

Alfa Laval AB
Alfa Laval Q3-25 Report
28th October, 2025 | 09:00 CET

Transcript

Speakers:

Tom Erixon

Fredrik Ekstrom

Tom Erixon

Good morning and welcome to Alfa Laval's third quarter earnings call. And Fredrik and I, we're going to take you through the quarter. So let me, as always, start with a couple of introductory comments. Now, with the solid order book and good demand in service and short-cycle businesses, sales grew 8% organically in the quarter. It was a stable and clean quarter operationally, and earnings increased to a new record level of SEK 3.2 billion in the quarter on the EBITA level. And then finally, as you noticed, we have adjusted our financial targets to better reflect our financial performance levels, and I will comment on the financial targets a bit later.

So, let me go to the key figures. Order intake was good in the quarter, with a 10% organic decline, as expected, due to the normalisation of demand in cargo pumping applications. In the short-cycle business, both order intake and factory utilisation is at a high or record-high level in several end markets and product groups. Sales developed well, supported by all three divisions, and generated a margin of 18.4%. In all, it was a well-executed quarter, with mix effect contributing to the margin improvement.

Moving on to the Energy division, the market dynamics are shifting towards the stronger HVAC, heat pump, data centre growth, and moderate expectations on CapEx projects in the fossil fuel business. Clean tech remains on a positive growth track across a wide range of applications, despite growing concerns regarding the political support for the decarbonisation journey in Europe and in the US. Strong momentum in energy efficiency, growing demand for nuclear, and expected scaling making new technologies financially sustainable, is the foundation for future growth in the clean tech sector. The margin was sequentially stable, but note that transaction costs related to the Fives Cryo acquisition was charged to the P&L in Q3 on the Energy division.

So, moving on to Food and Water. Order intake was firm in most end markets. Large order bookings were relatively slow, although the product pipeline still remains healthy in terms of outstanding quotations. Short-cycle demand drove a positive mix change with a healthy margin. The project business generated a positive margin improvement in the quarter, but we are still working through some project execution issues in the quarters to come.

Then, coming to Marine. Profitability remains sequentially stable on a high and good level, with good order execution in the quarter. While the record ship contracting year into 2024 will not repeat, contracting at the yards is expected to remain at about a 2,000-vessels-per-year pace, approximately matching the global yard capacity. As expected, the 2024 contracted ships are now converted into our order books, with record level orders in

several product groups within the Marine division. The order intake decline compared to last year was entirely related to the expected normalised order level in cargo pumping, with new orders at the normal rate for the business.

So, into Service. Service has grown substantially over many years, and now accounts for 31% to 32% of orders, structurally somewhat higher than historically. Still, this year we have worked through a lot of operational challenges, both related to physical distribution centres and the digital system supporting the spare parts flow in the Energy division. It is, and was, a needed scaling project to cope with the larger volumes, and with the troubleshooting behind us, we expect the Energy division to return to service growth in line with our other divisions.

In the Marine division, service accounted for 40% of order intake, supported by a large installed base and an ageing global market merchant fleet. If the ageing fleet provides some tailwinds, the constant transfer of older tankers to the Russian dark fleet is a headwind, and obviously outside our business scope.

Then, finally, a few comments on key markets. China and the US, accounting for approximately 40% of our business, had a strong quarter, with good demand in many areas. Note that the cargo pumping affected an otherwise growing business in both China and Korea. Most markets are stable-to-positive at this point in time in the quarter, but looking forward, Middle East CapEx projects may be negatively affected by the lower oil price. And with that, I hand over to Fredrik for some further comments.

Fredrik Ekstrom

Thank you, Tom. So, hello, everyone. Let us get started by recapping the order intake in quarter three at 16.6 billion. Organic growth contracted with 10% in the quarter. A substantial part of this contraction stems from the lack of large or project orders. In the Energy division, both the welded heat exchangers and circular separation technologies noted the absence of large orders. Desmet and food systems in the Food and Water division denoted the same pattern. And finally, in the Marine division, the continued normalisation of tanker vessel contracting impacted the numbers. Important to mention in this context is that the project list remains strong, both in quantity and quality. It is the conversion to orders that is occurring at a lower pace, reflecting uncertainty in the market, driven by external factors.

Transactional business has a different development, up 8% in the quarter comparatively, excluding currency movements. Both the gasketed and braced heat exchangers booked orders above the same period last year in the Energy division. Fluid handling equipment, separators and decanters also booked higher order intake levels than in quarter three last year in the Food and Water division. And finally, our traditional Marine products are

also continuing to outperform quarter three last year. Service was up 8% in the quarter, excluding currency movements.

