ALFA LAVAL AB

Moderator: Tom Erixon
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OPERATOR: This is Conference #: 7893734

Operator: Good day, and thank you for standing by. Welcome to the Alfa Laval Q4 Earnings Call. (Operator Instructions) I must advise you that this conference is being recorded today on Wednesday, the 2nd of February 2022.

I would now like to hand the conference over to your first speaker today, Tom Erixon. Please go ahead.

Tom Erixon: Thank you, and welcome to our fourth quarter earnings call. I will start with a few general reflections on 2021, and then we'll move into the numbers in the quarter.

First, let me say that 2021, as you probably have realized now, was strategically a very important year for us. It was a year when we established the product platforms and the future customer offerings to support them in the energy transition and the emergence of a new energy system in the world.

We also launched last year the supporting CapEx program partly to cope with the growth and capacity demands in our existing core businesses, but also to lay the foundation on the future product offerings as well.

In addition to the customer offerings part, we also advanced our own sustainability agenda, significantly. I don't have the opportunity to go into details here, but our carbon-neutral plan is well established and understanding in terms of what we need to get there by 2030 is getting quite clear and driven

by a clear action plan. So it was, in summary, a year when our 10-year road map sort of came into place, and we have a good idea of what to do now and up to 2030, both externally and internally.

Now as to the financials, we reached a new all-time high in terms of order intake at almost SEK 46 billion. And it was driven by – partly by strong demands in almost all end markets and in all geographies.

But I also have to stress that the work we've been doing on competitiveness and strengthening our market positions in several of our core business areas has paid off during the last years and certainly in 2021. And we feel good about our market position, and it helped us in the growth throughout last year.

Finally, the operating margin for the year was stable at 17.4 percent, almost identical to the year before. And that was despite some challenges in the sense that we knew well that while order intake was going to grow in last year, the invoicing would remain fairly flat, which, in fact, it did.

In that context, we had to absorb the sales and admin costs, returning back to more normal levels after a sharp reduction in 2020. And we also had to manage relatively stable, aggressive across the board inflationary pressure in the supply chain. So all in all, coming out neutral under those circumstances, we felt were a good year and a good achievement for the year. So let me leave my evaluation of 2021 as a year there and go to the Q4 key figures.

Now as you've seen, we finished the year strong with order intake growth in the quarter, 24 percent above last year. As expected, our invoicing picked up based on the strong order book and the supply chain that continued to deliver relatively well despite some turbulence and bottlenecks in the supply chain as a whole.

The margin decrease sequentially was affected largely by sales and admin costs returning back to a bit more of a normal level, and there were some mix effects in the quarter as well. The inflationary pressure, while it was present, was largely offset by good operational performance and volumes.

I'll remind you, when you look at the comparative numbers in Q4 2020 that those numbers and the margin specifically was significantly impacted by positive one-offs, primarily in the Marine division.

I'll go through the additional perspective in the Food & Water division first. The demand remained on a high level in almost all end markets and geographies in the quarter. We reached a record invoicing in the division as expected after the building of a substantial order book during all of 2021. The margin weakened a bit, mainly as a consequence of mix, both geographically and the decreasing share of service.

The Energy division continued strong growth as before, mainly driven by sustainability trends in energy efficiency solutions. In addition to that, in the Oil and Gas sector, service, as I early indicated, started to grow already mid-'21, as I indicated to you then. And in fact, now in Q4, we've seen capital sales improving from a low level. And specifically, I would say that is happening in the gas sector related to the elevated price level and demand for LNG.

After a relatively weak margin in Q4 in 2020, we had a good improvement despite challenging inflationary pressure, primarily related to the metal prices. The increase in material prices were largely offset by good operational performance and positive volume effect.

The Marine division had a very important quarter, where we started again to build the order backlog after 2 years of invoicing being ahead of order intake. The demand was solid with order intake above SEK 4 billion in the quarter, and the demand trend was positive in almost all parts of our business, but especially in the environmental applications.

The underlying factor was, of course, the increased contracting of new ships at the yards. The final count is not yet complete. It will take another month or 2, but it may reach approximately level of 2,000 vessels for 2021.

And I remind you that, that is the first time that we are back to a historic average trend line after a long period of very muted demand and contracting at the yard. So it was a rather big shift from a long period of depressed demand.

