

Alfa Laval AB

Alfa Laval Q2-26 report

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Transcript

Speakers:

Tom Erixon

Fredrik Ekstrom

Tom Erixon

Good morning, and welcome to Alfa Laval's Earnings Call for the Second Quarter 2026. Fredrik and I will give you a rundown on the quarter. And then as always, we open up for Q&As.

Let me start with a few introductory comments. First, obviously, it was a quarter with solid demand across almost all of the part of the business with a new all-time high of just above SEK22 billion. It was another step forward in our SEK100 billion growth plan for 2030. In addition, we had some very important project wins in all three divisions, strengthening the growth plan further. I will come back to those wins shortly.

Finally, the investments into our product offering and our capacity increases continued and will continue for the coming quarters as our main challenge remains to scale together with our leading customers.

And with that, let me go to the -- sorry, to the key figures. As indicated, a very strong order intake quarter with solid growth across almost all of the businesses, Service included. Note that despite the large SEK1 billion biofuel order, large orders were as a whole on a normal level and was not the main growth driver in the quarter.

Sales grew on a steady pace and a record order book of SEK53.5 billion and good momentum in the transactional business indicates a healthy outlook for continued invoicing growth.

The profit margin was overall stable at 17%, but some headwinds in the Energy division impacting the quarter somewhat. So let's go to the Energy division. The 70% growth was, I have to say, even a bit above our own expectations.

All parts of the division grew with data centers leading the way. The growth contribution from Cryo this quarter recorded as inorganic growth was substantial with a total order at about SEK1.5 billion totally in the second quarter.

Of special importance was a large cryo order for LNG in the U.S., a breakthrough order for large-scale coal boxes in this market where we previously have been relatively small.

The demands on Alfa Laval to scale in the data center market are high. Current capex levels within Alfa Laval will be kept in place in the medium term to support customer agreements past 2027. Currently, for your information, the

12-month order pace in data centers in the Energy division is approximately at around SEK5 billion.

The margin was negatively affected by a slight negative mix and uneven load in some manufacturing units. The low utilization in parts of welded and cryo was impacting the results somewhat. The situation with cryo, however, is quickly resolved with the order book from the second quarter.

Moving on to the Food & Pharma division. It was another all-time high quarter with solid growth across almost all of the businesses in the division. We have indicated several times that the biofuel project pipeline was getting stronger and the large Brazilian project amounting to SEK1.1 billion was booked in the second quarter.

It is an exciting project with a clear path towards a competitive pricing versus fossil-based fuels. We are honored and excited to be selected for this milestone project.

Earnings were stable at just below 15% as we continue to invest in the future growth and positioning on the division. Then on to the Ocean division. It was another strong quarter with demand growth driven by ship contracting, including the Tanker segment.

Cargo pumping again had a strong quarter with orders now being booked well into 2028. It was also a breakthrough quarter with orders for the LR-Tanker segment, a segment of similar size to MR where we typically are strong.

Although the competitive dynamics are very different for the 2 applications, it is a very meaningful step towards a larger addressable market long term. The conditions for a strong capex cycle in the offshore business are in place.

And while the project pipeline is getting stronger, it is not yet visible in the order book in the second quarter. The margin developed well in the quarter, just below 25%. It was a clean quarter with some tailwinds and a positive mix driven by -- partly by service. The order stock remains strong for the second half of 2026.

On to Service. After a period of slowing demand, the growth returned with a solid 10% organic growth in the quarter. With a growing installed base and a stronger service capability, we expect to continue on a stable growth path in all 3 divisions. And I'd just like to highlight to you that with the exceptional growth of capital sales, especially in the Energy

division, the share of service in the mix gets smaller, while staying very healthy at 40% plus in the Ocean division.

A few comments on our key markets. U.S. and China continue to make up for 40% plus of total orders on a 12-month rolling basis.

In addition, in top 10 markets, some important Asian and European regions account for the rest. Specifically in the regions, North America is the clear growth driver in the quarter and the main growth clearly in the U.S. supported by the data center growth.

Northeast Asia and especially China had a solid growth quarter as well with the Marine applications as the main contributor. India and Middle East recovered well in the second quarter, but still the year-to-date is affected by a weak start in 2026.

Southeast Asia is clearly affected by the fuel shortage and energy crisis. So the first half '26 is flat and larger projects are barely compensated for by the growing transactional business. Europe remains rather stable with a good growth in Eastern Europe. LatAm is good, obviously, partly driven by the large biofuel order.

And with that, I hand over for some further details to Fredrik.

