

Alfa Laval AB
Q4-25 Report
03rd February, 2026 | 09:00 CET

Transcript

Speakers:

Tom Erixon

Fredrik Ekstrom

Tom Erixon

Good morning, and welcome to Alfa Laval's Fourth Quarter and Full Year Earnings Call for 2025. So Fredrik and I, we will give you a rundown presentation and summary of the quarter and the year, and then we will go to the Q&A as always.

So let me start with some introductory comments to the quarter and the year. In all, we felt it was a strong year in 2025, resulting in record invoicing and record earnings with earnings per share for the first time climbing to SEK20 per share.

So the supply chain was strong especially in the quarter, and we delivered a record invoicing of SEK19 billion in the fourth quarter. With that said, we still need capacity additions that are required to support our customer base in the data center applications. And yesterday, the Board of Directors approved a targeted capex program of SEK1 billion for this purpose specifically.

Then finally, during 2025, Alfa Laval has prepared for further growth by simplifying the operating model and consolidating the business unit structure. It is a substantial reorganization of the company. And as of January 1st, the new organization is operational after considerable efforts on many hands.

And with that, let's move on to key figures. Orders held up well with a 2% organic decline in Q4. We had good support and strong demand from U.S. and several important Asian markets. The margin was okay and as always a bit affected by the seasonal high share of project invoicing. In addition, we carried approximately SEK150 million of one-off costs, partly related to the ongoing reorganization program.

On a divisional level, first, to the Energy Division. Orders reached an all-time high in the quarter at SEK6.1 billion with firm demand in both HVAC and clean tech applications. Data center orders were increasing as anticipated and was accounting for approximately 15% of the divisional orders.

Service has been slow during 2025 for the Energy Division, partly due to internal constraints. In Q4, the Service was again showing double-digit growth, and the growth trend may well continue into 2026.

As indicated earlier, a new capex program of SEK1 billion is launched to maintain a leading market share for the heat transfer applications in the data center business. The program is spread over our existing footprint in the U.S., in

China and in Europe. We are with the existing infrastructure in a very good position to scale our volumes and capacities in this area specifically.

Then to the Food & Water Division. Orders remained flattish organically both sequentially and year-on-year. We continue to see considerable growth opportunities in many end markets going forward. And the new growth strategy launched in 2025 is supported by targeted investments into application specialists and the global sales force to cover areas like pharma and protein.

The margin in Q4 was impacted by some one-offs, both in weak project execution and the reorganization as discussed earlier, and it amounted to approximately SEK80 million in the division. In 2026, we will take some cost for driving the growth strategy forward in the areas described with some margin impact in 2026 and possibly into 2027.

Then on to the Marine Division. Orders were stable sequentially, and the lower cargo pumping orders were, as before, partly offset by growth in the other application areas. And all the market is and is expected to remain stable to positive for ship contracting. Invoicing continues on a good level based on a solid order book with a positive mix. The order book mix remains unchanged in 2026.

Then on to Service. After many years of growth, the Service business now accounts for about SEK20 billion of invoicing. The growth trend slowed a bit in 2025 compared to before, but the structural demand trends remain positive and the troubleshooting in the Energy Division specifically is now completed and resolved.

As a consequence, in the quarter, we had unusually large mix differences between the divisions, with the Marine Division at almost 40% share of service orders, partly related to lower project order intake on the Marine Division. And the Energy, on the other side, with just above 20% of service order intake after a very strong capital sales quarter in Q4. The spread between the divisions is expected to decrease going forward.

All right. And then a couple of regional comments to round up. In many aspects, it was a positive quarter with good progress in important growth markets like Southeast Asia and India. China was positive in Energy and Food & Water but not fully compensating for the slower cargo pumping volumes that we expected in the quarter. U.S. grew in many end markets with special focus, obviously, on the

data center market. And we had an all-time high in the quarter for the U.S. market as such.

And with that, let me hand over to Fredrik for some further financial details.

Fredrik Ekstrom

Right. So let us dive straight into it and take the order intake in quarter 4, amounted to SEK17.1 billion with a negative currency impact of 8.7%, a structural growth of 3.3% and an organic contraction of 2.2%.

What's notable in the quarter is the continued slow conversion of large project business from project pipelines that are both extensive and with quality projects. The Energy Division reflected demand strength in HVAC with a 7% growth, and on data centers, more than doubled.