The increased environmental regulations and in general, the increased fuel cost, both in terms of hydrocarbons, but also a different energy mix may, in fact, support a healthy level of new contracting all those – also in the years to come, although as we know the market year-by-year tend to be somewhat volatile.

Let's turn to service. We had a good growth across all 3 divisions in the service. And all in all, for the year, we were 10 percent plus compared to 2020. And in the quarter, we were 14 percent above the same quarter last year. The service was especially strong in the Marine division, but as I said, positive in all 3 areas.

Many factors contributed to the good development in the year and the quarter with customers plus returning to normal operational mode after the restrictions being one of those factors. I would also stress that over the last year, we have invested quite heavily both in our service organization and our service infrastructure, creating a broader and more competitive service offering. That is also a factor behind the growth that we are seeing at the moment.

Some overall comments regarding the order intake. We have now, as you can see, 3 quarters of very strong demand behind us, including the Q4. And as indicated, it resulted in a new all-time high of SEK 46 billion in the year. Now if you look at it in some perspective, we had also a very strong year in 2018 in terms of order intake. And I remind you that those – that was the year and the period when we contracted a lot of orders in the temporary scrubber business.

We knew that business would go away. And when you look at the – which it has to a large degree, although the business is clearly still there and present, but you should – when you look at the comparative numbers realized that we have compensated then replaced a big share of contracting of scrubbers and in other core areas. So the underlying growth in the remaining areas is substantially stronger than what you see on the chart.

Large orders are returning to normal levels after a period of lower CapEx in many end markets. Our capability and performance when it comes to the project business, especially in the Food & Water division, has been

substantially improved over the last couple of years, both in terms of our executional capability, our focus and also the profitability. So the large order returning to a more normal level is a piece of good news.

Now I come back to my forward-looking comments later, but let me, at this point, just say that as a whole, the demand looking into the first quarter is expected to increase compared to where we were sequentially in quarter 4.

Finally, some regional comments. You've seen this picture many times before. We've used it for many years. It is the first time in our memory that all the numbers, the comparison between '21 and '20 and the comparison of Q4 last year versus '20, all numbers in all regions are positive. It reflects a very healthy industrial cycle and macroeconomic environment across the board.

Some special comments perhaps just to give a few highlights. China had a very strong year despite the somewhat financial uncertainty in that market. And it is now also getting some tailwind in – from the Marine business and the ship contracting, which is now increasing and affecting the Chinese number now and going forward.

Eastern Europe has been strong in Q4 and throughout the year. Despite the geopolitical tensions, we have not seen any effects of that as of yet. North America has performed very well in 2021 when it comes to order intake, and we enter 2022 also with a good pipeline of projects.

So all in all, it was a good year of 2021, and we'll be back with some forward-looking comments later and hand over to Jan for some financial comments.

Jan Allde: Thank you, Tom. And I will start looking at sales. So we expect the invoicing in Q4 to be somewhat higher than the same quarter last year. We realized sales of SEK 11.7 billion, which is 9 percent higher than last year and a bit better than our expectations, considering also that some of the ongoing but stable supply chain challenges.

With regards to sales in Q1 2022, my outlook is as follows: Considering the strong increase in order backlog during 2021, especially in Food & Water and

Energy division, I expect invoice in Q1 to be higher than the same quarter last year.

Then looking at the gross profit margin. So the margin came in, in Q4 at 36.3 percent compared to 36.6 percent last year, so pretty flat. The overall mix impact was slightly negative in Q4, primarily due to the negative overall mix in the Food & Water division. We had a continued good load and capacity utilization in most of our factories in Q4. We also had a positive impact from the ongoing restructuring program, primarily impacting the Marine division.

As expected, the PPV/metals impact was negative in the quarter due to the overall high cost inflation with increased material and freight costs. Most of this impact could be offset by operational efficiency, ongoing price increases and material price hedges. The FX impact in the quarter was neutral.

Finally, the acquisition of StormGeo had a positive impact on the gross profit margin, but was neutral on the EBITDA margin level.

In regards to my outlook for Q1 2022, the starting point is 38.2 percent, reported Q1 last year. We expect a neutral capital sales service mix on a comparable basis. We expect a continued good load in capacity utilization of factories but also the negative PPV/metals impact continues due to the high cost inflation. Again, we expect this to be partly offset by price increases and material price hedges ordered in place. Finally, we expect a neutral FX impact on the gross profit margin in Q1.