Fredrik Ekstrom

And thank you for that, Tom, and good morning, everyone. Adding some additional dimensions to a record high quarter of order bookings with a total growth of 35.2%, of which 28.5% is organic, 8.6% through structure, mainly from BU Cryogenics and an adverse currency effect of almost 2%.

In the quarter, beyond the already highlighted growth in data centers and biofuels, we also have some good growth in fossil gas applications and conventional power, dairy and prepared foods and marine digital solutions. .

Order intake for the first half of the year amounted to SEK39.8 billion, a growth of 16.4%, where 17.1% is generated from existing businesses where data center and all fuels, fossil, sustainable and biofuels outpace other end markets. 5.5% positive impact from acquired businesses and a negative currency impact of 6.2%.

The record high order intake in the quarter yields a book-to-bill for the quarter of 1.23, which increases the backlog to a record 53.5 billion, of which 29.1 billion is currently planned to be delivered in 2026.

The current order book supports a continued good invoicing level and the order book is assessed to be in line with current input cost levels. SEK24.5 billion is already booked and planned for deliveries in 2027.

Sales development in the quarter and year-to-date are far more linear in growth than order intake as it mirrors the manufacturing capacity planning and delivery. SEK18.1 billion in products and services were delivered to our customers in quarter 2, representing a growth of 7.7%, of which 5.9% organic, almost 4% from acquired businesses and a negative currency impact of 2.1%, ending the first half of the year with a growth of 2.3%, indicating an increased trend of delivery in the quarter that we expect to sustain into quarter 3 and quarter 4 and supported by the order book.

Organic and structural growth both contributed with 3.8% growth, respectively, and currently impacted by a negative 5.4% from currency. And now to some commentary on the results. Quarter 2 gross profit is well supported by a continued good manufacturing utilization rate. Good purchasing price variances and impacted negatively by cautionary provisions and guideline reserves.

Sales and administration costs are within the expected ratio to sales where the increase of 7% is to large part driven by added cost of the cryogenics business. R&D costs increased with almost 19% in the quarter which is in line with the continued high innovation pace of our products. Operating income improves to yield SEK2.9 billion in the quarter with an EPS of SEK4.91 which also represents a marginal improvement.

Year-to-date operating income is impacted by the lower invoicing we carried from quarter 1 and accumulates to SEK5.6 billion with an EPS of SEK9.5. The adjusted EBITDA margin which in the quarter is equivalent to the EBITDA margin of 17% is in line with the target level of the group and communicated external targets. Some negative impacts in the quarter could not be offset by the good transactional and service business development.

Currency impacted positively with SEK209 million one off costs of SEK75 million related to the change of organizational structure implemented in quarter 1 and the structural impact cost of acquired businesses. In total terms SEK3.1 billion in adjusted EBITDA in quarter 2 ranks as the third highest quarter. That compared to quarter two 2025

has increased and it did not include the financing of the cryogenics acquisition at that time.

However when compared to the closing level of 2025 SEK17.2 billion the increase is marginal and to a substantial part driven by currency. Cash and cash equivalents have decreased and the cash flow analysis on the next slide provides further detail. Lease liabilities remain on a similar level yielding a net debt including leases to EBITDA of the last 12 months ratio of 1.1 to be compared to a level of 0.92.

The average funding rate remains competitive and headroom remains to allow for continued inorganic growth ambitions. Onto cash flow. Cash flow from operating activities trended sequentially up in the quarter to SEK2.4 billion with a year to date SEK3.6 billion impacted by lower invoicing in quarter 1. Investment programs continued on a planned pace however with a facing uptick in quarter two reaching SEK1 billion.

No acquisitions in the quarter and year to date reflecting the acquisition of a heat exchanger company in China. Financing activities in the quarter reflect the net of newly issued commercial papers and the record high dividend to shareholders of SEK3.7 billion. For the first half of this year the net finance activities shows a net position of debt close to zero after repayment and refinancing. The paid dividend and higher financing cost. We expect to be cash flow positive for the year.

And finally, some customary financial guidance. In quarter 3, capex up to SEK1 billion, amortizations of SEK170 million and a tax range of 24% to 26%. For the whole year, capex within the range of SEK2.5 billion to SEK3 billion, amortizations of SEK680 million and a tax rate between 24% and 26%.

And with that, I hand over back to Tom for an outlook on quarter 3.

Tom Erixon

Thank you, Fredrik. And then -- to sum up how we look at the business situation and context right now. Overall, we believe we are in a time of strong growth across several of Alfa Laval's end markets. We do expect quarterly variations on order intake, as always, but business conditions are expected to remain positive in the short to medium term. Specifically, the third quarter in '26 is expected to be somewhat lower sequentially compared to the strong second quarter this year.