On a whole year basis, order intake accumulated to SEK66.7 billion with a negative currency impact of 6.1%, growth from acquisitions of 1.6% and then organic contraction of 6%.

Of the negative organic growth, the majority of the contraction is a slow conversion of large projects, which was slightly behind with some 20%, of which the majority stems from the normalization of Marine Pumping Systems and large project orders in Food & Water.

Transactional business, on the other hand, increased with 2% during the year to compensate. The order book stood at SEK48.3 billion at the end of the year, of which some SEK7.5 billion is invoicing for 2027. During the year, SEK1.9 billion of negative revaluation due primarily to currency impacted the backlog and order intake. Quarter 4 book-to-bill was 0.89 with a good invoicing and project execution in Q4.

Now moving on to sales. Revenues in quarter 4 reached an all-time high of SEK19.1 billion with a growth compared to last year of 4.6%, of which 10.9% was organic, 3.1% coming from acquisitions and a negative impact of currency with the whole 9.4%. The higher revenue stems from good project execution in the quarter and a good mix of growing transactional sales.

Revenue in all 3 divisions grew in the quarter: Energy Division with 12%, Food & Water with 1%, and Marine Division with 3%. On a year basis, revenues grew with 4.1%, driven by 7.9% growth of organic business, 1.8% structural and a negative currency impact of 5.6%.

Revenues from the Marine Pumping Systems increased with 23% on an annual basis, and project execution in the

Food & Water division contributed with 10%. The large order book we carry into 2026 supports a continued good development in revenues.

Now to some key figures. The adjusted gross profit of SEK34.7 million was in line with quarter 4 in 2024 but sequentially lower than quarter 3 at SEK37.8 million, reflecting the heavier project execution mix in quarter 4. The adjusted gross profit margin, as in previous quarters, continues to be supported by strong manufacturing results.

S&A grew with 2% while R&D grew with 11.6%, as expected in the quarter. Operating income grew with 8.3%, yielding an adjusted EBITA margin of 16.9%. To be noted further is that the adjusted margin is affected by the last tranche of the acquisition costs incurred in the Cryogenics transaction, lower yields from our project execution in Food & Water Division and costs are rising from the new organizational structure with some SEK150 million in the quarter.

The increase of financial costs in quarter 4 is driven by higher interest costs and more substantially by the net of exchange rate differences. Profit before tax is on a similar level as last year and, finally, an EPS of SEK4.79 for the quarter.

On an annual basis, adjusted gross profit margins increases to 37%, reflecting the revenue mix, a strong factory and engineering results and positive purchasing price variances. S&A grew with 4.5% and R&D with 4.9%. However, both remain stable in relation to revenues at 15% and 2.5%, respectively. Operating income increases with 12.6% to yield SEK11.7 billion, and EPS for the year, just above SEK20, an increase of 12%.

Now on to some profitability comments. The adjusted EBITA margin for the quarter ended at 16.9%, an increase of 1% compared to quarter 4 2024. In absolute terms, the adjusted EBITA in quarter 4 increases with SEK437 million despite the negative currency impact and the additional burdening of the result with SEK150 million in the quarter, as previously detailed.

On an annual level, the adjusted EBITA margin was 17.7%, an increase of 1% compared to 2021. Adjusted EBITA increases with 12% to yield SEK12.3 billion.

Now some comments on debt position. Debt has increased with SEK7 billion, reflecting the financing of acquisitions during the year of SEK9.4 billion, with a resulting leverage to EBITDA of 1.21.

Net debt after subtracting a healthy liquidity position of SEK7.8 billion is SEK9.4 billion, which corresponds to 0.66 in relation to EBITDA. Finally, net debt including lease liabilities lands at 0.92 in relation to EBITDA.

Cash flow from operating activities in the quarter was on a good level, given the increase in revenues. Release of working capital was positive but on a lower level than quarter 4 last year. Capex in the quarter was in line with guidance, bringing the free cash flow for the quarter to SEK2.6 billion.

On an annual level, cash flow from operating activities was SEK9.2 billion, capital expenditures in line with yearly guidance at SEK2.7 billion. Three acquisitions during the year totalled SEK9.4 billion. And after financing activities, the final cash flow for the year was positive with SEK168 million.

