

Alfa Laval AB
Q2 2025 Earnings Call
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Transcript

Speakers:

Tom Erixon, CEO

Fredrik Ekstrom, CFO

Tom Erixon

Good morning and welcome to Alfa Laval's second quarter earnings call. Fredrik and I, we will run through the financials with you, and then obviously we'll continue with the Q&A session. So, with that, let me go straight to the financials.

Financially, it was a strong quarter, with an all-time high of adjusted earnings of just above SEK3 billion and a 19% increase of the EPS to a new record level of SEK487. We had strong demand growth in many end markets, with an all-time high in the rolling 12 months service business and new record levels in the transactional part of the business as a whole. This partly compensated for the anticipated normalisation of demand for cargo pumping systems in the quarter, compared to last year.

The conversion of the record-high order book was well executed in the quarter, especially in the Marine Division, with a margin of 24%. Finally, we feel we have a solid order book for 2025 and well into 2026, still above SEK50 billion as we speak. Together with a good pace in the short cyclical business, it provides a stable base for the remaining of the year.

Now let's move on to the Energy Division. It was a stable quarter, with order intake and invoicing sequentially unchanged. The service was a bit weak in the quarter, due to significant changes and investments in new warehousing and software solutions. With the internal challenges resolved and good market demand, the situation may improve in the next quarter for the Energy Division's service business.

After two years of weak demand in the HVAC Segment, the quarter was the turning point and returned to growth, supported by better heat pump demand, as expected. Order intake was further supported by good volumes in the transactional business. Large projects were a bit slow to convert to orders, including for clean energy applications. With the uncertainty remaining in the market, the project pipeline still looks healthy and robust for the second half of 2025.

The margin was a bit lower than last year, but still on a good level at above 17%. A slower service business and the cost structure supporting the long-term growth plan had some impact on an otherwise well-executed quarter. Finally, we closed the Cryogenic acquisition in France on July 7th, and we welcome 700 new co-workers and a new technology platform into the Alfa Laval family.

Financially, as we indicated earlier, we expect about €200 to €250 million in annual order intake and a slight accretive

margin on a yearly basis for the Energy Division.

Then, moving on to Food and Water Division, the demand was firm in many end markets, including markets like dairy and pharma. Our channel partners globally have done a great job, and distribution and short-cycle businesses reached a new all-time high in the quarter.

Service continued to grow at a healthy level in the quarter, which was full of many positives. The margin was stable to positive in most parts of the business, but some executional problem in part of the product portfolio weighed on margins in both the first quarter and in the second quarter. Those are now largely resolved.

In the Marine Division, market conditions were in line with expectations, with a lower, more normalised cargo pumping demand, and strong order intake and double-digit growth in all other parts of the portfolio.

As guided previously, the strong yard contracting in 2024 is not yet fully in our books, and much less so in the invoicing numbers. Invoicing, as such, was supported by yards trying to speed up delivery schedules of ships due in 2025. We do not experience any negative effects of the trade war, when it comes to the marine business, at this point in time.

It was, in all, a well-executed quarter in the division, with a good financial performance in several business units, including the pumping systems business. However, it was especially gratifying that the hard work to improve boiler profitability since the end of 2022 paid off with a solid second quarter performance. The outlook remains stable for the division in 2025 and beginning of 2026.

Finally then, we announced today that Sameer Kalra, since many years back, the leader of our Marine Division, will retire on September 1st. And we will do an internal succession and have appointed Martijn Bergink, currently the president of the Framo and pumping system business, to the new divisional president, starting on September 1st.

Then, going on to service. On a rolling 12 months, service was at all-time high, as I indicated, with an order intake of above SEK20 billion. With order intake growth at 9% in the quarter and invoicing at 8%, the mix is slowly shifting towards service. It supports a stable margin development, but also ensures a good performance of Alfa Laval equipment around the world at customer sites.

Our longer-term ambition to become a true service company has come a long way, with service orders above 30% for the group and above 40% for the Marine Division in the first half

of this year.

Then, finally, a couple of comments on key markets. China remained our largest market in the quarter. We have continued to invest in people, manufacturing and leadership in China during the years of geopolitical tension, and we will continue to do so. Although the rolling 12 months was a slight decline, driven by the lower order intake for pumping systems specifically, all other parts performed well and grew in the quarter in China.

The US was positive in the quarter, despite the trade disruptions and some project delays. The business sentiment in general in the US remained optimistic, and the ongoing investments in Indiana to grow both our distribution and manufacturing capacity appear well timed.