And specifically on the divisional level, Ocean is expected to remain on about the same level, whereas the Energy Division and Food & Pharma Division are expected to be lower. Finally then, please note that we are comparing ourselves to a record second quarter, which came in significantly stronger than we expected. So all in all, the outlook is not reflecting deteriorating market conditions.

And with that, we open for Q&A.

Operator

Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue you may press star and two. Questioners on the phone are requested to disable the loudspeaker mode while asking a question. Anyone who has a question may press star and one at this time.

And the first question comes from Meihan Yang from GS. Please go ahead.

Meihan Yang

Hi thank you for taking my question. I have two questions. First of all, can you give us a bit more color on data center orders margin? Are these dilutive to your Energy Division? And second of all, what's the level of fixed cost headwinds you're expecting from the investments into pharma into 2027? Thank you.

Tom Erixon

We're not giving margin comments specifically on all parts of the business, but we don't believe that we will have a general margin deterioration per se in moving into the data center business. On the Pharma side, I'm not sure I picked your question exactly. So complement to me if needed. But the investment into pharma is a long-term growth strategy. My experience is it takes a couple of years to go through.

So I think in terms of sales and revenue growth other than what we're already doing of course in the pharma business which should be somewhere close to maybe SEK500 million or something like that.

I think the turbo or additional growth that we may come get out of that segment going forward. I think we have to expect it's going to take some time and possibly beyond '27.

Meihan Yang

Great. Thank you very much.

Operator

Then the next question comes from Magnus Kruber from Nordea. Please go ahead.

Magnus Kruber

Hi, Tom, Fredrik, Magnus here from Nordea a couple of questions from me. Can I first start where you left off around the guidance level obviously very reasonable to expect Q3 to be slightly lower or marginal lower compared to a very solid Q2 number.

But I mean we have a very broad based activity level across end market it seems to me and is it fair to say that the underlying activity in the market is now perhaps a bit higher than you anticipated before over the coming quarters and year?

Tom Erixon

Yes I confirm that.

Magnus Kruber

Perfect that's great. Then a couple of questions on the margin side on the energy business first could you please help us unpack a little bit the margin dynamics we saw in the quarter and what we should expect going forward there on those headwinds that we saw you alluded to for example Cryo potentially easing a little bit those headwinds in the coming quarters a little bit more color on that would be very helpful.

Fredrik Ekström

Yeah and there's a couple of things that happened it's of course a lot of variables moving at the same time it's not a singular item that that's creating the margin levels that we see in quarter two.

But to sum to give you a few of them of course we have a bit of a shift in mix there's a little bit of less service content a lot more capital sales content in the invoicing that we saw in quarter two.

Therefore the mix effect we have an impact of provisions and reserves that we do according to guidelines and according to how we see projects develop and those come out a little bit heavier in quarter two than what we had expected and then finally of course there is an element of costs that have to do with the reorganization those are marginal but there's still some small effect of that.

We should also add that there's some inflationary impact and then further and last but not least there's also an impact of currency.

Magnus Kruber

Got it, that's helpful. And then just finally on the group costs I think we had a SEK250 million negative from the two shall we say underperforming businesses that we have there at the moment. How should we think about those businesses in the coming quarters and maybe strategically down the line how are you treating those businesses going forward?

Fredrik Ekström

Well those businesses are in the other category because we are looking at them to see if we develop them further or if they should have an exit but you know that's a that's a conclusion that's that we haven't reached yet first we want to see where these businesses operate on a standalone basis.

Yes they are part of the 250 million they're not really the full impact that you see on the 250 million there's other things that are propping up those 250 million there is an element of costs that have not been invoiced out into the sales companies therefore you have a cost a lower cost in the sales company for a group point of view it's even but it doesn't appear in the divisions before we invoice it out into the sales companies.

So those are really the impact the contribution of the two businesses that are in other is more how it looks per row but if you look at the level between the two years it's about 250 million to 245 million on a year to date basis between 2025 and 2026.

Magnus Kruber

Okay so it's reasonable to expect it to remain there at least for now?

Fredrik Ekström

Yes I don't think you should expect a big difference from last year.

Magnus Kruber

Got it. Cheers thank you so much.

Operator

Then the next question comes from Sebastian Turner from RBC. Please go ahead.

Sebastian Turner

Yes, thank you for taking my questions. My first is on the biofuel let's say food and pharma segment. You had this large order in Brazil do you generally see the pipeline for biofuels coming up or getting stronger as a result of the Middle Eastern crisis or maybe you can just give us generally your view on the momentum now for biofuel projects that would be my first question.