Currency has an overall negative impact of almost 6%, and our acquisitions so far this year have a positive impact of 3% on the total. The same pattern repeats on the year-to-date basis, and is an important input to any trend analysis. Book-to-bill in the quarter was 0.96, with a remaining strong backlog of 51 billion, of which 16 billion is slated to be invoiced in quarter four. The backlog price levels are well in line with current input prices, and in line with current tariff levels.

Now on to sales. 17 billion in sales in quarter three represents a strong historical level for quarter three. Our manufacturing entities are delivering to our customers on commitment and on high utilisation levels, which is clearly visible in the gross profit, boosted by a strong factory and engineering result. Currency, once again, impacts negatively on a comparative basis, but, prominently, organic growth is up 8% in the quarter. Worth mentioning here is that the proportion of large project business in the invoicing mix is high. Transactional volumes are up, but not to the same extent.

Net sales for Service grew 3.1%, compared to the same quarter last year, accounting for a mix of 30%. We expect this mix pattern to continue into quarters four. Gross profit improved to 36.8%, boosted by better factory and engineering results and positive purchase price variances compared to the same quarter last year. Operating income increased by 12.6%, to 3 billion. Sales and administration expenses were 2.6 billion during the third quarter, corresponding to 15.4% of net sales. Research and development expenses were 427 million during the third quarter, corresponding to 2.5% of net sales. Earnings per share in the quarter amounted to 5.53 crowns and 15.22 crowns for the first nine months. The corresponding figure, excluding amortisation of step-up values and corresponding tax, was 15.97 crowns for the first nine months.

Now, on to profitability. The Energy division posted an EBITA margin of 16.6%, which is lower than previous quarters, due to a shift in mix towards large orders and costs related to the acquisition of Fives Cryogenics. Continued strong sales in the transactional business portfolio and Service compensated for a large project mix invoicing in the quarter, yielding an EBITA of 16.1% for the Food and Water division. The Marine division continued with a positive mix of invoicing from cargo pumping systems and Service, which yielded a 23.5% margin. On a group level, the adjusted EBITA margin of 18.4% is high, with a record 3.2 billion in money terms, with a negative currency impact of 178 million.

Now, on to the debt position. Post three acquisitions so far this year, most notably the Fives Cryogenics business, debt stands at 18.6 billion, or 1.3 times last 12 months EBITDA. Net debt excluding leases at 0.86, and including leases at 1.1 last 12 months EBITDA. Given our stated thresholds, the group retains sufficient debt power to complete further quality acquisitions as those opportunities arise.

Cash flow from operating activities was 2.2 billion in the third quarter, and 5.8 billion for the first nine months. The lower cash flow is mainly due to an increased working capital compared to the same period last year, driven by inventory and predominantly whip [?], and decreasing advance payment as large projects are invoiced. Acquisition of businesses in the first nine months was 9.3 billion, whereof 8.8 billion for the Cryogenics acquisition and 529 million was due to two minor acquisitions. Financing activities amounted to 3.9 billion in the quarter, and 4.5 billion in the first nine months. These numbers primarily composed of additional debt added for the acquisitions of 8.7 billion and the shareholders dividend of 3.5 billion.

Before concluding, some guidance for the quarter ahead, and looking into 2026. CapEx guidance for the fourth quarter is 700 million, and a reiterated guidance of 2.5 billion to 3 billion in 2026. PPA amortisation of 175 million in quarter four, and 580 million in 2026. These numbers include the preliminary purchase price allocations for the three acquisitions in 2025. Tax rate is guided to stay in the interval of 24% to 26%. And with that, I hand back over to Tom for some words on quarter four.

Tom Erixon

Thank you, Fredrik. Some forward-looking comments then, as a summary. Let me start with the financial targets. The change in financial targets should not be seen as a change in guidance. We are making the adjustment because of two main reasons. First, we tend to overshoot the targets and consider them a floor level for performance. Now, we are moving the targets into the present performance range, and it's important for us, including for internal reasons, that we have similar objectives externally and internally. Second, we want to recognise that the investments during the last five years into technology and capacity were made for good reasons. We believe we have invested our shareholders money responsibly and profitably, and we expect to continue to convert those investments into profitable growth in the next five-year period.

So, finally, our crystal ball is no better than yours. If global macro deteriorates, if the energy transitions stumble, if AI and data centres run into difficulty, we and others would find financial targets challenging. But with that said, we have changed the target in terms of growth to 7% sales growth, and the EBITA margin moved up to 17% over the cycle. And we kept the ROCE

target at the current 20%, just to allow for the effects of future potential acquisitions.

Regarding the next quarter, we believe demand in the fourth quarter is sequentially stable, and on about the same level as in the third quarter. And on a divisional level, we expect the energy demand to be higher, the Marine to be somewhat lower, and the Food and Water to be stable compared to the third quarter. So, with that, let's get over to the Q&A session.