And finally for some guidance on Q1 2026 and whole year 2026. Capex in quarter 1 is expected to around SEK0.7 billion and whole year guidance of SEK2.5 billion to SEK3 billion. Amortizations at SEK175 million in quarter 1 and SEK670 million for the year, and that includes all recent acquisitions. Tax rate guidance remains in the range of 24% to 26%.

With that, I conclude my financial overview, and I'll hand it back to Tom for some closing remarks.

Tom Erixon:

Thank you, Fredrik. So let me give you our forward-looking comments before we go to the Q&A. As we are all aware, the synchronized global business cycles are not so synchronized anymore. So in reality, geographies and different end markets tend to move in different directions. So all in all, we remain in a situation where we don't have extremely clear trend lines.

With that said, the general feeling we have in the market is that it is overall, everything said and done, somewhat positive momentum in the market. And we also perceive that the slowdown we've been having a large capex projects from customers is maybe easing somewhat as we move into 2026.

So with that said, we expect after a strong Q4, sequential demand in the first quarter to be on about the same level as we had in Q4 with the Energy Division being somewhat lower compared to an all-time high record level, as you remember in Q4.

The Food & Water, we expect to be somewhat higher and the Marine Division somewhat lower. And all in all, it takes

us to market conditions that are relatively unchanged in Q1 compared to Q4. And so with that, we round off the presentation, and we are open for questions. Thank you.

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.

We ask you to limit your questions to allow all callers to ask their questions. Anyone who has a question may press star and 1 at this time. Our first question comes from Magnus Kruber with Nordea. Please go ahead.

Magnus Kruber

Hi, Tom, Fredrik. Magnus here from Nordea. A couple of questions. First, like industry and tech obviously posted very solid growth in the quarter and a distinct step up from prior levels. How should we think about sort of the trends going forward here?

I think it's been perceived that it's been a little bit underwhelming here in the prior quarters. And now we see a very big step-up. So just some comment out to look at that would be helpful.

Tom Erixon

We don't really guide more than the quarter. And the quarter is somewhat lower. So I think that's all we really have to say on the matter. But it is true that we've been a little bit low for a number of quarters previously. We were not surprised exactly by the amount of orders that came in, in Q4. It was partly to be expected.

And as we've guided to you before, when it comes to the data center question specifically, we are a little bit on a shorter cycle than many of the project orders that you otherwise see in the market. So the pickup of that played a reasonable role in the development.

But on top of that, I would like to add that despite concerns on the energy transition and what's going on, we did have a good quarter on clean tech applications. And we see both in the Food & Water Division when it comes to biofuel applications and in the Energy Division when it comes to carbon capture, hydrogen and other related issues, that there is still some momentum in the market on that level.

So we are sticking to our energy transition strategy. I think it's going to be a bit slower, obviously, than people thought three, four, five years ago. And it may gradually become more market-driven and policy driven, but there is still a growing momentum in those areas.

Magnus Kruber

Excellent. Thank you so much for the details. It was super helpful. You also talked a little about 150 million headwinds here in the quarter from various one-off effects and alluded that, that could continue somewhat into the first half. Is the 150 million run rate a reasonable level? Or should it be more sort of in line than that?

Tom Erixon

Well, it's going to depend a little bit, the 150 you can kind of split 50-50 between reorganization aspects and project execution write-offs. So I hope the project execution issues are not repeating itself. The question on what running cost we will have on the reorganization part, which is now, so we are sort of on the top level, all managers are appointed on a high level and the financial reporting is going in the new organization.

But there's still a fair amount of implementation work to be done both in sales regions and in business unit structures. And so if we see a higher re-org cost then in Q4, it's because we have so far non-communicated savings opportunities on it. So it's going to be on a business case basis, let's put it that way. But at this point in time, we would estimate that the one-off cost level will decrease in Q1, Q2 unless we identify substantial opportunities going forward.

Magnus Kruber

Perfect. And just one final one. The investments you make in data center additional capacity now, how does that compare with your current capacity? Some way of framing that would be helpful?

Tom Erixon

Well, I think we are in a unique position to scale. We can work off our existing footprint. As you know, we have done considerable investment that earlier was related to heat pump, and part of the supply chain and part of the infrastructure needs and equipment needs do overlap between the two applications. So we get a lot of leverage in the brazed heat exchanger technology specifically.