All other markets were stable to positive, including Europe, but the growth expectations were not fully met in growth areas like Southeast Asia and India in this quarter. And with that, I'll hand over to Fredrik.

Fredrik Ekstrom

Thank you, Tom. Good morning. Let us jump directly into a financial summary of the second quarter. Order intake in the quarter amounted to 16.3 billion, sequentially stable from quarter one.

Currency-driven revaluations of backlog cancelled each other out across divisions. Translational impact of currency amounted to some 6%, and organically a negative comparable at 7.8%, mainly driven by the normalisation of contracting level of vessels using marine cargo pumping systems.

We see a similar pattern in the year-to-date numbers, with a -5.9% organic order intake and a 5.1% currency impact. As mentioned by Tom previously, and worth a repetition, is that the transactional business and service continue on a positive growth trajectory. Uncertainty, on the other hand, continues to delay conversion of a healthy, large ordered project list to orders.

The order book stands at some 50.3 billion, with an almost equal split of invoicing facing for this year and in 2026 or later. We judged this order book to be well aligned with the current price and cost levels. The Marine Division accounts for roughly half of the total order book, and the total order book corresponds to 8.1, 8.8 sorry, months at current LTM sales pace.

Revenue in the quarter was lower at a -4.1%. However, note the organic growth was a positive, with 2.3%. Currency had a negative translational impact of 6.5% on invoiced values,

while structure contributed positively with 0.2%. Net sales for service grew with 2% compared to the same quarter last year, accounting for a mix of invoicing of 31% compared to 29%. Sequentially, the quarter increased with 2.2%, which is in line with normal seasonality.

Year-to-date sales figures show an overall positive comparable figure, with 2.6%, with a notable part coming from an organic growth of 6%, with a large contribution from marine cargo pumping system deliveries.

Now to some profitability details and highlights of quarter two. Gross profit at 37.6% is an improvement from 33.4% last year, driven by positive deviations from production results and purchasing price variances. S&A continues to increase, but at a lower pace of 4.0%. R&D costs faced in weaker in the quarter, making a contraction of 2.2%. And accumulated, these movements brought the operating income up with 5% to 2.9 billion in the quarter.

Adjusted EBITDA improved to 17.8% from 16.7%. The effective tax rate in the quarter was within our guidance corridor of 24.9%. EPS increased 19% to SEK4.87. And finally, a return of capital employed of 24.4% to cap off a financially strong quarter.

Some additional details on the development of the adjusted EBITDA of 3 billion, which is an all-time high. Volume contributed with some 120 million, mixed with 614 million. Costs impacted negatively with 481 million, and currency had a negative impact of 184 million when we bridged quarter two last year.

Our manufacturing sites are operationally stable. That contributed with predominantly positive production results and with positive purchasing price variances across the board. Sales mix and volume growth are also contributing positively to the margin. Finally, currency has a negative impact of 6% on the total adjusted EBITDA.

Now, some comments with regards to cash flow. Cash flow from operating activities amounted to 2.2 billion, impacted negatively on a comparable basis by the increase of work-in-progress inventory.

As a side note, in these uncertain times, we have good control on accounts receivables and the associate maturity profiles. CapEx programmes continue in line with plans and have a capital allocation of 676 million in the quarter, bringing the free cash flow to 1.5 billion.

The acquisition of the sonic antifouling system technology company, NRG, marks the acquisition in the quarter for 461

million. Financing activities show a positive net of 801 million after the payment of dividends to our shareholders, with 3.5 billion and the bond issuance round of €400 million, with a final cash flow contribution of 1.8 billion in the quarter.

Our debt position in the quarter has increased, with €400 million of issued bonds, preparing for the closing of the Fives Cryogenic business acquisition. The net of incoming cash from the bonds and the payment of our annual dividend reflects in the cash balance. Net debt at 4.6 billion, or .34, in relation to last 12 months' EBITDA. Net debt, including lease liabilities, then at 0.6 in relation to last 12 months' EBITDA.

To anticipate the question, our net debt position, excluding leases post-close of the acquisition, stood at 1.02 compared to the 0.34 of LTM EBITDA per quarter close, a final position that still leaves us plenty of room for further acquisitions, should opportunities arise.

Now, finally to some revised guidance. CapEx programmes continue, and we expect some 0.7 billion to be recognised in quarter three, with an expected annual level of somewhere between 2.5 and 3 billion. PPA amortisations expected at a level of 125 million in quarter three and 490 million for the year.