Operator We will now begin to question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. The first question comes from Gustaf Schwerin from Handelsbanken. Please, go ahead.

Gustaf Schwerin Good morning. Can I ask, on the Energy division orders, to look at this organically? They are largely unchanged for Q2, so a bit lower than what you guys did back in the summer. Of course, you mentioned the decision-making here, so given that you're now saying this should increase in Q4, has anything underlying really changed, or is this just a matter of slower commercial rates on the orders? Yes, that's the first one.

Tom Erixon It's a good question. I think our perspective is that it is a fairly stable growth curve, and sometimes projects end up in one quarter or another, so we are relatively positive to the demand trend in Energy. And given that we see improvement on the HVAC side and in a number of areas, the outlook for Q4 is reasonably positive. So I think it's more a question on when bookings are taking place than any change. We had a reasonably positive view three months ago in terms of the growth perspective, and we remain committed to that.

Gustaf Schwerin Okay, thank you. Then, secondly, on the margin in Energy, can you give us a rough sense of the M&A costs here, and if we should expect this going forward as well? Thank you.

Tom Erixon You should expect that the margin was essentially unchanged compared to Q2, excluding the cost related to the transaction. There will be some costs also in Q4, but I believe on a lower level.

Fredrik Ekstrom Correct.

Tom Erixon And we are not dealing with them as adjusted earnings, we're just charging them straight off.

Gustaf Schwerin Okay, great. Thank you.

Operator The next question comes from Magnus Kruber from Nordea. Please, go ahead.

Magnus Kruber Good day. Hi, Tom, Frederik. Magnus from Nordea. With respect to Cryogenics, does that business sit completely within the

process industry end market?

Tom Erixon Yes, it depends. There are essentially three application areas for cryo at present. One is normal industrial gases, and the other one is LNG. And gradually, we expect hydrogen and energy transition applications, including carbon capture, to be growing as part of the segment. So those are the end markets that we are dealing with. Largely, the applications are for larger projects in the industrial space, but I remind you that there is also a cryogenic pumping site that may fit well with our Marine business and some other applications as well. So I think the cryo side may be a bit wider as we go along, but presently, essentially, you could consider it the process industry-related application.

Magnus Kruber Perfect, thank you so much. And secondly, light industry and tech saw a second quarter of declines, year over year. Of course, FX is part of that, but could you comment a little bit about the momentum in data centres and other parts of the business, please?

Tom Erixon Yes, I think it's a correct observation. We are very comfortable with the development on the data centre side, and we are entering into the expected frame agreements, but I think what happens is that, in terms of the actual quarterly bookings of the order, there are some variations. So in terms of progress on the data centre side, it was good in the quarter, we expect that to continue into Q4 and next year. So we are on track with our plans, but the actual order intake bookings in Q3 was not that strong.

Magnus Kruber Perfect, thank you so much.

Operator The next question comes from Carl Deijenberg from DMB Carnegie. Please, go ahead.

Carl Deijenberg Thank you very much. Good morning, Tom and Frederick. So, first, I wanted to come back to the acquired Fives Cryogenics. I know you've talked about in the past that the market exposure in this entity relative to the, let's say, core Alfa Energy division, is low, and I just wanted to understand is there any difference here in the seasonality on the earnings, given the sort of differences in the operational character?

And also, maybe going forward, I saw that you were adding roughly 2 billion in the backlog, I guess this relates to the acquired entity. And given, let's say, the longer cycles you are addressing there, relative to the transactional exposure in the Energy division, is there any significant quarter here, going forward, that you're set to finalise something or any launch order that is going to come in that we should be aware of? Thank you.

Tom Erixon I will not comment on individual orders, of course, but we always monitor our pipeline of outstanding quotes. And if I look at that

pipeline, both in the Food and Water division and in the Energy division, it is relatively positive, the conversion time and, if it gets through. the final CapEx decision. There's always some uncertainties, but in general, we have a positive feeling around the pipeline in the Energy division, specifically for Q4.

The cryo, it is, as you say, low on service. It will probably remain that way. The order intake will vary over the quarters. We had, I think, a normalised Q3. We expect a relatively strong Q4 on the cryo applications. But in terms of earnings and how we execute those projects, its percentage completion, I think Fredrik will work to have that as a stable and correct representation of progress every quarter. So I don't think, if you want to add something?

Fredrik Ekstrom

No, there's no particular seasonality to the percentage of completion. It's when the projects come to fruition and commissioning starts, so there's no deviation from that point of view, and there's no seasonality from that point of view.