Tom Erixon

Yes I would broaden it a little bit I think what happened during the previous peak and cycle we had a fairly strong investment cycle into biofuels in general and the blending directives and so internationally didn't quite meet the expectations and so there was an oversupply and the supply side just sort of cut a number of projects out of the capex plans that were quite advanced at the time that that happened in several markets.

And the only biofuel market that held up reasonably over the last two years was the ethanol market where both the US and India particularly maintained on blending directives and there were further capacity investments there and that's a segment that matters to us but not to the same degree as vegetable oil based processes.

So as markets underlying markets were continuing to grow and the capex didn't go into full blown projects for a period of time the pipeline was sort of building and we believe there are quite a number of companies that you know were sitting on the sideline and to a degree still are waiting for the right moment and so that's why we've been talking for at least six months of the fact that a number of projects are starting to move again.

And this let me say that I don't expect a lot of SEK1 billion orders from our point of view going forward but there are sizeable projects that are still under discussion under quotation and I believe we are moving into a cycle that's going to be certainly stronger than the last two years how far and how long it will go remains to be seen but there are ample opportunities for projects over the next couple of years in several parts of the world.

So I think that's sort of what you know our general reading. I think the Middle East crisis and the energy crisis as such is probably going to be a co-driver of the energy transition together with the climate impacts.

So I find that energy security and what will be required in terms of electrification biofuels and fossil independence will play part of the future energy agenda somewhat stronger than in the past.

I don't want to overestimate the impacts from the Middle East crisis per se but obviously the belief of in terms of the energy prices as a result of this problems and the security issues are likely favoring a somewhat more accelerated energy transition than what we were looking at a year or two ago.

Sebastian Turner

Very helpful. Thank you. Second question is on shipping, especially the shipyard ramping speed. Clarksons always says, okay, volumes going up to 12% to 15% this year and also above 10% in the next years.

So value has to go up even faster. Are these numbers that you can confirm when you look into the shipyard activity in China, can they ramp as fast as Clarksons implies?

And what would that mean for order intake for you? I mean contracting levels are strong very strong currently. Do you see or do you think that you can maintain that kind of growth of 10% to 20% in order intake outside of the pumping business? Thank you.

Tom Erixon

I would say right now that if we look at the current speed and what we're experiencing at the moment, of course, there is a quite big share of contracted vessels at the yards where we still have not booked orders in businesses outside of cargo pumping. As you know, the cargo pumping tends to go very, very early, sometimes ahead of Clarksons data, whereas the other parts of the marine business normally is coming into play somewhat later.

So I think we have, as is a reasonable pipeline on that level. If we look at the ramping on the yard side, we have been a little bit surprised about the agility in China, and we see that specifically with yards that previously have not built complicated and advanced vessels who are now entering into that market.

And we have commented on that earlier also from the point of view that when it comes to commissioning, we have significantly ramped our commissioning capabilities in order to support yards with less experience of our equipment than some of the well established known yards in Korea, Japan and China. So we do see this development.

Our hope has been that we are not ramping too aggressively the shipyard capacity. We have said during at least a year or 2 that if we look towards 2030, we see a pretty stable demand cycle, not least because the scrapping will need to go up, and we need a lot of replacement ships coming in over the next few years.

So we have estimated that the demand cycle could be relatively stable. But of course, that is also dependent that we are not seeing a race to extremely high delivery numbers in this year or next year based on ramping, but that we are rather containing global capacity somewhere north of 2,000 ships a year, but certainly not at the 3,000.

So I would hope that we see going forward, and I'm leaving quarter aside right now but my hope and expectations is that we will see somewhat of a less cyclical business somewhat more stable and with that we should see a reasonable but perhaps a slightly slower growth than we've been at the moment.

Sebastian Turner

Yes. My last question very brief. We had this pre-ordering situation for the pumps in the past couple of years and then the unwinding of it. Do you currently notice a kind of a trend towards pre-ordering again or is the orders that you get in marine the equipment that is actually needed for the next six months in the shipyards? Thank you very much.

Tom Erixon

Yes I don't I don't see any I wouldn't call what we see pre-ordering. What we do see is that some ships are contracted on speculation. And so we see some people entering into the market who are not long-term operators or ship owners in that sense.

So from that point of view the numbers are perhaps somewhat elevated but with the current capacity the current ton mileage situation on the global trade we certainly don't feel that there is and even with the current level if we look at the age of MR LR tankers specifically the aging of those fleets is normal is not exceptionally young.

So we don't you know in in the context of a couple of years see a big shift in that market but I would still say that of course when orders are coming in very high over a year or over a number of quarters typically it should come down a little bit reflecting more of the delivery output and invoicing cycle than just an elevated order intake situation. I hope that gives some clarity to it.