So what I would say to put some framework around it is that we are delivering substantial volumes of both gasketed heat exchangers and brazed heat exchangers into these applications and a few other things, by the way. And on the gasket side, we are still very well set with the ongoing investment program that we already have committed and partly executed.

So there is nothing that -- of the 1 billion that goes there, so it's going to be entirely related to expanding the press and, to some degree, furnace capacity on the brazed side. And so we get substantial leverage for the applications of that. We expect with all the production plans integrated into

our production planning -- we're going to -- this will take us a couple of years forward. That's as much as I feel I can say.

Magnus Kruber

Absolutely. Thank you so much.

Operator

Our next question comes from Meihan Yang with Goldman Sachs. Please go ahead.

Meihan Yang

Hi, good morning, Tom and Fredrik, I have one question relating to the China Marine. So was the weakness in the Marine side in China more related to the underlying end market weakness? Or are you seeing any signs of market share erosion to domestic players? And if this continues, do you plan to do any capacity adjustments there? Thank you.

Tom Erixon

No, I think in all, we feel the market is -- so as we speak, our main challenge in China is the amount of commissioning and invoicing that we need to do in 2026. We have a substantial order book and a substantial overhang, and we are expanding our technical capacities in China substantially to cope with it. So if we have any capacity issues, it is that we need to scale up, not scale down.

The market conditions in China, they were stable and normalized in 2025, and we believe they will remain stable and normalized on the order intake side in 2026 as well. The somewhat elevated invoicing levels that we have right now in end last year and partly through 2026 may come down a bit depending on where the market goes.

But in general, we feel that the contracting level currently at the running rate that we are at is supporting perfectly well the infrastructure we have. So we're happy with that.

On market share, Marine is the only market where we know on the decimal what our market share is for every single product category because we know every hull that is registered and we know every hull where we are in and where we're not.

And so we are monitoring this extremely carefully and we are making sure that there is no market share slips in this market. And it hasn't happened for the last 5 years.

Meihan Yang

Thank you, very helpful.

Operator

Our next question comes from Akash Gupta with JPMorgan. Please go ahead.

Akash Gupta

Yes. Hi, good morning, Tom and Fredrik, I got two questions. My first question is for you, Tom. In your

comments in the report, you say that the group function are adjusting to meet new regulatory demand and alignment with the business unit. I was wondering if you can elaborate about what do you mean by these new regulatory demand. That's the first one.

Tom Erixon

You can say what we've been going through in order to adjust the group in terms of speed of decision-making and flexibility to manage towards the 100 billion goal that we have in 2030 and to cope with the doubling of the business volume that we've been having over the last 6 years or so.

We needed to take some actions to adjust to that. And you can say, well, first part is, to a degree, a consolidated business unit structure. So we will move with fewer global larger business units than we did in the previous structure.

The second part is that we will go from cluster organizations in our sales companies to more regional setups with a slightly more operational twist to how the regions will operate compared to the previous clusters.

And the third part is that the supporting group functions need to be adjusted in various ways. In some areas, we need to increase our resources somewhat to cope with the compliance demands and the regulatory demands and the reporting demands we have related to sustainability.

But also related to ensuring that the ever more complicated sanctions environment between EU and U.S. that is being adequately implemented and with an adequate control.

So there are certain areas where we certainly will continue to build professionalism and capacities. In other areas, we are trying to make sure that we don't end up too centralized in part of our group support function.

So we're also decentralizing out in a clear way to our sales regions and to our business units so that we have a responsibility for a number of these staff areas that is being carried by operating units and we are not too centralized in how we operate those functions.

So it's a gradual -- you will not see an impact of it. But for us, it's a very important part of how we operate the company.

Akash Gupta

Thank you. And my second question is on capital allocation. So I mean, when we look at your leverage, you have gone below 1x at the end of the year. So can you talk about prospects of M&A particularly in 2026, given you will be quite busy with implementing the new operating model. So would it be reasonable to think something might

happen? Or is it now probably a lower priority with internal heavy lifting?

Fredrik Ekstrom

No. We believe we can do both things in parallel. We believe that the M&A strategy that we presented in the Capital Markets Day remains quite relevant and remains a priority. We continue to look at acquisition targets that fit the criteria that we defined at that point in time.