Carl Deijenberg

Okay, very well. And then, secondly, just very quickly on the pumping system side, I still hear in Q3 that order seem to be stabilising and actually being up slightly Q-on-Q, not by a huge amount but a little bit. And could you just talk a little bit now on the timing on the orders you're taking in now and Frank Mohn and the lead times, just to understand the phasing of the backlog and so forth in Marine. Thank you.

Tom Erixon

I will not give you the full timeline on everything, but we are clearly fully booked for Q4, and we are essentially fully booked for 2026. So what we expect to see now is the normalised level renewing normal audit [00:21:42 unclear ?], as the contracting in 26 is expected to remain at about the 2,000 ships. And we don't see huge fluctuations in tanker contracting either. We think, with some variations between quarter, we will see a reasonable amount of new orders being signed, new contracts being signed. And so we were, at Q3, if you think about it, historically, actually, perhaps somewhat on the high side when it comes to our average order intake level. So we were pleased with the quarter.

I think it's substantiated that, although we are not going to be at 2024 level in terms of order booking expected for a long time, we will continue to run that business on a good level. And that is also reflected in the investment decision we announced with our biggest CapEx decision in our history, of 4 billion. Although spread over a number of steps, a number of sequences, and over five years plus, it is a big commitment to a business we believe in.

Carl Deijenberg

Very well. Thank you very much.

Operator

The next question comes from Uma Samlin, Bank of America.

Please, go ahead.

Uma Samlin

Hi. Good morning, everyone. Thank you so much for taking my question. My first one is on your guidance. So, would you be able to help us to clarify how should we think about your growth guidance of 7%? What component of that is organic versus inorganic? And also, on the margin guide, did I hear you clearly that the guidance is not a floor, but more of a through-cycle average margins? If that's so, then where do you think we are in terms of the cycle? Thank you.

Tom Erixon

The growth ambition includes the possibility of acquisitions. We will make those judgements as we go, partly on where we are on the organic side and the macroeconomics, and partly what opportunities we have on the M&A side. But we feel we have built a stable foundation for organic growth in the coming years. So without that, we would not have stretched our growth targets above the 5% we were at historically. And obviously, as you see, current level is higher, and at some point in time, the spread between the target and the floor level versus where we were just becomes a little bit problematic. So we think this is a good reflection, on the growth side, on where we are in the cycle.

If you'd asked me ten years ago, I would have given you a reasonable answer. After the last five years, when we've been going through a COVID shutdown, hyperinflation, the trade war, I have no clue where we are. The only thing I know is that with all of the turbulence that we've been living with in global markets, we've come through that in a good way. And if we get some stability in the world regarding wars, regarding trade routes, regarding tariffs, I expect that we will have a couple of good years ahead. But to predict the macro events at this point in time seems to be a bit problematic. So we will deal with it as we go, but obviously if we have a sharp downturn in the coming years, it will affect our financial performance, just as everybody else.

Uma Samlin

That's super helpful. Thank you very much. I just have one more follow up on Marine. So, how should we think about your expectation for Marine orders into Q4 and into 26, given the contracting has been fairly weak year to date. We just heard from your competitors, who's expecting, for 26 and 27, Marine contracting to be up 30%. What's your thinking on that? What do you see as the normalised level for Marine orders?

Tom Erixon

Well, as I've said a couple of times, if we look at our invoicing path in Marine, it's a somewhat better way to track us financially than on the order intake and the contracting side. The global shipyard capacity, in terms of deliveries, is this at about the 2,000-ship level, thereabouts. It may increase somewhat in the years to come, but we are not quite there yet. So that means that irrespective... And basically, the yards are fully loaded for the

years to come, so we see a lot of stability in terms of our delivery path in the coming years. In some areas, we are obviously tight on capacity now, but we are meeting our commitments and our obligations towards our customers. And there's a team who's doing a very, very good job on that. But the downward risk in terms of volumes of invoicing for the foreseeable future does not look as a huge challenge at this point in time.

I remind you that last year we had an order intake of SEK 30 billion, about 50% ahead of the normal numbers. And so I said then, and I repeat, that we are not a 30 billion division in terms of invoicing, but we are on the 20-plus. And I think it's from that level that we work with the organic growth and potential acquisition growth going into 26.

Uma Samlin

That's very clear. Thank you very much.

Operator

The next question comes from Andreas Koski, BNP Paribas Exane. Please, go ahead.

Andreas Koski

Thank you. Good morning. So, three questions. First, on Marine sales, can you give an indication of your pumping system sales in the quarter? Are we at a level around SEK 2.5 billion or even closer to SEK 3 billion? And did I understand it correctly that you are fully booked through 2026? So the sales level that we're seeing in Q3, we should also expect through 2026? Thank you.