Sebastian Turner

Perfect thank you so much.

Operator

Then the next question comes from Klas Bergelind from Citi. Please go ahead.

Klas Bergelind

Yes hi Tom and Fredrik, Klas at Citi. So my first question was also on marine and I'm thinking about lead times obviously strong orders on the cargo pumping side following the strong contracting of product tankers and you talk about solid demand from the LR's.

When you look at the Framo order book now how should we think about the sales growth ahead? You're obviously now backfilling for the second half 27 where we previously had expected some softer sales. So is growth in the P&L in Framo likely here or are we going to see flat 27 and 28 or can we grow Framo revenues that is my first question on the current order book as you see it now.

Tom Erixon

Well if we start with our own capacity we are going at full speed at the moment as you know we are in the biggest capex cycle for the Framo operations in their history it's a SEK4 billion program over five years or so covering you

know a number of areas cargo pumping is just one of them the offshore is another and there are some other things and Cryo and others that is affected by this capex program.

But we put priority to execute the productivity program and capacity program for cargo pumping as a as a first step in that program and we come quite far so it is a tough situation in Bergen when it comes to replacing old equipment and automate a whole range of processes at the same time as our delivery machine is going at the all-time high level.

So credit for the team we haven't missed a single delivery yet and we don't expect to do it but we can't go much higher than we are right now and I would not see that for 26 or 27. I think the question on the cargo pumping specifically is going to be related to a possible long-term position in LR tankers which is an area where we have had a minor presence so far some opportunities have opened up we've taken advantage of that.

And that will potentially provide a structural growth option for the cargo pumping business in the coming years. I'm a little bit hesitant to predict that too strongly or to make a call on the market share changes in that market long term but of course it has been a very important milestone for us in this quarter I have to recognize that and we will see where we go from there.

Klas Bergelind

But sounds Tom like flat flattish sales growth maybe Framo 27 and then 28 the 2028 depends on new capacity and how you can utilize that potentially.

Tom Erixon

I leave the interpretation to you.

Klas Bergelind

Yeah. Okay, fine. Then my second one is on food and pharma not only larger orders there on biofuel driving this growth base orders solid as well and I want to come back to the capital markets day in November last year you launched a new intelligent separator, the single use separator geared to pharma etcetera.

I'm trying to understand how much of this growth is market share versus market improvement I guess it's a combination of both, but any comment here on reception around the new launches etcetera would be interesting?

Tom Erixon

Yeah I think at the capital markets update which will in all likelihood is a digital event this time and slightly shorter I think we will be in a better position to comment on that development specifically. I think my overall sense is that our product program.

And there's been you saw some of the high speed separation development when you were in Flemingsberg, but on the fluid handling side it's been a massive two years of product launches as well and our feeling is that we have strengthened our market share, we have strengthened our distributor network and our feeling is that we probably are somewhat growing our market share.

And what we've seen in in this quarter and this year is especially on the transactional side which is somewhat easier to measure in terms of pace. We have been quarter-for-quarter been just running on an all-time high level that we haven't seen before and we are running a very, very tight ship when it comes capacity and output versus customer demands.

I might add, I don't want to make too big thing of this, but coincidentally when we talk about the data center market it's actually is a hygienic application when it comes to the white room applications when it comes to handling fluids and so at this point in time our channel partners are also working into the data center area.

And we ending up with some products from our valves business that is now starting to flow in some volume into that so on top of a fairly healthy market in dairy and some new orders in brewery and our traditional business, we actually have a bit of flow into the famous data center business also here in fact. So it makes it makes the growth I think more understandable and potentially structurally as an important component in the coming years.

Klas Bergelind

Very quick final one is on HVAC...

Fredrik Ekstrom

Sorry Klas I think we could also add that we have capacity coming online in the US in the form of investments that were done a year ago or almost a year and a half ago that that comes online and that should also give us an ability to better meet the expectations of the market when it comes to lead times when it comes to fluid handling. Yeah.

Klas Bergelind

Sounds good. My final one is on HVAC within HVAC what size is the heat pump business today if you would annualize it, it must be more than 1 billion now versus 2 billion at the peak in 2023 I'm just trying to understand the size and what you're seeing into the second half Tom?

Tom Erixon

Let me see I think we are trending towards two.

Klas Bergelind

Already, okay.

Tom Erixon

Yeah with that said it is a very competitive market at this point in time everybody built capacity and so it's a market where the OEM business shows its typical sign of volume and price pressure that type of situation. So we are not returning that business on the same level of profitability as it was.

However we are very focused on and execute on a plan where we are maintaining our market share long term for the heat pump business in Europe. It is not the best contributor of profitability right now, but we believe it's the right thing to do.