We have a pretty good list of prospects that we're looking at. But as always, it's a long process when it's M&A, and we set very high standards. But we have in our capital structure created the firepower to continue to do acquisitions, and presented with the right opportunity and the right price level, we would do so.

So we don't see that the reorganization in any way compromises our ambition when it comes to acquisitions. Tom, would you like to add anything?

Tom Erixon

We might add that we already closed our first one, a small but still meaningful acquisition in China in the energy sector. So we will -- as of the beginning of this year. So we will give some further comments to that in the Q1 report.

Akash Gupta

Thank you.

Operator

Our next question comes from Sebastian Turner with RBC. Please go ahead.

Sebastian Turner

Thank you for taking my question. I have two. The first relates to the Energy business and specifically data center products, the brazed heat exchangers. I was wondering if you can tell us a little bit about the margin profile.

I mean, this is a product business. It's not a service business. It will probably change the blend, the mix and that might have implications on margin. Can you give us a little bit of an idea of where you see the profitability of these products going forward? That would be my first. Thank you.

Tom Erixon

It is obviously difficult for me to comment on application product profitability levels. I think you are -- listen, if you divide it into the brazed heat exchangers and the gasket heat exchangers, the brazed is a non-service product. It's brazed together so you can't take it apart. What happens is that when lifetime is over, it will be scrapped.

And that is the cycle of that business. It may grow a bit compared to -- the entire product area may grow its share somewhat as a share of the Energy Division. But I don't think it's going to be a huge mix change on that because we're also growing the gasketed.

And as for the gasketed, the data center applications are not extremely service demanding. It's kind of similar to a HVAC application, where we're dealing with clean water applications. But that will have its normal HVAC-related service program.

So I don't see a lot of challenges when it comes to -- I think, overall, your observation is probably correct that it may dilute the share of service invoicing a little bit as a whole. But I don't see any meaningful -- there are other things that I'm thinking a lot more about when it comes to the margin development than this one.

Sebastian Turner

Okay. I will try to interpret this information. My second question is actually also data center again. Can you tell us a little bit again about who the clients are? Because it would help the investors, now that the business becomes so big, would help investors to track a little bit the capex or the client revenue. Is it the [embed 0:30:03] better for this world? Are there other major clients that we should be aware of when it comes to especially the brazed heat exchanger business? Thank you very much.

Tom Erixon

Well, listen. I think when you're looking at a market leader in this area, it is not possible to be there unless you are pretty much covering the market. And so the customers that are out there are, by and large, our customers.

They are in terms of the procurement process, and that's why I've been saying that we are probably lagging a little bit in terms of supplying components and systems. We are coming a little bit later than many others into the process because we are selling to the system builders. And they are the companies we're invoicing.

With that said, there are a number of frame agreements with the final owners who may want to specify suppliers and standardize the way they build their data centers in various areas. So this is a business which is not just a clear straightforward answer.

There are frame agreements in place. There are frame agreements negotiated as we speak. And there are supplier relationships with system builders. And you can safely assume that most of them that you are well aware of are most likely on our customer list.

Sebastian Turner

Understood. Maybe last question just for clarification. You talked about project costs affecting Energy. And just for me to understand, does this relate to pricing of longer projects where you book at cost or you invoice at cost early on and

then you invoice for the profit at completion? Or are we just talking about projects overrunning?

Tom Erixon

No. The specific project execution problem was in the Food & Water Division. So that was weighing on that margin. What happens in the Energy Division is that we are invoicing and we do in all companies doing a percentage of completion invoicing process for our projects. But normally, sort of it adds up towards the Q4 and it did also in Energy division, so on welder. But the project pipeline and the execution side on the Energy Division has been spotless on the Q4.

So we are good with it. But it does sort of, as a mix effect, weigh down a little bit. I may add that we had a very good integration of Fives Cryo, which is also a project business. They are right in line with our expectations. They are well on track with Energy average margin.

And the only thing that is weighing on that side is that we are taking a number of million euros as integration costs, and that has more or less now been finalized. So it's been a very short, concise and excellent integration process of getting the Fives Cryo team into the group. It's been a good process.

Sebastian Turner

Thank you very much. Very helpful. Thank you.

Operator

Our next question comes from Max Yates with Morgan Stanley. Please go ahead.