Tom Erixon

I will not give you a detailed numbers to the million on individual paths [?]. But I want to remind you that the pumping systems include an offshore business, it does include a small aquaculture business. And so the whole thing is not and will not be on cargo pumping applications for tankers. So just for you to keep that in mind. But with that said, all of those businesses are in good shape, and the demand situation looks, despite some concerns on the oil and gas side, the demand situation for offshore looks reasonable going forward. The Service business in that area remains strong. So that's the backdrop of the business.

I think in terms of invoicing, we are more or less at capacity. And the big investment programme that we are doing is partly going to cope with the existing demand pressure, modernisation, efficiency, automation and site consolidation improvements. But that will not have any major impact on invoicing capability for next year. And in any case, I think, at the end of the day, it's the yard capacity that is determining the invoicing level in 2026. And I think they are pretty much running at full pace as we see it.

Andreas Koski

The reason for asking is this is to try to understand if we should expect a margin of 23%, 24% also for the full year 2026, because the mix will remain as positive as it is today. But maybe you don't want to give any indications of that.

Tom Erixon

I have full confidence in your ability to make your own calculation

on that.

Andreas Koski Okay. And then, on the order intake side in Q3, I understand, I think Fredrik mentioned that you lacked large project orders in Q3, but that the project business remains strong, both in quantity and quality. So I just wonder, in your outlook statement, have you assumed that the larger part of that project pipeline will convert into orders?

Fredrik Ekstrom No, to say that a larger part of the project list that we have right now would convert into quarter four, then we would be giving you a different guidance.

Andreas Koski No, I mean a larger part than in Q3, I mean.

Fredrik Ekstrom Well, the conversion rate is determined by a lot of factors, and some of them are clearly external and clearly are held back on uncertainty. And if we see that uncertainty decreases in the coming 20, 30 days, and assuming that that's sufficient for somebody to make the final decision on an investment, then we might see that we have orders that have slipped from quarter three that we expect to come into quarter four, and there will be orders in quarter four that may very well slip into 2026. So it's hard to give you an exact guidance, more than the one we already provided for quarter four.

Andreas Koski Understood. And then, lastly, if I may, on your new financial targets, if you want to elaborate and explain why you didn't go for a more ambitious margin target? And how much of your new growth target is expected to be organic? Thank you.

Tom Erixon Yes, I think on the organic, some people already observed it was quite in line with our 2030 target of 100 billion. We stick to that one. And let's see how the mix is. Obviously, the reason we are increasing the growth target is for organic reasons. We may or may not have some M&A opportunities converting in 2026 and 2027, but we think we have a good growth platform installed, built up, invested into, capacity-wise created space for. So the organic growth is, I think, for us, the most important part of the growth story for us. So I leave it at that, and we see where it comes.

On the profitability target, I said this during many years at the 15 level, that our ambition is not at this moment in time to optimise our margin at all costs. We are a growth company, we are investing what we think is responsibly and profitably into technology and capacity. We continue to do so, and we think the long-term shareholder will benefit from a long-term growth plan, stability in our execution, so we don't want to put ourselves into a type of a profit-escape opportunity where we are axing everything that is not generating 17-plus. So this was a measured step reflecting approximately where we were, and

leaving the floor of 15 a little bit behind us, and accepting that the current performance level is perhaps about the target range that makes sense for us.

Andreas Koski

So does that mean that we shouldn't expect 17 to be the floor as the 15% was?

Tom Erixon

No, I think we did the 15 20 years ago. I don't think it was, at that time, a floor. It was an ambition. We are not super [?] guiding you on the margin. As you could notice, this quarter, we were above. I think we will fluctuate. I think my point is saying, and I told you this before, that it would be a very simple trick to increase the margin re Alfa Laval from where we are today, with a percentage point, to two, if we decided that the long-term future was less opportunistic. And so we are committed to our long term growth plan, we are investing in that, and we don't want to cut and limit our opportunities for the long-term growth potential that we see.

So that will, in a sense, determine a little bit where the margin will be. And that's why we don't want to go too high on our ambitions, because we think there are opportunities. But we also recognise that the 15 is not all that relevant as a financial target. And if you look at your own and everybody else's assumptions, I think the market estimate for the coming three years is pretty aligned with our target. So that's why we're saying that don't think about this as a very strong guidance comment, it's more creating a relevance, not least internally, for what we expect ourselves to work with.

Andreas Koski

Understood. Thank you very much.

Operator

The next question comes from James Moore from Rothschild & Co Redburn. Please, go ahead.

James Moore

Good morning, everyone. Thanks for the time. Can I just go back to Fives and the charges and just confirm that the Fives integration costs were 250 million in the quarter, and that the charge is basically exactly in line with the 430 BIPs impact on the energy margin year on year. And would it be fair to say about 100 million for the fourth quarter. And attached [?], maybe we stop there and I could follow up?