Regarding our SG&A expenses, they were up 13 percent in Q4 and 8 percent for the full year on a comparable basis. This means that we have – we are now more or less returned to pre-pandemic S&A activity level in the company. If we compare to the full year 2019, our S&A expenses are 5 percent lower on a comparable basis, which primarily reflects lower traveling spend and a good productivity development in sales.

With regards to the restructuring program announced in the December 2020, the program is progressing as planned, and we have reduced approximately 460 employees so far, which represents about 3/4 of the total planned

employee reduction. The savings from the restructuring program is also on track with expected savings of around SEK 300 million by mid-2022.

As you have seen, our EBITDA margin came in at 70 percent, which was lower than last year. However, please note that the margin in Q4 2020 was unusually high and included some onetime positive impact, especially in the Marine division.

Considering the significant cost inflation and there are S&A activity levels are returning to pre-pandemic levels, we are pleased with the relative stable margin, which was driven by positive volume effects, operational efficiency and further reduced quality-related costs.

So while you can go further down the P&L, as I said, on a comparable basis, S&A expenses were up 13 percent and R&D expenses were up 1 percent versus last year. This reflects our overall activity level in the company has more or less returned to pre-pandemic level as most of our end markets and business activity were strong. Excluding comparison to distortion items, i.e., primarily the restructuring cost booked in Q4 of 2020, net other cost and income was on about the same level as last year.

Financial net, excluding FX impacts, improved from minus SEK 47 million last year to minus SEK 26 million this quarter. The FX gains losses in Q4 was positive, giving a total financial net of a positive SEK 74 million versus negative SEK 110 million last year. The main reason for the FX impact are revaluation of cash positions in local currencies. The tax rate was 20.6 percent in the quarter and 21.8 percent for the full year.

And the reason for the lower tax rate due to tax incentives and tax refunds in various jurisdictions. Our guidance regarding the tax rate going forward is unchanged at 26 percent. So net income and EPS increased significantly both in Q4 and for the full year versus last year due to the lower restructuring costs, but also to the improved finance net and the reduced tax rate.

The cash flow. Cash flow from operating activities came in at SEK 1.4 billion in Q4. The increase in working capital was partly due to the volume growth and partly due to the global supply chain challenges, i.e., some buildup of

safety stock to safeguard our delivery performance. Investing activities into the CapEx investment of SEK 474 million and the acquisition of LiftUP in the Marine division in the quarter, giving a total cash flow from investing activities of SEK 687 million.

Financial net paid, excluding FX impact, was minus SEK 5 million versus minus SEK 28 million last year. Realized FX gains and loss in the quarter amounted to a positive SEK 109 million, giving a total positive financial net paid of SEK 104 million. This means that our total cash flow in Q4 came in at about SEK 800 million.

Please note that we have bought back 1.4 million of shares in the company during and 4.1 million shares for the full year '21. This represents 0.97 percent of the total number of outstanding shares at a value of SEK 1.3 billion in '21.

Finally, our net debt position at the end of 2021 stands at SEK 7 billion with a net debt-to-EBITDA ratio of 0.87x.

FX – so the transaction FX impact on EBITDA in the quarter was a positive SEK 10 million. And the translation impact was a positive SEK 40 million, giving a total net positive FX impact of EBITDA of SEK 50 million in the quarter.

Looking at the projection for full year 2022, we expect a negative FX transaction impact of approximately SEK 130 million, primarily at our average foreign exchange hedge rate for '22 is lower than in '21.

The order backlog at the end of December was a total of SEK 23 billion, which is 26 percent higher than end of 2020 on a comparable basis. That represents about 6.7 months of LTM sales. For shipment in 2022, the backlog amounts to SEK 17.3 billion, an increase of SEK 2.2 billion compared to the same time last year.

And that brings us then to the sales bridge for '22. So starting with the sales of SEK 40.9 billion in 2021, so as stated in the previous slide, the backlog for shipment in '22 is SEK 2.2 billion higher than the same time last year on a comparable basis.

The acquisition or divestiture of businesses in 2021 will have a positive impact of approximately SEK 0.4 billion on the sales bridge for this year. This adds up to a total of SEK 43.5 billion. On top of that, you will need to make your estimate of price change in-for-out orders and FX translation impact.