Those numbers exclude the closed Fives Cryogenic acquisition. An update for that will come after quarter three. Tax rate guidance remains between 24% and 26%. And with that, I hand back over to Tom for some outlook statements.

Tom Erixon

Thank you, Fredrik. And looking to Q3, I already briefly commented on some post-Q2 issues. The first one, that we have a new captain on the ship in the Marine Division. Martijn Bergink will take the bridge as of September 1st.

He spent his last six years managing Framo, the pumping systems business, into an unprecedented growth period, strengthened performance in the offshore business, and established an emerging position in aquaculture fish farming in Bergen. And so, he is well equipped to move on, and we look forward to having him join the Group Management Team.

And the Fives Cryo, as I already mentioned, for most of Q3, that will be included in the books. And we are not only excited about the growth it provides us, but it's an immensely talented team in terms of people and technologies. And so, we look very much forward to continue in developing that business in our family, after their long and successful track record with the Fives Group in France.

So, regarding the demand situation, we expect market conditions to remain stable sequentially, and overall demand to be somewhat higher sequentially in Q3 than in Q2. On a divisional level, we expect the Marine Division to be on about the same level as in Q2.

The Energy Division, even without the acquisition, is expected to have a higher demand, and even more so, of course, following the acquisition and integration of the Cryo business. And then finally, food and water to be lower in Q3, mainly driven by a normal seasonal pattern. So, all in all, we look relatively positively onto the market conditions in Q3.

And then, before handing over to questions, I just want to give you the heads-up. If you haven't noticed, we will actually do a physical Capital Markets Day in our new site in Flemingsberg, outside Stockholm. After many years, we moved it into new, modern facilities, and it is the centre for our high-speed separation technology and a number of interesting emerging technologies in the Marine Division.

So, we thought with new labs, with new technology and a new site, and on top of that, a relatively new divisional president in the Food and Water Division launching the new direction for the division going forward in food and water, we thought that merited the opportunity to bring us all together.

So, we know it's a busy week for most of you guys, and we are doing it as travel friendly on a Monday as we can, and hope you have the possibility to join us. And with that, we hand over to the Q&A.

Operator

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. In the interest of time, please limit yourself to one question. Anyone who has a question may press star and one at this time. The first question comes from Daniela Costa with Goldman Sachs. Please go ahead.

Daniela Costa

Hi. Good morning. Thank you for taking my question. So, I think you mentioned a couple of times across the report, slowness in converting from orders to sales, and also I guess on executing on some sales. I was wondering if you could comment on, are there particular end markets or regions that you're seeing this has more prevalence? Do you see that as a potential sign of cancellations or pricing

pressure that might develop ahead, given the situation?
Thank you.

Tom Erixon

Thanks. We don't see any tendencies whatsoever to cancellations. We don't see changing market conditions regarding pricing. We do see a host of projects in the pipeline. It didn't fully convert in the first half.

It is somewhat difficult on large projects to give a precise forecast as to how it will convert, but we don't feel that the larger project market is shifting widely, with the exception of some not coming in as we were hoping to.

And I think we were particularly looking at, in the quarter that passed, projects that were related in the energy business on large welded units, to some degree going into the traditional fossil industry and to some degree into the renewable. So, I don't think there is a lot of problems on the end market side.

The only thing I would say, compared to our expectations a year ago, we don't see the energy-transition-related projects in general moving with the speed that we were hoping. And I think it's well known, there are some of the oil majors that have, temporarily at least, backed out of some of the biofuel projects.

So that would be the one area that, for us, looks weaker than we hoped maybe a year ago. But it wasn't really a big change in the quarter or anything related to the trade disputes. I think it's more related to how we're going to face emissions costs and where the EU is putting down their foot in relation to the Paris Agreement going forward.

Daniela Costa

Got it. Thank you.

Operator

The next question comes from the line of Nitin Ram with Deutsche Bank. Please go ahead.

John Kim

Hi, it's John Kim from Deutsche. Thanks for the opportunity. Wanted to press a little bit on the margins. Could you help us unpack the evolution in the energy margins and whether the Q2 number reflects the factories and commercialisation fully? Thanks.

Tom Erixon

Yes, we are a little bit cautious in terms of how we granulate margin development, but what I would say is, on a business unit level, we had a sound development across the board. On the service side we were a little bit penalised, as I indicated, in terms of the mix, so we didn't get quite the effect on that, that we were aiming for.

And then there are some variations in between quarters, with the reval effects on nickel prices and these type of things. Generally, I would say in the Energy Division, we

have positive PPVs and we have good productivity and load in the factories, but we did not have any particularly positive reval effects.