Tom Erixon

So, what we have indicated is that if you look at the sequential development and you look back a quarter, you probably get a better indication of what that charge was in relation to where we finished in quarter three, and that the same will probably hold true into quarter four. Of course, some of this is also dependent on the invoicing mix that we have in quarter four, with the invoicing mix that we had in quarter three, it decreased the margin. I think a good guidance is to look at quarter two. So sequentially stable.

James Moore Sequentially, not year on year. My mistake, thanks. And the underlying performance of fees, it looks like it did 620 million of revenue for, I don't know, two and three quarter months, which to me looks like it's growing 20%. I don't know if that is the case. And if you strip out the charges, what was the underlying operating margin at Fives? Slightly accretive to Energy in the kind of low-20s margin range as you previously hoped, or did it go up with growth, or was it below due to seasonality? And how does the fee seasonality play out over the coming few quarters, please?

Tom Erixon As we indicated before, there's no real seasonality to the Fives, or to the cryogenic business unit as we call it. There's no real seasonality to that invoicing. It's more how it's delivered to the customer and the milestones that are agreed with the customers from a percentage of completion point of view. Of course, the invoicing was good in the quarter, in quarter three, for the cryogenics business. And the margins were in line with expectations. As we took on a business, there is an element of one-time charges and integration charges, but we include those as part of the operating business.

James Moore I understand. And lastly, if I could, I understand the philosophy behind your new target's through-cycle, internal benchmarking, etc., but obviously behind that is a fair degree of confidence on a long-term organic growth potential. I just wondered, to what degree is that underpinned by existing backlogs? And to what degree is it, once you've got through those backlogs, you still see a high pace of growth continuing? And what is it that gives you renewed confidence on that, apart from recent growth trends being better, or is it just recent growth trends being better?

Tom Erixon We think it's better to look at, if you are a debt analysis analyst, you will look at the last couple of years and make a prediction of the future. If we do that, and we look at all the investments we've done, and how we describe the 2030 target last year, and we will go through that again in our Capital Markets Day in November, there's the basis for our belief. We have, I think, an end market exposure that couldn't be better. And so I think it's up to us to utilise those positions in Energy, in Marine and in Food and Water alike. And are we convinced that we will reach the targets? We think this is the best indication we can give to ourselves. And we communicate the same to you guys, that this is where we think we will be. But I would recommend you to come to the Capital Markets Day for a little bit of a review of the verticals and the business opportunities, the way we see the plan going forward, rather than just a quick Q&A here.

James Moore Look forward to seeing you there, Tom.

Tom Erixon You're welcome.

Operator The next 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 speak a little bit about marine regulations. You may have seen the MEPC 84 session in October delayed a decision on, I guess, stronger emissions controls. I'm wondering if you're seeing any knock-on impact in terms of how your customers are ordering, not ordering, delaying orders?

Tom Erixon It's a very good question. And it's, of course, a situation we monitor extremely closely. It does potentially impact the way a customer will decide. I think our best estimate at this moment in time is that one of the main drivers, other than efficiency and fuel efficiency and such, for environmental technology and multi-fuel capabilities, is to create an insurance against having a stranded asset some years from now, when and if a new regulatory environment is forcing a decrease in the emissions.

Now, obviously, for many reasons, not only for Alfa Laval's business, we are hoping that there will be a framework implemented in terms of emissions control on the Marine side, as well as in other areas. And I think, short term, that a fair amount of ship owners will continue to hedge their bets as they order new ships. And I remind you that if we look at the multi-fuel levels in the industry right now, if you take ammonia and LNG and a couple of other main alternative fuels to heavy fuel oils, the current level of orders are representing about 15% or so of the global fleet equipping themselves with the multi-fuel capabilities.

So even if it should go down somewhat, it's not going to be a major impact on us in the next quarters or so. If we look at the current trend curves, as they are, they are continuing to grow. But, of course, those trend curves are back to a time almost driven by decisions prior to the delay of the implementation side. So it's a bit early to really make a call on what is the immediate effect, but I would be surprised if we will see a dramatic change in the trend curve over the next couple of quarters while the uncertainty remains.

John Kim Great. And if I may, sorry if I missed this, but can you update us on your newer product offerings in Energy? I'm speaking specifically about the liquid-to-chip offering.

Tom Erixon Well, listen, it is our normal product ranges that are going into air and water cooling, and it's a question of capacities for certain sizes and formats and things like that. So the product mix in our supply chain is changing somewhat, but we are not in a technology development. We do an awful lot of technology development, but for the data centres, it's actually in line with our current supply capabilities. And so our main challenge is to figure

the volume demands in the coming years and matching the supply chain capacities that we need in order to serve that market. So that's where we are on that one.