For your reference, the total – the level of in-for-out orders in 2021 was SEK 25.4 billion, excluding acquisitions and divestments. With regards to the FX impact, it's, of course, very uncertain. Having using the closing rate at the end of '21, the estimated FX translation impact in '22 would be approximately SEK 1 billion positive.

And finally, the Board will propose a dividend of NOK 6 per share for the year 2021 to the AGM in April.

And by that, I hand back to you, Tom.

Tom Erixon: Thank you. And as already indicated, we expect that the macroeconomic environment will stay positive in the beginning of 2022. We expect that the demand, overall for the group, will be higher than in the fourth quarter sequentially.

And specifically on the divisional level, we believe demand will be higher in the Energy division, will be higher in the Food & Water division, and it will be on about the same level in the Marine division.

And with that, albeit the forward-looking comment, I hand over for questions.

Operator: (Operator Instructions) Your first question comes from the line of Mark Yates from Credit Suisse.

Max Yates: Just my first question is around managing the cost on some of these longer-term contracts that you have. So I can see from the sort of backlog you have SEK 5.6 billion of orders that are delivered sort of beyond this year.

So I just wanted to understand, kind of in practice, how do you actually go about managing the cost on those given the kind of current inflationary environment that we're in? That's my first question.

Tom Erixon: Well, I think it is what it is. When you sign a contract with the customer, typically, it's a binding contract, and that's what it is. We work with – of course, with our cost base as best we can. We have to a degree hedging vehicles in place depending on.

I think we indicated before that we may have, a quarter ago, about a 0.5 percent negative margin impact mainly for the first half of 2022 as it relates to the backlog, everything else being equal. So I think that picture remains.

Max Yates: OK. And just my second question, could you talk a little bit more about the mix in Food & Water. Just when we think about sort of the moving parts within that business, whether it's geographies or certain end markets or certain product groups, what tend to be the higher margin kind of either regions or product groups versus the lower ones within that business? Just so we maybe have a bit more color on that...

Tom Erixon: As you know, we don't dissect our profitability numbers below the divisional level, but there are 3 factors affecting in this case. There are some geographical aspects of it, which is partly also related to, let's say, multi-brand setups.

So it's not – as you know, we own a number of, let's say, competing brands within our portfolio and some of those have developed very favorably in the year and they don't hold exactly the same margin. So that's one aspect.

The – we have a tendency to invoice percentage of completion somewhat higher in Q4. And we don't tend to take out the profitability of our product business too much ahead of time. So we are probably somewhat conservative in that. And so when the share of project invoicing increases, that may have some effect.

And then as we grow as quickly as we are in capital sales, we are diluting a little bit the service margin and that's the normal hedge we always have and that you've been experienced throughout the year. There's no difference in it compared to before. It's just that while we grow well in service at the moment, we grow even faster in the capital sales. So those are the 3 variables.

Max Yates: OK. And maybe just a very sort of quick final house – maybe housekeeping one. Just on the ballast water business. Obviously, we know the structure of how that works with the JV ownership.

I just wanted to understand whether orders were quite significantly higher than revenues in that business, just to help us understand whether we would see a sort of further dilutive impact on the margin as we go into next year from that business? Or actually, kind of, are we thinking about that business starting to peak now given when the regulation came in?

Tom Erixon: Yes. It's – I don't have the numbers exactly in my head. But I think your assumption is right that we are somewhat higher in the order intake than the invoicing at the moment. We are reaching the final stage now of the implementation of the ballast water directive.

So it has accelerated the demand situation a bit. I don't see it as a big margin factor going forward. We have moving parts in the Marine division in many dimensions. It may go up a little bit in share of revenue, but I wouldn't factor in as a big issue as to the margin development for 2022.

Operator: Your next question comes from the line of Andrew Wilson from JPMorgan.

Andrew Wilson: I wanted to start on the service part of the business, which clearly has had a fantastic year in 2021. And just trying to understand sort of how sustainable or maybe what a sustainable level of growth in that business has been just trying to isolate the 2 effects of recovery from some customers where operations were not normal in 2020 versus there's obviously a lot strategically that you've done in terms of investing in the service business. I'm trying to understand sort of where those 2 effects maybe sort of levers for 2022 and 2023 in terms of sort of a normalized run rate?