And you've seen some of those when we've been at substantially higher numbers in the Energy Division, and then we have used the language of elevated earnings, just to give you an indication that this was maybe not a given, that we will sit on 20%-plus margin at every quarter.

So, we think with the investment programmes that we are doing in the Energy Division, I remind you, we are doing one of the biggest projects in our history when it comes to the future of hydrogen and electrolyser technology. And so, the plate technology investment there is substantial.

The clothes are quite big to fill, when it comes to what we think we will be able to do, and are aiming for, in the years going forward. So, we are right now not margin optimising the business, we are growth optimising it.

We have good hope for structural growth in the Energy Division for many years to come, so we are ready for that. The CapEx programmes have been largely executed, the capacity is there, so we feel good about where we are. But it wasn't, from a margin point of view, fully optimised.

John Kim

Okay, thank you.

Operator

The next question comes from the line of Max Yates with Morgan Stanley. Please go ahead.

Max Yates

Good morning. I decided to ask about the Marine Division. And Tom, you've been quite bullish, I would say, on the non-Framo piece of Marine, saying that's still performing well because of ship orders last year. I guess if I look at ship orders this year, in a lot of the segments outside of tankers, those have weakened quite significantly year to date.

So, I guess I'm just wondering, what is the lag between those other segments and your business? Is it still the normal nine months? And does that concern you? Or do you see some other offsets, as we maybe look six to nine months out, that that won't start feeding through into your business into 2026?

And maybe if I can just squeeze a follow-on question. Just in terms of your Marine sales, you're now at 6 billion. You talked about very high factory utilisation. Is it actually physically possible to do more than that in terms, or are your factories just now flat-out fully loaded, and that's the maximum the business can do? Thank you.

Tom Erixon

All right, I'll take it in sequence. Your question is correct. This

is probably the one time in my life where I'm more bullish on the market than you guys are. And that is true for Marine. We are not too concerned where the ship contract income is this year.

What we are looking at, in terms of our invoicing going forward, is driven by the delivery schedules of ships. And we haven't, during my years at Alfa Laval, ever had a delivery schedule for the next three years for ships that we have right now. Where we're going to be three, four years from now, I don't know, but I don't think that will be decided in the order intake or the ship contracting at the yards this year.

So, we had a couple of real good years, especially last year, on the contracting side. Part of that is in our books. Part of it is not. The invoicing is going to come with ship deliveries, rather than the contracting. And so, when we look into 2026, it looks very stable. And the visibility and stability that we are looking into 2026 has never been better than it is right now.

So, I'm not going to argue with you if you have a diverting view when it comes to 2028 or so, but for the short term, this is the best it's been. So if you don't like that, then you don't like the marine business. And that's just how we read the situation.

On top of that, we are looking at a fairly reasonable and good offshore demand situation going forward. And we have, for the first time since about two years, sorted out our margin problems in the offshore business, so we think that is, at least on an Alfa Laval average level, a quite okay business.

And on top of that, we have an emerging position in aquaculture, and we have some addition of cryogenic going forward. We have multi-fuel systems being sold for the first time in ammonia and other things. We have launch of the wind propulsion coming by the end of the year. So, I really struggle to be too pessimistic.

But with that said, I think we also made the comment during last year, that we had an order intake of SEK30 billion last year in the Marine Division. We don't feel that we are running a 30 billion business at this point in time. We may down the road, but that's not what we expect the ship delivery rate is going to take us in the next two years or so. So, I think we have a fairly reasonable invoicing level that we can support going forward, and that's how I would frame our current situation.

We are, in terms of capacity, in reasonable shape. We have never said no to an order for nine years, and we have never

failed to deliver, so that's not going to happen. I think we are. But I think what I'm flagging is, don't expect that our invoicing is going to support a 30 billion invoicing, because we don't think that's where it's going. So that's my little guidance to you.

Max Yates

Okay, great colour. Thank you, Tom.

Operator

The next question comes from the line of Klas Bergelind with Citi. Please go ahead.

Klas Bergelind

Hi, Tom and Fredrik. Klas from Citi here. So, also a question on marine. As you said, Tom, strong yard contracting in 2024 is still feeding into your orders, ex Framo. But I'm trying to understand the mixed implication here, looking at sales.

You still have a high-margin Framo backlog to deliver, but deliveries outside Framo, which is lower margin, should now start to pick up here, I guess in 2026. I'm trying to understand the phasing here, and when we can see this mix boost from Framo to start to abate. And if you could also comment on whether the service mix was particularly favourable in the quarter, or if the good margin in Marine this time was mainly Framo driven. Thank you.