John Kim

Great. Thanks so much.

Operator

The next question comes from Klas Bergelind from Citi. Please, go ahead.

Klas Bergelind

Thank you. Hi, Tom and Fredrik. Klas from Citi. Coming back to the Energy and Food and Water margins, in Energy, obviously, some costs are linked to the recent acquisition, but you still have the R&D ramp. I was under the impression that that R&D ramp concluded already in the in the second quarter, so I'm interested in how you look at this into the fourth. And then in Food and Water, you've got quite a lot of large orders in the second quarter, and obviously this is a very good margin you're delivering right now, but I'm just trying to understand whether the mix from having then that backlog build-up on the larger side will start to weigh on the margin here a bit in Food and Water. I'll start here, thank you.

Fredrik Ekstrom

Well, if I take food and water first, of course, we have a large percentage of large orders invoicing out in quarter three, but we also have a substantial resurgence of the transactional business. And that's been happening over the last six quarters, that we've seen an increase in the transactional business, including Service. And, of course, the fundamental margin accretion that we get from that transactional business and the Service mix into Food and Water, of course, lifts the margin overall. So it's not that we have drastically changed the margin profile of large project orders. It's rather the mix that we see in the current quarter. That mix may look different, of course, in coming quarters. So it's a little bit based on that mix.

And if we then look at the Energy division, well, the Energy division, we have spoken a little bit about the margin development before, and if we look at specifically the R&D, as your question was, well, we have not put an end date to R&D. R&D is something we continue to do over an indefinite period, really. It's about product development. And if I take it one step further, back to the question that Tom answered just a second ago around data centres, yes, we have a lot of products that are directly applicable and have a really good fit with the current demands for data centres, but we also have the ability to adapt those products further. And that's part of the R&D that we continually do and that we do in dialogue with our customers. So I don't think, Klas, you should see the investment into R&D as something that has an end date when it comes to the Energy division, or any of our divisions for that matter. And I don't know if Tom wants to complete more on that?

- Tom Erixon I agree.
- Fredrik Ekstrom Agreed.
- Klas Bergelind Okay, that's good to hear. Then, looking at product orders in Energy, last quarter, and I'm zooming in now on clean energy, I last quarter, i.e. second, you said that decisions were pushed to the right, reflecting increased uncertainty. It looks like orders are coming back here this quarter, so I'm interested in what happened here, and if you see this elsewhere, i.e. decision-making on the larger side, Tom, is easing a bit, or whether it's just normal lumpiness. Thank you.
- Tom Erixon I think maybe a little bit of both. There is a normal lumpiness in that. We have been having, and we continue to have, a rather diversified clean tech order book and order pipeline, and that holds both geographically and application-wise. So the bookings were good in Q3, and although good means that the comparable quarter was maybe a bit on the weak side. But anyhow, it was in line with what we were hoping for.
- And if we look at the pipeline, which obviously stretches more than a quarter forward, we see a number of projects, and some of them, I would say, are financially sustainable without being based on regulatory frameworks or such. So we have obviously moderated our expectations in the five-year period as to what the energy transition will do, but we are still following an interesting track on a steady growth area in relation to carbon capture, and in relation to plastic and packaging replacement materials, in relation to the possibility of SAF and biofuel coming back a bit after a very low investment period during the last few years. So we are cautiously hopeful that we will see the energy transition continuing in a good way.
- Klas Bergelind Good. Finally, back to you, Fredrik, on the ROCE target, it's unchanged despite lifting the margin by two percentage points. I guess this is just incremental intangibles from recent M&A, or how should we think about it? Obviously, you're going to invest now, in Frank Mohn, quite a lot of capacity, but also curious to hear about your further working capital ambition within that. Thank you.
- Fredrik Ekstrom And the reason we've retained that return on capital employed target at 20% is because of exactly the dynamics that you that you bring up here. It is about a continued CapEx ambition going forward. We reiterate the 2.5 billion to 3 billion a few years going forward. We have announced the investment package in Frank Mohn, and we should expect that there will be other acquisitions beyond the acquisitions we have already made.
- We have the firepower in our balance sheet to make sure that we can also add on inorganic growth beyond the organic growth

opportunities that we have. And a reflection of all of that ambition is why we have returned the return on capital employed targeted as it is. And it may temporarily, should all of those things align, very much in the short period of time, go below 20, but with the ambition of going to 20 and above 20 in the long run, of course.

Klas Bergelind

Got it, thank you.

Operator

The next question comes from Johan Eliason from SB1 Markets. Please, go ahead.

