticipation of sustained and more material gas disruption in Europe? And headwinds are there any signs among you, particularly your chemicals customers that we might start to see some delays and possible cancellations? I'll stop there, please.

Tom Erixon: We don't see any cancel other than Russia which is cancellations from our side with a small amount also in Q2. The cancellations remains on a very – on an insignificant level. So, at the moment, that's not the big worry. Pre-ordering we don't see either. I would say the – what we see mainly on the gas side is the expected upswing coming from partly U.S. and partly Middle East other than, you know, northern Atlantic offshore activities. So, to us, it's a very normal cycle at the moment, the way it typically look when the energy markets do a comeback, the effects in Europe with respect to this is in our books not so big. They – the one area that we've talked about before and you guys like to monitor is the heat pump market. And of course, the transition from gas boilers in Europe in the heat systems to heat pumps is ongoing. It is already a very dynamic and expanding business. It remains so we haven't seen it, you know, accelerate any further. I think everybody is at capacity when it comes to what can be done in the heat pump market, including installation. So, I don't expect that that's going to change very much other than in general a favorable outlook which was already in place before the energy crisis.

Speaker: Clear, Tom, thank you. Can I ask this secondly and briefly on your on marine pumping systems business, I'm looking at tanker contracting down 60, 70% or so to kind of decade lows. Wonder what you make of that? Is that sort of cyclical? Is there some more structural elements to that? And if more structural, what's your assessment of the need potentially to address the operations in your marine pumping systems, please?

Tom Erixon: Yeah, it's a good question. And your observation is absolutely correct. The product tanker market is low. One important reason for the low contracting has been specifically the commodity prices in nickel. Product tankers are compared to almost all other ship classes, usually dependent on stainless steel. And so, the cost levels and cost implications for ordering a product tanker has just been, you know, from a timing point of view, most ship owners have decided it's better to wait. So, in our view, this is not a supply demand situation. It is a cost situation and the timing but it may well create if things don't change in the short term, you know some utilization parts in our cargo pumping. I would still, though, say that to a degree, although we have different production lines, our pumping business in from or is at the same time going through a major growth cycle when it comes to the offshore where we do a lot of offshore applications on from a pump technology. So, it is but all in all of course we may fail in that specific business, some utilization issues. I don't see that it will be, you know, we have – should we come to that we have structural adjustments going on most of the time. So, I don't see it as a major item in terms of restructuring needs. And it is a business that we certainly are committed to and believe in longer term. So, you know, I don't expect that to generate any major restructuring activities, even if the situation would remain on a low level for a while.

Speaker: That's clear. Thank you, Tom and thank you to Jan. Also, good luck and thanks for the help over the last few years. Thank you both.

Tom Erixon: Thank you.

Operator: And we still have six questions left. We will now take the next question.

Speaker: Hi. Good morning, everyone. It's [inaudible] from Bank of America. Thank you for taking my question. So, I'm really interested in hearing a bit more on the recent acquisition of Desmet, which, if I'm not mistaken, it would be around 20% food and water after it's consolidated into the group. So as far as I understand, Desmet seems to have more of a project engineering business, which is quite different to the current food and water divisions, which is mostly like equipment business. So, I was wondering if you can talk a bit more about the strategic rationale around the acquisition. What are your plans to integrate Desmet and to reduce sort of the higher volatility of profitability and generate more synergies?

Tom Erixon: Yes, you are correct. But we do already have a unit in the food and water division called Food Systems, where we do a lot of vegetable oil applications. And given the vegetable oil we are also running our biofuel activities out of the food and water division, from a capable – technical capability point of view. The synergies are relating to the vegetable oil value chain where these two entities, Food Systems and Desmet are complementing each other in the value chain from crushing all the way to a biofuel side. We believe strongly that the biofuel technology and that aspect will be very important in the years to come, and the fit is very good on that. So, it gives us a very good and strong market and technical position in an area which we think is important in the energy transition.

So that's the strategic rationale for it. It's absolutely true that in the project business, although there will be synergies in the shape of the component sourcing possibilities for Alfa Laval products, the – as a project engineering business, we do not expect a 50% target and that's why we are indicating that the sort of double-digit percentage margin ambition is probably somewhere where you should put it and currently expect it to be just below perhaps. And with some integrated synergies, we'll be somewhere above. I remind you and everybody else that as all

project business in terms of return on capital, it is a very profitable business. We have obviously a down payments ahead, so we are cash positive in project execution and from that point of view it is supportive of our gross targets and somewhat dilutive to our EBITDA margin targets.