Max Yates

Thank you. Good morning. I just had two questions. The first one was just around the pumping systems business and order intake. I guess when I look at the kind of pumping systems orders, it looks like maybe up SEK100 million quarter-on-quarter. And I guess when we look at some of the tanker ordering data in Clarksons, it was very strong, up 60% in Q4. I think we've had a good start to January. So I was just wondering kind of what are we missing?

Because I'm fairly used to kind of this business. When we see the tanker orders pick up, it filters through within kind of one or two months to your business relatively quickly. Yet that doesn't seem to be happening when I look at Q4 orders or when I look at your kind of outlook for Marine for Q1. So is there anything kind of we're missing or we should understand what's happening in the market? I'm just trying to better understand that dynamic? Thank you.

Tom Erixon

No, I don't think so. And I think in our books, after -- and so I remind you that in 2024, the pumping systems business, including offshore and aquaculture and another of other

applications, we were at about SEK15 billion in order intake for an operating unit which historically has been on around SEK5 billion. So we guided carefully that, a, we are not a SEK15 billion unit in Bergen. So that's not a running rate that is possible in any case; b, we built the order book for two years going forward.

And essentially yards and ourselves are fully booked and running at 110% capacity anyway, so we didn't want to see and didn't expect a repeat. And in 2025, we didn't see a repeat. We ended up approximately at SEK6 billion, which is SEK9 billion down from the year before. A good number, SEK6 billion was a normalized plus level compared to where we have historically has been and well in line with expectations.

Right now in the statistics, that converts to about -- if you look at the cargo pumping specifically, it converts to about 250 contracted product in chemical tankers that we've seen in 2025, which is on about a normalized level.

So the worry that after high contracting levels, we will go flat down on that market, it did not materialize. And we didn't think so. We think the age of the current fleet on the product chemical tanker side is still not all that young. So we think a normalized contracting level is to be expected. And that's what we've seen all in all for 2025.

I think we ended the year a little bit higher than we started on it. So the trend curve was positive. And so let's see where we go in Q1. But putting everything together, 2025 was not a weak year for order intake, all in all. And so we are not overstating our expectations into 2026.

Max Yates

Okay. And maybe just a quick follow-up on currency. So you have hand -- in the quarter, it looks like you've had a SEK271 million impact on your EBIT on a kind of revenue number that's about SEK520 million headwind. So I was wondering, would you help us at all with kind of any views for 2026? Because I know historically, you've always hedged.

So I wonder whether there is any kind of lagging impact from last year. And just any kind of view on is that sort of drop-through from sales to EBIT impact for FX, the kind of 50% plus? Should we expect that going forward? Were there some currency revaluations? So just any framing of how to think about the FX impact on EBIT as we go into 2026 would be helpful? Thanks.

Fredrik Ekstrom

Right. And so let me try to take that. There's several components. You're quite correct. We have a hedging

strategy for committed orders. And what we mean with those is usually the large orders, those get hedged as they come in. And then we have, of course, the uncommitted volume or rather the transactional volume that comes in sequentially over the year. And that we -- that we hedge as separate volumes.

So we do have a hedging that covers a substantial part of our revenues and turnover. The difference is that you are seeing trickling down to the EBIT is, of course, the net of all of those effects. It's the net of the movement of invoicing. It's a net of the hedging contracts that we take. It's also the impact that we see from a translational point of view between two quarters in two different years.

When it comes to forward looking, when it comes to FX right now, your crystal ball is as good as mine. But I would assume that the strengthening of the Swedish crown that we have seen over the last quarter is probably going to stabilize or to some degree return to a weakening, maybe not a strong weakening. But it's a speculation at this point. What we can do is that we secure as much of our turnover as possible through hedging contracts.

Then to refer to another part, which you had in your question embedded there, is the revaluation of backlog. And the revaluation of backlog in relation to currency only happens when we take in an order in a foreign currency into our backlog, and that's primarily in the Pumping Systems where everything is booked into U.S. dollars. And there is, of course, the movement of the NOK to the U.S. dollar.

And there, we also have seen a strengthening of the NOK, and we don't see that there is too much more headroom for the NOK to continue to strengthen. But again, it is a volatile FX market out there right now. And any quick movements that we see that happen over a quarter like we've seen in Q4 will create, of course, currency impact on the results.

Max Yates

Okay. Thank you very much.