Klas Bergelind

Thank you.

Operator

And the next question comes from Akash Gupta from JPMorgan. Please go ahead.

Jeremy

Yes hi good morning thanks for taking my questions. It's actually (Jeremy 0:37:18) asking on Akash's behalf I've got two please if I may. The first one is just on margins you've talked about an uneven load in some manufacturing units across the company, which impacted margins in the quarter. Now after those record Q2 orders how should we think about the load across the various businesses in the coming quarters please?

Tom Erixon

I think the general comment is that in the whole group and in the energy division specifically most of our load factors are really high. They are high to level where it starts to become less productive air shipments and whatnot in order to manage lead times and customer delivery programs.

So it is a high utilization period and consequently we also guide that the capex program will most likely remain in place on the current level of 2.5 billion to 3 billion a couple of years going forward, but all in all if we look at the decisions made and some of the ones that are coming now in this year beginning of next year

I think we probably have created the basis for a supply structure for the SEK100 billion plan that that sort of where it is. Now there's a couple of areas where we are low on utilization. There is the odd spot on the marine side and there is the odd spot in the energy side particularly on welded products.

The Cryo utilization was affected by partly the shutdown on the business in Russia some years ago and then on top of that we had the Middle East crisis, where a fair amount of our product typically goes. So with that recovering and with

the breakthrough in the US the Cryo situation is more or less resolved we may have another quarter before we are sort of fully up and running on the on the order book.

But the order book on Cryo and the pipeline for Cryo looks promising and good. On the welded side in Europe particularly, we are a bit on low utilization. We may remain there for a while. With that said if I look at the overall supply system in Alfa Laval at the moment I would not blame low utilization as a specific factor pushing us down.

It's a very good situation for most of it, but as Fredrik was onto when we review the energy division there were a couple of headwinds that all put together had some impact on the margin this was one of them and so we will work to fix it half of the problem is fixed and half of it we need to think through.

Jeremy

Okay. Understood. That's helpful. And then the second one just on ocean where you obviously had a strong quarter in terms of orders driven by marine pumping systems. Now can you please also comment on the pricing side, I'm especially interested on what you are seeing in terms of pricing of this equipment and how it compares to the margins that you currently are delivering in the P&L?

Tom Erixon

I think on the pricing I don't see a lot of change in marine. I think we are long-term strategic partners in most product areas with the ship owners and we don't typically try to take advantage of high demand cycles we try to do our job properly and price correctly and so there is not I think in the order book a different gross margin perspective than what we've been having looking backwards.

The one area where we have been a bit concerned on the pricing side is probably more than anything on the energy division and we have in parts of the group, not only in the energy division, but maybe the effect is biggest there. We did do some price adjustments as of 1st of July.

And that was mainly driven by the cost inflation driven by energy costs and fossil fuel costs and so we had some significant cost escalation in those supply chains and we did a modest compensation for that in July 1st so that sort of on the pricing side I would say the one action that we have been taking during this year.

Jeremy

Understood. Thanks very much.

Operator

Then the next question comes from Andreas Koski from BNP Paribas. Please go ahead.

Andreas Koski

Thank you very much and good morning Tom, good morning Fredrik. I want to come back to something you touched on earlier. Can you maybe share a bit more information about your expansion in the long range tanker segment, what have you done, what kind of products and how is the value opportunity increasing for you here?

Tom Erixon

Well again maybe we come back with a bit of review on this when it comes to the capital markets day. Just shortly I would like to say that from a product point of view an LR tanker is from an engineering standpoint, a product standpoint very similar.

So we are not developing a completely new system that is totally different from the MR side, but it's a large installation it has some implications for product design and engineering solutions and all of that. I think what is different partly if you look at the tanker situation the value of our offering in MR is a very speedy time in harbor in changing cargo.

And in MR specifically with small tanks there is a lot of variations of what products they are carrying and consequently, our pumping solutions are providing a very clean tank and a very short time at harbor in order to pump out and pump in the new products.

And so the value proposition is very, very high in a hydraulic pumping solution to our customers compared to a lot of other applications compared to the electrical pump solutions, which will leave a lot of contamination in the tanks as they are evacuated.

So, the business model for MR is completely developed on our hydraulic pumping solution value proposition. Now if you go to the other extreme and go to crude oil, obviously, the value of cleaning out the crude oil tanks is relatively limited because the contamination will be zero.

There will always be a new crude oil coming in and the crude oil variations are not that important when it comes to the decimal. So all in all, we don't expect that hydraulic pumping solutions will have any particular impact on large crude oil tankers now or in the future.