Tom Erixon: Yes. We obviously have tried to be observant on whether there are any sort of bottleneck effect on capital sales and service due to the 2019, 2020. And while I wouldn't exclude that there are some catch-up, maybe particularly in Marine, in part of the reconditioning work and things that been delayed, I don't perceive it as a very big factor per se.

We are in a good position with our service business. We have a broader offering, a bigger installed base. In Marine specifically, we're starting to generate service business in pure ballast and in the scrubber business and in other environmental applications where we haven't been before. So all in all, our corporate objective to grow the service business 5 percent per year, certainly remains in place irrespective of the good year of 2021.

I think our – all our other indicators, we are looking at, a number of service agreements on new sales, number of connected equipment and remote monitoring, the breadth of servicing Alfa Laval equipment in some areas, competitive equipment, that whole process is going well forward. So I'm reasonably comfortable with our position in the service and the long-term ability for us to grow that.

Andrew Wilson: That's very clear. Just on the Food & Water side, there's various mentions of, I guess, large projects or – but I mean, obviously, alongside the transactional work as well. And just given that we, sort of, quarter-after-quarter continue to see good numbers out of can you just talk about how much of that is a function of the market and how much of that is you think you're winning your sort of disproportionate share?

Because it seems like almost in every vertical, it's good news every quarter. And I'm just trying to understand how much of that you think is sort of being driven by yourselves and how much is just it's a very sweet spot in terms of the niches that you're in?

Tom Erixon: Yes. As you know, in 2016, when we set out the housekeeping journey of making sure that we regain technology leadership and the investments we drove into our sales organization and on the product platforms, I said all along, up until 2019 or so, there will be a little effect of that in the market

because that's the time it takes to actually start to bring out new products and start to win the confidence of the customers. So the work we did from 2016 to 2020 has established the platform to grow 2020 to 2025. That's how we've seen it. And the product launches have been good, have been well received.

And I think Food & Water is the one division where we have the biggest impact of that. And sometimes product launches, when you speak about numbers, it doesn't really – number of launches may not be that important.

But just to give you a very concrete examples on high-speed technology alone, we are now launching vacuum-based technologies that cut the electricity bill with over 50 percent. I mean it's a huge factor in the cost of operating a high-speed separation process. And we – so we are in a very good technology position at the moment.

And I think it clearly helps us. From there to say that it's all about market share, that would be to go too far. I think it's easy to get a little bit and overplay that card. But I think in general, when we look at our channel partners, our partner coverage in the market, the breadth of our product offering and the competitiveness of what we're doing, it has – it had an impact over, I would say, about the last 2 years or so.

But with that said, of course, the end markets have been positive. The dairy market is very good at the moment. The biotech market has been strong before the pandemic and even stronger afterwards. The brewer market, that stayed stronger than we expected through the pandemic, especially for new products and a more diverse product offering from the brewery.

So things have played out fairly well, but there are 2 components. You may be in a better position than I am to nail down the share of each of the 2 components. But I think both had a material impact. That's my assessment.

Operator: Your next question comes from the line of Sven Weier from UBS.

Sven Weier: Yes. The first question is a follow-up to your sequential order guidance, Tom. And I was just wondering specifically first on Food & Water, you guide for

higher demand sequentially here. Well, that's quite a strong statement, obviously, and the order intake has not been on a bad level in Q4 already.

So can you point out the specific pockets of strength? Are they continuing to be on the dairy and on the brewery side, like you've seen that in Q4? Or is it further broadening out? Or is it some specific big tickets that you have in the making there? That's the first one.

Tom Erixon: Yes, I said it's a bit difficult for me to break down the forward-looking. It's of course based on our feeling for the pipeline and the pipeline is always uncertain until – as you know, we book an order when we have a down payment. So there's always a bit of a guess game.

But I would say that apart from a very continued strong demand trend across essentially all end markets and all geographies, CapEx is returning in the large project to a degree during 2021 and into 2022. And I think the more detail I get the more wrong I will have when I meet you in the quarter.

So – but let's say that large orders will probably pay – without any support from large orders, we're going to have a hard time to continue to grow from the level we see at the moment. I think that's the fair comment that I can give you.

Sven Weier: OK. Fair enough. And the other one just on Marine, There, you said it's basically stable. I was just wondering, I mean, the strength we had on the container side last year, my understanding was that hasn't really landed through yet. So when is that going to have a positive impact?