Operator

The next question comes from Sven Weier with UBS Please go ahead.

Sven Weier

Yes. Good morning, guys. Thanks for taking my two questions. The first one is on Marine. And just reminding us of the packing order on content per vessel. Is it not true that your content per crude tankers is actually much lower than product tankers and that's why maybe the crude tanker orders we had in Clarkson's that were quite strong

were not really affecting you disproportionately or am I getting the packing order wrong here on content? Thank you. The first one.

Tom Erixon

You're getting it right.

Sven Weier

Crude is more like an average. Is that fair to say in terms of content?

Tom Erixon

Well, yes, to the degree that there is a meaningful average in this. Crude tankers, they are large. They are energy consuming. Efficiency matters. And so it is a meaningful part of the fleet for us. But it is compared to a product tanker, it doesn't provide quite the same mix. It's absolutely true. And so you need to shave off -- maybe I shouldn't speculate too much, but trade off EUR1 million or so and then you are there.

Sven Weier

Okay. Understood. And then to follow up on Marine. Because in the report, you mentioned the impact of sanctioned vessels on services and that it had a negative impact. Can you drill a little bit deeper into that comment, how it impacts you specifically?

Tom Erixon

Well, there's been lots of dialogues about how big is the share of fleet, which is sanctioned and which we do everything we can to definitely not serve and not ship spare parts. And so probably the number of ships including that fleet is in the order of magnitude of at least 400. And so 400 large vessels does impact.

With that said, I think Q4 service volume for Marine was not primarily the numbers that you are looking at there. It was more impacted by a very large service order, a non-repeat service order in Q4 2024. So we had a bit of a challenging benchmark specifically. So I think the service side has gone well, but clearly with 300, 400, possibly a little bit more large tankers out of reach for us. It's not a favorable situation.

Sven Weier

When the U.S. now enforces these sanctions more forcefully, for you, it doesn't make a difference because the shadow fleet was the shadow fleet before, and you didn't service it anyhow. So that doesn't make an incremental difference.

Tom Erixon

Absolutely not. No. On the contrary, we find it helpful that there is stronger action taken because with all the efforts we are doing to make sure that not a single spare part one way or another reach a sanctioned ship is a big challenge. And we're working exceptionally hard in protecting, that we are doing everything we can to follow the sanctions. But it's

helpful for us if the ships are removed. It makes our life easier, and it has no impact on our financials at all.

Sven Weier

Final question is on the new Food & Pharma Division. Because I was wondering, on those projects where you had cost overruns, I mean, did I understand you correctly that this is now done at the end of Q4 and this should no longer have an effect? Is that fair? Or...

Tom Erixon

I'm always careful in prognosing in a future where there are no problems. But we have been dealing with specifically in the quarter one specific project, and I think we've taken all the measures needed now financially to make sure that, that is completed. It is financially not a good project for us, but we are extremely committed to our customers that we are delivering a well-functioning process at the end of the day. And so we should be clear of that now.

And I remind you that when we started the journey 10 years ago, we continuously had a number of project execution problems. We cleaned that up very well. So we've been going on a good level for many years now in the project execution. And in the acquisition of Desmet, it's been the same. And it remains the same with Desmet. So this was the first time for a period of time where we actually got into executional challenges. And I think we've been handling it now. So in terms of what we know in our books now, we don't have a recurring item on this coming back.

Sven Weier

And if I may, I mean at the end of '25, what was the share of Biofuels within the division in terms of orders or sales?

Tom Erixon

Good question. I don't have that number in my head. Maybe you can check a little bit as we speak. But it's been...

Fredrik Ekstrom

5%.

Tom Erixon

5%. And so it's been very little. It's been depressed. We see a more interesting market in biofuels coming into 2026. They are typically a large order, so they are a little bit -- either they come or they don't. But when I'm commenting on the sentiment in the market when it comes to larger projects, that includes the biofuel segment, where we may see some movements in 2026. We are hopeful.

Sven Weier

And that 5% was of the order intake, right?

Fredrik Ekstrom

Correct.

Sven Weier

Okay. Thank you.

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

Uma Samlin

Hi, good morning, everyone. Thank you so much for taking my question. So first one is a follow-up on Marine. So I guess you're guiding somewhat lower in Q1. How should we think about the mix of Pumping Systems orders versus Marine categories in Q1?