Tom Erixon

I think, as always, I'm a bit cautious in the specific guidance of where all the pieces are moving. They always change, and everything is never the same when it comes to a new quarter.

But I think structurally, what you should keep in mind is that structurally, we have a strong share of pumping system business in our invoicing going forward, irrespective. And I'm saying this because it doesn't matter how much we book in other areas during this year, it's still going to be a couple of years out before we have the delivery. So the mix is what it is, and don't expect a dramatic change of that for the rest of the year.

The service is on an all-time high. We were at 41%, I think, as a share. And of course, we worked tremendously in building our service capability in the marine industry over many years. We find that it's a very appreciated way of working with our customers. It is helpful for keeping the ships going in the right way, but it also supports our capital sales and market share in other areas, as a distinguishing factor when it comes to Alfa Laval's capability.

So, the service side is strong, and of course with a mix of 40%, we feel that is giving us a bit of resilience. And you can imagine that if the capital sales would weaken a little bit, then obviously we would increase our share, and it creates a bit of a natural hedge when it comes to the margin

development.

But as I said before, the one thing we are really happy about is the fact that we returned Boiler to a reasonable level of profitability after some years of hard work. And so, compliments to the team, and all parts of the business were contributing in a good way.

So, a good result in the quarter was not only a pumping system factor. It was a mix of the service, margin improvements in several areas, and a good share of pumping. So we felt good about the quarter mix.

Klas Bergelind

Got it. My second one is on heat pumps. Shipment data has inflected positively at the start of the year, but in large part thanks to the end of channel destocking for finished products. When you look at the OEMs and the discussions there, do you think that they've also digested their inventorial components, enabling further growth?

And then I also wanted to ask a little bit on certain markets, if you have an idea, like Germany and Netherlands. There appears to have been some pull forward of demand into the first half, due to concerns there could be cuts to subsidies, etc. Or do you think that this is an underlying improvement that we now start to see here for heat pumps, also into the second half? Thank you very much.

Tom Erixon

Yes, I would make a few comments to the heat pump side and our manufacturing systems for brazed heat exchangers that go into the heat pumps. We have, over this period of very low demand from the heat pump side, after significant capital investments into the manufacturing system, worked a lot with other applications and compensating the volume loss. And so, in terms of overall volume for the product category, we are back to approximately the level we were when we peaked at the heat pumps.

So all in all, we have a fairly good load into the brazed heat exchanger platform. However, with a bit of an imbalance when it comes to sizes and load in various parts.

So, the teams have done a great job in driving other applications, and as we indicated to you a couple of times, we're also seeing a clear pickup in the data centre volumes. That is feeding into, partly to brazed and partly to other heat exchanger applications, with reasonable volumes that started about mid, late last year. And so, overall, we felt we are in a reasonable place, after some challenging years on the brazed technology platform.

Then, it's clear that the destocking largely is completed. We think we are structurally back on a growth track, so we will

be back to more positive volumes in HVAC in general and in heat pumps specifically. I think that's almost a given.

What I think we also will experience is that gradually, as a big OEM market, we will also see a different competitive environment, and we're going to have to fight for our business position in these areas. And for that reason, we've been running large-scale investments to automation and other things, and you've seen some of that when you were in San Bonifacio last year.

I think we are, from a cost point of view, well positioned to meet a competition that may be a bit harder as the market comes back, and not quite coming back to the extreme demand situation we had in 2023.

Klas Bergelind

Super quick follow up. Is that data centre that has compensated for you to be back in Italy there, on capacity? Or what has closed the gap, Tom, relative to this?

Tom Erixon

Not only. I think on the data centre side, it takes part of it. It was always, for us, partly a channel partner business, so we have a lot of refrigeration applications and other areas on that, that are being broadly distributed across the globe.

And then, as the heat pump market declined, we also sadly had a bit of a growth in the gas boiler business for residential, and so we are providing product to there too. So there were a number of compensating issues. Maybe, Fredrik, you know this business better than I, so maybe you should comment on it.

Fredrik Ekstrom

No, but I think the way you're formulating it is correct. There was a pendulum movement towards fossil heating there. There was also some movements towards projects dealing with district heating. And finally, and not least, the cooling market, and particularly the process chiller market, kept a good level and has continued to grow, particularly on the back of changing refrigerants and higher efficiency demands.