And then you have the LR side, which, in my mind, comes somewhere in between. It is larger tanks, larger ships, more continuity in the load they are carrying and the cargo that they have. And consequently, the value proposition there on our solution historically has been a bit less. And for that

reason, a lot of shipowners have stayed with the solutions they are used to.

Now that we are in and we have provided a number of cargo pumping shipsets, I think our hope is that a number of shipowners will reconsider the technical solutions they have. And although the value proposition and dynamics may be a little bit different in LR, the validity of the hydraulic pumping solution is certainly there.

So we will see how the market dynamics plays out here. But we're hopeful this is beginning to change in our market position long-term for LR.

Andreas Koski

Understood. Thank you. And then jumping to data centers. You mentioned that your order run rate LTM is now SEK5 billion or so. I think that must mean that you had an order intake of more than SEK2 billion now in the second quarter. Maybe if you want to confirm that? And does all of that sit in light industry and tech.

Tom Erixon

Well, it does essentially sit in light industry and tech, at least the orders that are coded as data center orders. There may be some product creeping in from other areas from channel partners and others, but the lion's share is certainly in -- so the light tech gives you a good feeling.

We are not at SEK2 billion in the quarter. We are below that. But maybe it's more correctly to say that in the pace we're at, look at this year in the SEK5 billion sort of level. We don't see it going dramatically up from -- as you know, we've been guiding you a little bit the last couple of quarters on running rates of 2, 2.5.

I think this is kind of where we are right now. And what will determine the order intake numbers right now when we look at the data center is essentially how far out in the future we book the orders. And right now, it's not in our interest to do a full order booking late into '27 and '28. So you could say we are managing the order intake level from our point of view quite closely.

And so what you will see in the coming quarter is a managed number from that point of view in that we are not necessarily extending the time period where we book orders right now. And that's why I think it's relevant for you to think about it a little bit in terms of running rates and not so much about the order intake.

So we try to give you a reasonable clarity on approximately the size of that business in terms of the underlying dynamics right now.

Andreas Koski

Yes. And this SEK5 billion that you -- it sounds like you expect to stabilize at that level, that does not include the capacity expansion that you're working on? Or does it include that? If it doesn't include it, where will it go?

Tom Erixon

No, it certainly does. There are a number of capacity increases that are coming online, not least in the beginning of 2027. And so when we booked the orders now into 2027, we are already pretty much fully booking up the capacity increases that short-term will come on stream, partly in this year and an important part in the beginning of '27.

So the invoicing rate right now is not on that level, and we could not reach the full 5 at this point in time. However, we will in 2027. Then we are making additional capacity investment decisions more or less as we speak. And right now, those capacity investment decisions, they are looking at what we believe is the underlying demand situation in 2028 and going forward.

Andreas Koski

Understood. And then just quickly on your outlook. Do you want to confirm that somewhat lower demand should still imply an order level above SEK20 billion?

Tom Erixon

Well, you saw how exceptionally incorrect we were in the guidance last quarter. And so, I will not give you a good indication of what it's actually going to be. But the way we express ourselves in terms of somewhat lower would historically indicate that we would end up above 20, yes.

Andreas Koski

Understood. Thank you very much. Thanks.

Operator

And the next question comes from Anders Idborg from ABG Sundal Collier. Please go ahead.

Anders Idborg

Yeah. Good morning, Tom and Fredrik. Just another one on data center and a bit on your market share, and how you think about your position there. I get the sense that you have become gradually more confident about keeping a very high share, and I see that you have good growth not only in North America.

Do you think you are growing or outgrowing the market at this point or growing with the market? And do you feel more confident about basically technology evolving in the sense that you can keep this high share?

Tom Erixon

We are very confident that our market share has increased during this year. And it's not only about technology. I think the industry struggles in many areas, including thermal to scale with the demand growth that we are looking at. And so it is a tough situation for the hyperscalers and the people who are working with systems installation in this area.

I think our ability to scale being the world leader in this area, sitting on an already very strong global footprint and ability to timewise and balance sheet-wise go all in to support the capex plans required in order to deliver into this makes us somewhat unique.

So, I think it's fair to say that we are the go-to partner and the anchor partner for most of the data center expansion plans when it comes to the data center side. And you may look at this as a fantastic thing and all of that. And of course, it is.

But it is also a place of huge responsibility that we carry in making sure that we are not the place where the bottleneck appears when it comes to the biggest industrial investment program that we have ever seen in history. And so we are very committed to go with this and play our role in the supply chain.

Anders Idborg

Okay. That's good to hear. And as a follow-up, perhaps, I mean, do you see the opportunity to increase your scope here? I think -- I mean, you are working with products that would fit into more parts of the entire water loop, I suppose. Could you do that organically and if not inorganically, perhaps?