Johan Eliason

Hello, Tom and Frederik. I was just going to ask about the return target that you kept unchanged, but you already replied to it. But I was wondering a little bit, I remember you did lower. This was before you, but the board lowered the target from 25% to 20% when you did the Frank Mohn acquisition. How has your major acquisition delivered versus the 20% return target? I guess Frank Mohn today is probably benefiting, or well above this 20% target, but what about the Norwegian, the weather forecasting service? Is that also performing well in line with these return targets?

Tom Erixon

Well, may I first say that it's so nice to meet an analyst who's been longer with us than ourselves almost. So I appreciate the question very much. And I was not present at the Frank Mohn acquisition, but I think you are completely right, that although it was a highly profitable business at the time, but when you put, I think it was, around SEK 13 billion on the balance sheet to get a 25% return on that number, it's very hard. We have commented and, of course, as we go forward now, if we look at the Frank Mohn acquisition in today's books, as you know, we are conservative on the goodwill side, so we put as much as we can into amortisation, and that is almost completed for the Frank Mohn side now. So I think next year is the last year, if I remember correctly.

Fredrik Ekstrom

Yes, that's correct.

Tom Erixon

And so we have a slightly smaller balance sheet cost on it. We have a company that may be close to twice as big. And at maintained margin, I think the return on capital on that investment now, 12 years later, will start to look quite good. We haven't run those numbers, I think, but we may actually do this ahead of the Capital Market Day. It's an interesting question. When we have looked at the entire M&A portfolio in recent times, we have concluded that if you take out the acquisitions over the last 15 years or so, our return on capital for the traditional Alfa Laval business, or Alfa Laval classic, is about 50%.

And with the current multiples in the M&A market, we struggle to get to 20, regardless of the profitability. The pricing of those assets allows us maybe to get to a double-digit return number,

but definitely not close to 20. So we don't see that our CapEx programme, into our existing businesses, is affecting ROCE negatively. We were actually a little bit worried about that when we started the big investment programmes years ago, but growth has compensated for that. So the returns on our organic growth journey are excellent. And the question that's going to decide whether we are 25 or 20 or below 20 is the amount of capital we deploy in M&A. We'll get back to that question, I think, at the Capital Markets Day. It's a good one.

Fredrik Ekstrom

It's well noted.

Tom Erixon

Yes, well noted.

Johan Eliason

But it will be interesting. I think the return target is this important, because it does give you some top price that you're willing to pay. That's obviously interesting for the investors. Thank you. Looking forward to Capital Markets Day, as I said.

Tom Erixon

Thank you. I think with that, we'll take the last question.

Operator

We have a follow-up question from Magnus Kruber from Nordea. Please, go ahead.

Magnus Kruber

Hi, thanks for taking my follow-up. I just wanted to see if you could comment a bit about the development in the other end market category, in Food and Water. It's seen a very good pick-up there over the past few quarters, and you break out starch and sugars in this quarter specifically. Could you comment a little bit how sustainable this level is?

Tom Erixon

Yes, we are reasonably, well, it tends to be the stability of Alfa Laval, right? It doesn't change that much. The normal dynamics of GDP growth and a happier middle class is taking demand forward. When you think of stability in the Food and Water side, the thing I want you to remember is that we actually dropped quite significantly on the biofuel side two years ago. And it's been a very low product activity on the biofuel side, other than some exceptions on the ethanol side.

And so I think that is still not quite in the books. Pharma came down for us a bit after COVID, where we had a lot of vaccine-related implementations on pharma. We expect that to come back. Dairy has remained quite good. Beer has been a bit up and down, after years of consolidation. We see less of that now, but still the return of CapEx on the brewery side has been a bit better recently than before. So all in all, we see the coming year as reasonably interesting. What I would add to that, if I round up your question with that and say, thank you for that, I'll just do a little marketing campaign for the Capital Markets Day.

Magnus Kruber

Perfect.

Tom Erixon

So, we will meet in Flemingsberg, which is the technology centre

for Food and Water, and the high speed separation centres. We are inaugurating that, and we are also displaying part of the technology that we are developing there. And in that context, we will do divisional reviews. And one of the things that is changing is that we are redoing the strategy in the Food and Water division under a new leadership, with new growth aspirations and new opportunities.

So we will we will review a number of interesting things. Some things you will see visually, and some things you will see on a slide. We hold both those tools as realistic growth opportunities, so I hope you are excited about it. We are almost sold out. Ticket prices are rising, so I would recommend you to sign up quickly, and we look forward to welcome you in Flemingsberg in November. Thank you very much.

Magnus Kruber

Thank you so much. Thank you so much.

Fredrik Ekstrom

Thank you very much.