Is it that you guide flat because you had very high big tickets in Q4? And you're not assuming that to repeat itself again or what's the background for the flat?

Tom Erixon: I think we have to recognize and maybe I have even overstated the delay factor a little bit. I think what happened when orders picked up in 2021, it was also relatively unusually short lead times from the shipyards at the time. So I think what we've seen in the second half of this year, I think, is also to a degree a fair representation of a better underlying demand in the contracting.

So I think it would be the wrong assumption to say that the whole contracting event in 2021 is yet to come. I think we see that in a decent pace coming in, in several segments, including the container side already in '21. But of course, with that said, we are looking at a potentially good backlog for the year.

But I still remind you that EUR 400 million of orders or slightly higher. We are still up at almost historic high levels on the running 12 months. So I'm not that disappointed about the order level or the guidance. I think it's a fairly healthy outlook.

Sven Weier: And when you look at the pipeline, obviously, now we've seen the Clarkson data weakening again on the container side, but would you think that, let's say, on a 12 or 18 months view, you see some of the specialty segments or, let's say, methanol-related fueling system orders to be a nice compensation whenever container weakens again. Is that something you see developing in the pipeline already?

Tom Erixon: Yes. I think it's fair. I think what we see, of course, is potentially increasing scope of more advanced technologies on the fuel side and on the environmental side. So the value opportunity or sales opportunity per ship is, everything else being equal, higher than it used to be.

And I think ship owners are starting to get comfortable when it comes to the fuel options available and how to place the bets. I think the – now the standard option preferred is gas and oil capability. But of course, the Maersk order earlier on methanol-based solution was a bit of a breakthrough too. So there's a lot of dynamics in that market. I'm not so worried about the next downturn at the moment.

Even as we speak, scrapping has been throughout a number of years, very low I think the cost of operating ships in an environment of tighter environmental regulations and increased fuel cost should bring the scrapping levels and older ship to go off-line in higher numbers than we've seen. And so leaving the quarter variations aside, the outlook for the next couple of years certainly looks more favorable than it has been for the last 5.

Sven Weier: Understood. And maybe a final question for Jan on the in-for-out orders. When I look at the absolute level in 2021 that was basically flat year-on-year, which I guess has to do a lot with currency. I mean, can you give us the organic change that we had in the in-for-out in '21?

Jan Allde: No, I don't think I want to go into that type of detail. I would stick with the number I gave you of SEK 25.5 billion. I wouldn't be – yes, I'm not comfortable breaking that down in the FX and organics, but we might have to come back with you on that.

Sven Weier: But is it fair to say the strength that you see in Q1 in Energy and in Food that these orders could be still turn into revenues in 2022?

Jan Allde: Yes. As I said, I mean, the backlog buildup that we have seen in '21 was primarily in Food & Water and Energy. And that's also why I say that I expect invoicing to start strong here in '21 – '22. So...

Sven Weier: I meant more the Q1 orders, right, where you say it's going higher in Food & Water and Energy, those orders typically also have a probably shorter lead time, right?

Jan Allde: Yes. I mean the lead times in those divisions are normally shorter rather in the 6, 9 months time period.

Operator: And your next question comes from the line of (James Moore) from RedBurn.

As there's no response, we'll now move to the next question. And the next question comes from the line of Sebastian Kuenne from RBC.

Sebastian Kuenne: I have a question on Food & Water. So you mentioned the softer edible oil project and flat ethanol project. Given what you see in the energy market, oil price, gas prices, do you have upcoming projects? Or do you have more activity for large projects in ethanol and edible oils again? So do you see kind of turn there in momentum? That would be my first question.

Second question, on the tax rate, you flagged that the low tax rate was driven in Q4 by refunds. This, to me, sounds like you had overpaid the tax earlier this

year and you get a refund later this year. But that would also mean that, yes, you have high profit and low tax regions. And so I was wondering why you guide for 26 percent tax rate and not something lower?

And the final question is on – yes, on the one-offs you had last year in Marine that contributed to the profits. Could you just repeat or tell us what that one-off gain was, so we can do the adjustment?