Speaker: Okay. Thank you. That's really helpful. And my next question is on the organic growth in energy. Would you be able to give us a split there? How much of that is driven by oil and gas CapEx and versus the HVAC industry? And you know, you're also talking about that the energy division still affected by the last oil and gas CapEx downturn. So, if the CapEx continue to grow, should they expect a much higher margins than what you did historically during a upcycle in oil and gas CapEx?

Tom Erixon: I think the pricing side in the oil and gas is not going to be back to the real fantastic numbers back in the boom of 2014. I think the adequate comment is to say that the mix component with oil and gas is probably not dramatically impacting the margin based on mix for the energy division as a whole. So, for assets that are heavily dependent on the order backlog in oil and gas is still weighing on the margin in energy business. We are working in various ways to address that going forward, including long-term decreasing our dependence on oil and gas cycles. And so, but there are some upside down the road in terms of starting to build and invoicing the oil – the gas side of this CapEx cycle in the quarters to come.

Speaker: But then, given that you have done really well this quarter, I mean, on the margin side, does it mean that HVAC, industrial heat pumps, et cetera has like a structurally higher margins than the sort of the more traditional oil and gas business that you're exposed to?

Tom Erixon: That, I mean, we are not breaking margins on a very granular level. So, I'll hold back. What you need to consider on that is that also for, you know, the fossil side is also has a substantial service mix. And so, the mix changes between CapEx projects and services also affecting the situation. I wouldn't break end users into very different categories when it comes to

margins. And but of course what you could say is that when we continue to load volumes into existing product lines in whatever the end application is, that is obviously having some positive effects on the margin and the load in several areas are now very good. Some of that load goes into the gas side. The same heat exchanger production lines are used for both gas applications in terms of cooling and heating as well as for data centers. So, it's a little bit difficult to draw it just on an end user way. But as production line, heat exchange technology is in an upcycle and never mind where it comes from in a sense.

Speaker: Thank you very much. That's really helpful.

Operator: And we will now take our next question.

Kennedy Wilson: Hi. Good morning. Kennedy Wilson from JP Morgan. I just have one question remaining. Actually, it's probably quite a straightforward one. I just wanted to check on the comments around cash, which obviously you've been building as volumes have come up. And I guess there's other factors in there as well in terms of holding onto inventory to deliver. I think the comment was that as the operational sort of situation begins to ease, we would expect that to sort of start to improve. And we're at the point now where we can expect the sort of working capital position to be stable before we start to see it improving, or do you expect it to build still into the second half?

Jan Alde: Yeah. Maybe I can, I'll take that one. Yeah, I think you should expect that the working capital where we are sort of safe, I wouldn't expect that to continue to be built during the second half. So, as I said, as a percent of sales, I would expect the working capital will now start to go down and gradually normalize as we see the stabilization or improvement on the supply chain.

Tom Erixon: All right. I think we'll take the last question. We are starting to run a bit over time and probably also for you.

Operator: Perfect, we will take the last question.

Sven: Yeah. Morning. It's Sven from UBS. I hope you can hear me. I keep it to just one question then, and that's on your sequential order intake kind of somewhat lower. You said that's based on seasonality and pipeline. I was just wondering, of course, if you look at the last year's, it was always somewhat lower just simply on seasonality. So, I was wondering is really mostly seasonality behind that and less so what you see on the pipeline?

Tom Erixon: I don't read too much into it. You know, in reality, it's even the seasonality can be a little bit volatile. So, it's not every year over the last 10 years, you have an absolutely clear pattern and we see some variations in that. But I think a lot of orders came through in Q2. And I think the only thing we tried to voice clearly is that we don't see a shift in the market and the underlying market demands, but with high throughput rate of orders and bookings in Q2, we are a little bit hesitant to believe that we will repeat that level every quarter going forward. So, we are a bit cautious as to where the orders will come, but we see it more as quarterly variations than the trend curve.

Sven: Okay. Thanks, Tom.

Tom Erixon: All right. Super. Thank you. And, I mean you all know where to reach Johan if there is any. I mean we are five minutes overdue, so we leave that for separate conversations. Thank you, a lot. And if not before, we will get together in connection with Q3 earnings call in late October. Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.