Tom Erixon

Well, I don't think we will have very high on the agenda to do M&A work in order to increase our exposure into data centers. I think part of our -- the beauty of our business and our company is that we have many legs to stand on.

And we don't want to be -- we're not seeking a position where we become a one-legged animal. And so, I think our growth opportunities in data centers is good enough in the product assortment that we have.

I indicated earlier that the data center is starting to creep into the flow side as well. And so we do have a product assortment for clean water applications in flow that are relevant. It starts to become a meaningful volume.

And so, I think it's fair to say that there is an opportunity of SEK1 billion here or so in terms of long-term, what we can do on complementary products other than the thermal

control. And in the thermal control, there may be some further expansion opportunities when it comes to thermal technologies that we are working with in parallel.

So I think we haven't reached the plateau on Five. We are where we are. There are some reasonable growth opportunities above and beyond going forward. Of course, the big question is where is the underlying demand going to be not this year, next year, 2 years from now, but 5 years from now, where are we plateauing? How do we need to long-term strategically plan our capacity in the various areas.

And that's a little bit a challenge we will have in the coming years. But for now, we are all in with the key customers to make sure that we meet our commitment.

Anders Idborg

Very helpful. Thank you.

Operator

And the next question comes from Gustaf Schwerin from Handelsbanken. Please go ahead.

Gustaf Schwerin

Yes, good morning. I have a follow-up on the long-range tanker comment, Tom. Can you help us on how much that drove pumping systems order growth in Q2? And perhaps how much of that do you think is driven by a shift in contracting to more LRs and what is actual market share gains?

Tom Erixon

I'm a bit cautious to go too much into details. We would have had a very good quarter without the LR side. So let's not overdo it. We can follow up with you separately to give you an order of magnitude.

I'm not sure in percentage terms when it comes to the cargo pumping side exactly how it fell in there, but it's not -- it's certainly not the lion's share. It's obviously MR tankers that is driving our underlying demand growth overall. But we can give you a comment on that.

But I think the numbers that you should have in your head is that if you consider the LR Tanker segment in general being approximately the same size as MR and we are -- have historically been close to zero in that area, and we've been on a very high number on the MR side, it gives you the order of magnitude of where is the market opportunity.

As I said, the dynamics, the margins, a whole host of things are different between the 2 segments. So I wouldn't equate them, but it gives you a sense of an order of magnitude opportunity for us.

Gustaf Schwerin Okay, thank you.

Tom Erixon And I think we'll take the last question here.

Operator And today's last question comes from John Kim from Deutsche Bank. Please go ahead.

John Kim Hi. Good morning. Thanks for the opportunity. I was wondering if we could go to invoicing for a second. If we think about the Q2 results, would you argue that late invoicing featured at all or is kind of the cadence of invoicing really more driven by the client side at this point or in this quarter?

Fredrik Ekstrom So, I mean if we look at the invoicing, it is very much driven by a transactional business. There is, of course, an element of percentage of completion there for larger projects. But since larger projects, of course, have been on a lower level now for about at least the last 12 months, of course, the incidence or the share of project invoicing decreases. We have it still a little bit in the food and pharma side, and we have it a little bit on the welded side. But other than that, it is mainly transactional business.

 I mean, our ability to invoice is very much dictated by capacity. And as you've heard, I mean, we have quite a few factories that are operating now on a very high level. That means, of course, that the invoicing that we have is on a higher level. It probably has a little bit more space to go, but it will require the capacity investments that we're doing towards the end of the year or that are coming online towards the end of the year to see a step change in the invoicing pace.

John Kim And any color on how that capacity add towards the end of the year expands volumes just in quantum or percentages?

Fredrik Ekstrom No. It depends a little bit how it comes online. It doesn't ramp up from 0 to 100 either. So it is a little bit of a linear ramp-up over a period of time.

John Kim Great. And one last question. Can you just remind us on the payback period or how we should think about the restructuring costs versus opex savings on a go-forward basis?

Fredrik Ekstrom Well, we haven't really spoken about the reorganization costs as a form of savings or as a form of something that's going to yield a calculable savings space there. We have spoken about the reorganization as an enabler to scaling for growth. So it's more about positioning ourselves where we

can have a better drop-through from every euro of growth that we have on the top line.

John Kim

Understood. Thank you.

Fredrik Ekstrom

Thank you.

Tom Erixon

Thank you very much. Thank you for the interest in taking your time. And if we don't speak before, I think the Q3 earnings call in October will be the next time we meet. So thank you very much, and have a good day.