Tom Erixon: Right. The – I leave the last 2 questions to Jan. The – if we look at the demand trends in Food & Water, you should consider the comments be in reflections on the past quarter and not forward-looking. I would say, in general, as we indicated also at the last quarterly call, the underlying demand trends in – for biofuels in various shapes and forms is very strong.

And we expect that to remain at least over a number of years. Our view of those segments is that at the end of the day, the limiting factor would be feedstock and not demand situation. And so we think there is a healthy pipeline and a healthy opportunity and that plays to all the way through to the veg oil side. So all in all, for the year, that plays a part. Then Jan?

Jan Allde: I think on the tax side, I think you're reading too much into that. There is some onetime positive tax impact that we had in '21. There is some tax incentive schemes that has worked well.

There is – I would say, these are more onetime nature. So I think, I see that our tax rate is going to go back to a normal level around 26 percent going forward. So again, don't read too much into that, more sort of the onetime effects that you've seen here during the year.

When it comes to the Marine profitability in Q4 last year, yes, I would say, if you look at the margin through 2020 for the Marine in the previous 3 quarters, they were running around 16 percent, 16.5 percent. And then they had, of course, then a very strong Q4 at 21 percent.

This is coming from the fact that they've been executing some projects on a very good level during the year. And as you come towards the end of the year, you simply will have to release some of those provisions related to those

projects. So I think you can sort of say, estimate the difference between those margins and see the onetime effects. So that would be my comments on those 2 questions.

Sebastian Kuenne: OK. So the provision releases, then that's part of projects, right? You have a buffer, you have some provisions for costs and then you release them later in the year. So it's not really a one-off. I'm struggling a little bit with this one-off comment.

Jan Allde: One-time effect in a sense, but – so I mean, as you execute this project during the year, so maybe a more fair way to say it is that you distribute that margin over the year then.

Sebastian Kuenne: Yes. Yes. Yes. That's better, yes.

Tom Erixon: Just to comment on that one. Just so – I mean, I think the exceptional situation was a very fast building of an order book, a huge order book sitting waiting for delivery. And of course, as a new technology, we have certain reserves provisions.

So when we talk about the decrease in cost of qualities in which we've done for years now, partly, it reflects the ongoing claims ratio and delivery struggles on individual components that is decreasing and partly, we have been able to execute our projects better and more consistently.

And consequently, some of those provisions have turned not to be used for quality problems, but rather been released eventually. And that release was unusually big in Q4.

Sebastian Kuenne: Yes. Yes. So it makes sense to compare the full year '21 with a full year of '20, just to have the right comparison rather than Q4, Q4?

Tom Erixon: Yes, I think that's more...

Jan Allde: And as we always said, so to say, we're executing an order – a very strong order backlog on the PureSOx side, executed well. And now we are sort of

say, executing a larger share of the pure ballast where we have a different setup from our...

Operator: And your next question comes from the line of Karl Bokvist from ABG.

Karl Bokvist: Sort of a follow-up on the question just asked, but I think you answered it quite well. But as you did not mention the gains in the Q4 '20 report, I was just curious to hear, do you – were there any kind of the similar effects during Q1 or Q2 of 2021 that we should keep in mind?

Tom Erixon: No. I mean we – listen, there are moving parts in the P&L and the balance sheet every time. But I think the reason we pointed out the underlying – we tend to guide you a little bit as to how we feel about the underlying performance in our divisions, sometimes when we feel that the numbers are not necessarily reflecting our perception of the run rate in the quarter and sometimes those numbers are higher like they were in marine in 2021, and we thought it was prudent just to indicate that from an ongoing basis, that's probably not that will repeat.

And sometimes, the numbers look a bit worse than they are, and we try to give you a little feel for the fact that we may sometimes get hit by things that it is what it is, but we may not anticipate that it's going to repeat consistently over the years.

So that was all it was. I thought we were quite clear a year ago and also today about that effect in the Marine.

Jan Allde: I mean if you look at the margin in Marine during '21, they have been quite stable, but say around that 16 percent despite having lower invoicing and a bit of a different mix on the – particularly on the Marine environmental side. So...

Karl Bokvist: Understood. And my final question was just on the StormGeo acquisition and the integration, just how that is progressing and your view on how you will incorporate it into your existing service business?

Jan Allde: Yes. It's gone well in line with plan. You can say we do an integration like version. StormGeo is a digital company fully, and we don't want to mix that

DNA too much with our mechanical engineering heritage in Alfa Laval. So they do continue to operate as an independent unit within the marine.