Klas Bergelind

Thank you.

Operator

The next question comes from the line of Carl Deijenberg with DNB Carnegie. Please go ahead.

Carl Deijenberg

Thank you very much. Good morning, Tom and Fredrik. So, a question from my side on the acquired Cryo business. I appreciate the numbers you gave out on the backlog and so forth, and how we can think about that, but I just wanted to hear a little bit what you've seen in that underlying market.

If we talk about LNG specifically, let's say year to date and since you did the announcement of the acquisition in March,

I guess it's been, at least from a news flow perspective on capacity announcements and so forth, has been quite active.

And then, secondly, also the follow-up question. A little bit of a feel on how that differs, relative the let's say old Energy Division, from a mix standpoint, on large projects. Let's say, relative transactional business. How does that differ? Or is it fairly similar to the standalone part that you have today? Thank you.

Tom Erixon

Yes, it's a good question, and I will answer it with a little bit of, let's say, uncertainty. We obviously think we learned quite a lot about the company in the due diligence process, but we still have to work together for a while to figure everything out.

I think what is given here is two things. We see a stable project pipeline for the first half, the second half of this year, and they are performing financially healthy at the moment. So, we think for the short term, we will be okay and in line with guidance on order intake as well as on the margin. We have no reason to modify that position at this point in time.

When it comes to the mix, it is a business which is low on service, and it's mostly projects. It's project sales by a very large degree. Not necessarily only large projects. There are some larger EPC contracting type of work, but there are also smaller projects. LNG remains the primary driver of volumes, but obviously we had an interest in the cryo sector, also for gas liquefaction in other areas, like carbon dioxides, hydrogen, and a host of other industrial gases.

So, we think for us, we have a good sales and distribution network. We will utilise that. It fits with our existing customers, as well with some new. And there are marine applications that are interesting here, too, which has been difficult for Fives to crack.

So we think the whole cryo spectra, both in terms of some products we have on the Alfa Laval side and the platform that we get from Fives, is going to give some good opportunity to look at market expansion going forward. But we are a bit early into that. Expect an update at the Capital Markets Day, when we start to get our arms around the actual situation a bit better. But of course we are, in a five-year perspective, rather positive as to where this will go.

Carl Deijenberg

Okay, very well. Thank you.

Operator

The next question comes from the line of Viktor Trollsten with Danske. Please go ahead.

Viktor Trollsten

Yes, thank you very much. And good morning, everyone. So, I wanted to revisit the comments you made during Q1, where I remember that you mentioned that recent high tanker contracting is expected to start affecting the Marine Division order intake now in Q2.

And we obviously see pumping systems coming down a little bit, but from the numbers, it seems that pumping systems has actually come down basically during the last four quarters. And now guiding for flat demand in marine into Q3, I guess what I'm after here is how far are we from a normalised level now in Q2, would you say, in pumping systems? Could we already be there, so to speak?

Tom Erixon

Yes, in marine contracting, it's always a bit difficult to talk about the normal level, I must admit that, although I use the terminology myself. But I think we are there. I remind you that in Q1, which we guided was the last quarter of elevated demand, we had a substantial reval of the existing order book. So, in fact, the order intake in terms of volume and margin and gross order intake of new orders was quite firm in Q1, just as expected. So that came in well.

But with the large order book in US dollars versus the Norwegian crown, we took a sizeable reval of the existing order book. And that reval, I remind you, does not have any margin effects, but in terms of the number of Norwegian crowns we get per dollar is going to be lower. And consequently, the invoicing numbers at that quarter specifically would be lower.

So, I think we have been following exactly the type of curve and expectations we had in Q1. And in Q2, we are down to a lower level, and I think that's probably around here that we will be, is my expectation. And then I remind you that in the pumping system, we also have substantial offshore activities, seawater lift pumps and other applications that potentially is supporting the volume overall.

But we are working with full loads in Bergen at the moment. We're looking to expand our footprint and size the company, long term, for a significantly larger business volume than we had when we bought the company ten years ago. It was long, about a SEK4 to SEK5 billion company, and now we're looking at something shy of doubling, and as a steady-state type of thing.

So we are quite comfortable where we are, and the current level of order intake is well in line with our expectations and long-term plan.

Viktor Trollsten

Super. That's clear. Thank you very much.

in the tanker market that is unfavourable. We think it's in reasonable balance going forward.

For the rest of the marine business, we think we probably are still on a bit of a growth track, and service has been for a period of time, and most likely we see some of that also going forward. So, yes, that's I think the basis for our guidance.

James Moore

That's great, thanks. And food and water, lastly, if I could. You mentioned the first half, project mix and project margin weighed on the profitability. Is there any way to scale that? Is it just 100 BIPs, or is it a very big number? And how do you see that moving forward? Does that drop out in the second half, or does that persist for a period? And do you have visibility on how long that will last for?

Tom Erixon

Yes, we think we are through. Yes, I don't want to go into the million euros. It's a number of million euros that they were weighing on us in Q1, Q2. We expect that to be a non-repeat. We may have some other repeat in some areas.

So I think the overall margin situation in the division, it came out reasonably. But I guess our indication to you is that in a clean quarter, we would have been probably on the other side, of 15, margin, as opposed to the lower side. That's a little bit the order of magnitude.

And I think with the mixed invoicing we have right now in projects, in short, cyclical, in service, that that level of just about 15% is probably where our expectations would be if everything is working as it should. And then let's not give too much of a guidance on that. We will get back to you in a quarter. But that's the magnitude of the problem we had.

James Moore

I really appreciate it. Thanks, Tom.

Operator

The next question comes from the line of Andreas Koski with BNP Paribas. Please go ahead.

Andreas Koski

Thank you. Thank you, and good morning. A couple of questions on my side, too, starting with the Energy Division. You have seen destocking impacting the demand for your products, but we saw improvements in Q2. Would you say that the demand for your products in Q2 is in line with the end market demand situation? Or can we still expect further improvements as destocking comes to an end?

Fredrik Ekstrom

Yes, I think that there are certain elements of destocking that are pulled through completely. And I think that the end, the destocking from our OEMs, is probably complete or on most of the ranges. There might be some destocking element left out in the distribution arm of it. In other words,

in the installer network. But that should be a relatively low volume.

I think what we start to see now is the beginning of a normalisation of that order intake for heat pumps. And I think we will see that normalisation carry into quarter three and reach a new balanced level somewhere in the first half of next year.

Andreas Koski

Understood. And yes, that leads into the next question, because I think Q3 is normally a seasonally weaker order quarter for the Energy Division. Now you're guiding for sequentially higher demand, also excluding the acquisition, so can you explain or elaborate why you expect sequentially higher demand, and in what areas you expect this strength to come from?

Tom Erixon

I think in reality, we came probably in this slightly lower, in the Energy Division, than we were looking at the quarter ago, and we still see a fairly healthy market in many of the end segments. The fossil side is good. The HVAC side is coming back. There's a fair amount of projects in the pipeline that looks viable.

And so, in making a bit of a balanced judgement on that, for the second half of this year, we think we will, both structurally and project wise, see a somewhat better volume on the order intake. So that was really the basis for our guidance. A little bit of lag, perhaps, in terms of where we wanted to be in Q2, which turns into Q3 orders, and in general, a reasonably optimistic view here.

Andreas Koski

Understood. And then, if I can follow up on the Marine Division. I completely understand that you're happy with the revenue visibility, and I agree on that. But as I need to forecast order intake levels also on a quarterly and annual basis, when we see ship orders being down approximately 35% year to date, do you not see a risk that this should impact your order intake negatively with the lag of six to 12 months?

Tom Erixon

I think my point in being a little bit different in my view on this, is that given the cyclical nature and the behaviour of the order intake in terms of ship contracting, for us, it's more helpful to look at the ship delivery curve, because that is what drives our order intake.

But if you ask if we can repeat the SEK30 billion in order intake in 2025 or 2026, I would say very likely not. There's a reason why we have a 50 billion order book. There's a reason why the demand ballooned in 2024, when it comes to the order intake. So, I think it's healthy to be a little bit

cautious on it.

But I think when we look at the service growth of the business, when we look at the product additions, the recent acquisition of NRG, we haven't discussed in terms of how it is scaling and a number of other things.

We haven't discussed much on the multi-fuel, which is still making an entry into the market, although maybe not on the full-scale level anticipated years ago. So, we feel there are a lot of positive factors as we look to the order intake in the coming years.

And where the current contracting will end up for the year, we will see. We will most likely not repeat 2,000+ ships. But when we look at the ageing of the merchant fleet, we just don't see that we have a structural overhang of capacity or too large part of the merchant fleet being young.

On the contrary, we have an older fleet and less scrapping than we had for decades. So, structurally, when we look at it, we think this marketplace looks reasonably attractive for the next five-year period.