Financially and market position-wise, they are following slightly above our acquisition plan. So that's good. I think the opportunities that we are seeing above and beyond their own business is primarily related to the fact that we may find ways in Marine division to work with our connected equipment and other things on board through the same communication gateway, as Tom already established on the ship.

So I think we will see some digital spin-offs within the marine side, whereas for the rest of the group, we are probably primarily looking for some inspiration from the leadership of StormGeo but also additional investment opportunities in adjacent businesses to broaden ourselves in the other areas.

Karl Bokvist: Understood. And just – sorry, my final one was you see strong demand in HVAC related applications. Have you seen any effects of increasing supply chain challenges in that segment given that it seems that demand continues to accelerate here if we listen to other market participants?

Tom Erixon: No, not really. I would say that on the contrary, we've seen, if anything, an acceleration in the quarter compared to a quarter ago.

Operator: Your next question comes from the line of Uma Samlin from Bank of America.

Uma Samlin: I just have a follow-up on the Marine demand outlook. I guess if I understood correctly that you expect demand to decelerate in 2022, given your Q4 was quite strong. So I was wondering in terms of pricing, though, like are we about seeing the raw material prices to be significantly higher than last year. Do you guys see that as beneficial to your pricing going forward?

Tom Erixon: Well, I think our outlook is staying with the first quarter, and that was a stable outlook compared to where we were. So we certainly think we turned the page when it came to starting to build our order book after 2 years of invoicing it. So I guess that reflects somewhat of a confident outlook when it comes to market conditions into the year, but the outlook specifically is for Q1.

The pricing is, I would say, unusually complicated. We're not used to living in an inflationary economy, I think we are all struggling a little bit with how to transfer it into our business plans and our budgets and in our forecast, including our comments to the market. But of course, we are looking to implement and have throughout the year, implemented price increases in the Marine Division as in others.

So the volume being equal, that you should expect somewhat big factor on pricing than we would normally have at any given year. I struggle to give you a number, not only because I'm not so fond of moving away too many detailed numbers. But there is also a phasing here.

It is a backlog that's partly is priced earlier. It is a sequential thing and that holds true also for material prices, where we to a degree have hedges and other things. So it will phase in the year, but the pricing effect will be higher in 2022 than any year in the last 20 years, other than perhaps the titanium crisis that we had 2005, I think, or something like that, so.

Uma Samlin: That's very helpful. And perhaps just 1 more – a bit more housekeeping question. On your S&A cost, so I saw that in 2017, it was close to around like 17 percent of sales. Is that more of a normal level that we should expect going forward, given that if we return to a normal world post pandemic?

Tom Erixon: It's a good question. I mean we are maybe – I don't want to give you a strong guidance comments, but what we find now is that we are doing a lot more work in the sales and admin area in 2021 – invoicing is not that high, but if you look at what we are primarily working with, it is the sales side, an order intake at SEK 46 billion with a much more complicated product portfolio than we had in 2018 when we were selling scrubbers with fairly low S&A and fairly – with mainly COGS aspects to it, I think the productivity in our sales and admin area has significantly improved.

Part of that, I think, is not pandemic related. We had that trend already before. But I also think that it seems like part of the efficiency gains and digital working ways that were needed during 2020 is likely to remain.

And so given the expected increase in invoicing at least in 2022, and let's see what happens after that, I think we may have a chance to hold on to a bit of the improvement that we've seen in 2020. I hesitate to throw a number to you. But I think our ambition will be to find the middle way here, making sure that we do our work properly and continue to drive customer presence and market growth. But we may not have to go all the way.

I remind you also that there are some mix difference here. The Marine division is lighter on sales and admin and the Food & Water, which is rather transactional is the highest part in the sales and admin. So there are some mix effects with divisions here.

And you should think about that in the context of what we have achieved because in fact, Food & Water is growing faster than any of them. And if we will have a pickup on the Marine side, which is a bit lighter, that may also hold back the ratio in 2022, 2023.

Operator: I'll now hand the call back to Tom Erixon for any closing comments.

Tom Erixon: OK. Thank you very much. That was a full hour. I know you have a busy day. There's lots of reports out. So thank you for taking the time with us. And if not before, we will speak 3 months from now. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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