And that, to us, is the more important analysis to do, than exactly what are the contracting cycles going to be this year. There is anyhow a two-year waiting period to have a ship delivered, so what people decide to do in terms of committing downpayments is not the primary driver on how we look at the order intake growth for the next five years.

Andreas Koski

Yes, I get that. Thank you very much.

Tom Erixon

I feel I'm building my own prison here, so I'm not going to argue for the marine business any further in this earnings call. I think I made the point, that we feel reasonably comfortable in the years to come. But of course, we will live with the market conditions that we have. Fredrik?

Fredrik Ekstrom

Yes. So, sorry if that's the case.

Andreas Koski

I understand that. Thank you. And then, lastly, you have stopped providing an FX guidance in this quarter. Is there a specific reason for that? Or you want to share that more verbally on the conference call, on the Q&A?

Fredrik Ekstrom

Yes. No, we have decided that we will take that more on the Q&A and answer those questions. We see a volatility on the market right now, particularly related to the US dollar, that makes it really hard for us to predict anything.

It basically means that anything, any number we put down as an outlook guidance into quarter three, is going to be basically outdated the same minute we write it down on

paper.

There is so many moving parts to the currency part. I'm happy to walk you through how currency affects us after a quarter, but it becomes almost impossible to give you any guidance. It would be incorrect. I don't have a better crystal ball when it comes to currencies than what you do. And furthermore, the way we would predict that and simulate that, would be based on where we stand today. And then I could just as equally say that it's a repetition of what you saw in quarter two, and that would be incorrect as well.

Andreas Koski

Okay, I understand. Thank you very much, and have a great summer.

Tom Erixon

Thanks. Same.

Fredrik Ekstrom

Thank you.

Operator

The next question comes from the line of Uma Samlin with Bank of America. Please go ahead.

Uma Samlin

Hi. Good morning, everyone. Thank you so much for taking my question. So, my question is on food and water orders. So, you guided to a lower level in Q3 sequentially, and it seems like we have seen some sequential weakness on dairies and food and beverage, and also in brewery.

So I was just wondering, what end market are you seeing a bit weakening demand to drive the lower guidance, but also that is there any differentiation in terms of project versus equipment?

Tom Erixon

Yes, I think we normally have a bit of a seasonal slowdown in Q3, so I would say that that is a fair part of our guidance. We have installers and channel partners, now they're normally slowing a little bit in over the summer period.

And then in the good number from Q2, we also have a larger \$30 million project that was booked in the unit of Desmet. And that, it may or may not repeat itself, so let's see. But under the assumption that it doesn't, that also contributed. Those two, I would say, were the main factors. In terms of end segments, we look across the board, relatively positive with a bit of a question mark on the biofuels side compared to, let's say, where we've been over the last couple of years.

Fredrik Ekstrom

We should say that the transactional business is on a good growth trajectory, in the Food and Water Division.

Tom Erixon

Yes, and that probably remains with the seasonality that we indicated, but correct.

Fredrik Ekstrom

Yes.

bit with a mix change towards capital sales. Margin stability is supported by this phenomenon.

It's not unique to us. I think there are other companies in the same situation. So, the mix changes does not automatically translate very much into improved margins, other than if the transactional and service business outgrow the rest over a longer period of time. Then we have a long-term structural mix shift.

And I think that's what I was indicating a little bit earlier in my presentation, that compared to some years ago, we've actually structurally grown the service into what used to be a slightly below 30% business, is now slightly above 30%. And that is a little bit of a help for us now, and if we continue on this path, which we hope it will remain so in the coming quarters and years.

Vlad Sergievskii

Thank you. And very quick, final one on the cost side. Administrative costs were up a bit more than I thought they would in the quarter. Also, you had quite substantial other costs in the P&L as well. Any specific reasons behind those cost items?

Fredrik Ekstrom

No. As Tom indicated early in the quarter two presentation here, we have continued to invest in many of the areas where we believe there will be growth. We haven't margin optimised. We have optimised for growth. And that's particularly true then in the Energy Division, where the administrative or the S&A costs continue to increase.

We have said now that we will not hold, that we will not institute a savings programme, but we will have some common sense around some of our discretionary costs in order to build some resilience. But it's by no means a stamping on the brakes here. We intend to make sure that we are fit for fight going forward.

Vlad Sergievskii

Thank you so much.

Tom Erixon

All right, thank you. And with that, thank you for staying with us for the full hour today. We will, if not before, meet at the Q3 earnings call, and then again hopefully on November 24th, at I think around 10, 11 AM in Stockholm. I hope to see you there in person. Thanks a lot, and happy summer.