So from your answer to the question previously, it seems to me that you're thinking like still relatively strong Pumping Systems orders. So do I understand you correctly that it's other Marine categories that drive your somewhat lower guide? Some clarification would be really helpful. Thank you.

Tom Erixon We are hesitant. Here is the thing. Without the crystal ball, the more granular we are in our forecasting, the more off we're going to be. So on a group level, we feel fairly confident.

And as you will notice, if you compare backwards on divisional levels, we have a slightly larger variation of outcome versus forecasting, and it gets even worse if we break it down into business units and individual product categories. So I'm a little bit hesitant to meet your question.

But in terms of our early discussion on this call, the activity level and contracting level as forecasted and as what we've seen in Q4 looks relatively stable. So it may not be a bad guess that we are reasonably close in Q1 to Q4.

Uma Samlin

Thank you very much. That's very helpful. My second one is on Food & Water. If I heard you correctly, it seems like you expect some sort of margin impact from your growth strategy in '26. Could you perhaps elaborate a bit more?

What do you think is a long-term margin good for Food & Water? Because I remember, this division used to be at 17%, 18%. And after the acquisition of Desmet, it was lower to like 14%, 15%. What is your long-term sort of ambition for the margin profile of Food & Water?

Tom Erixon Well, we typically don't want to run businesses below 15%. So our change in our corporate profitability target to 17% anticipated that part of our business most likely is going to be above the 17% and part of the business may be somewhat below.

So we are not running a business strategy in Food & Water aiming to go below 15%. What we have done, and I remind you of this, we are building this company for the future. We are running at compared to historically exceptionally high

capex volume, which, in part, is complemented with higher opex costs running in parallel to that capex program.

And we are building both product technologies and capacities in the market additionally. So we have been doing that for a long period of time. And I don't see -- I guess what we are indicating with the increased investment program in the data center applications and the increased focus on growth strategy in certain newer areas in Food & Pharma should give you sort of the feel that what we've been doing historically is what we will continue to do.

So if we stop doing that, I've said it before, any monkey could get the margins up with 1% or 2% on the Alfa Laval margin. But we think building us towards the SEK100 billion is the primary target, and we're going to do so with acceptable margins and healthy business conditions. And for Food & Water, that means that we are definitely aiming in the short and medium term to be somewhat north of the 15% target.

Analyst: That's super helpful. Thanks very much.

Operator The next question comes from Carl Deijenberg with DNB.
Please go ahead.

Carl Deijenberg

Thank you very much. Good morning, Fredrik and Tom. So, two questions from my side. First of all, I wanted to come back on the Energy Division and maybe specifically on the HVAC side. Obviously, that was a drag for you on the order side in '25, but with some improvements headed towards the latter part of the year.

But do I want to understand a little bit is that do you see that more as a result of these inventory drawdowns on the OEM side being behind you and production rates being more sort of indicative of end consumer demand? Or do you still see some elevated inventories there among your customers? Thank you.

Tom Erixon I think -- maybe you want to take that, Fredrik. You used to run that business.

Fredrik Ekstrom

Well, I think in relation to inventories, I would say that the inventory at our customers' distributor network is depleted. That, I think we can reasonably see in the call-off for the frame agreements that we have with the larger OEMs. So that would confirm that we are past the destocking and that we start to return to growth or we start to return to normal production.

When it comes to heat pumps specifically, I think we see the beginning of a resumption of a normal business and a normal trajectory of business growth in relation to defossilizing heating, particularly then in Europe. And I think that's a strong indication. There is a shift in players in the market.

There is going to be consolidation in the market most likely. But we see definitely that also on the air conditioning side that we are starting to have larger call-offs on frame agreements. So I would assume that, that confirms the case that destocking is complete.

Carl Deijenberg

Okay. Very well. Then second, I wanted to ask also on sort of recent raw material movements. I mean, we've obviously seen some quite dramatic price movements on certain raw materials, I guess one quite important component for you is, for example, copper on the brazed side or on the heat exchanger side. And I just wanted to hear a little bit if you expect any sort of tangible price impact from that entering '26 now given where prices are.

Fredrik Ekstrom

Right. And so without getting too much into detail here, we set the standard cost during the year that is based on the frame agreements that we have with our metal suppliers. And we have more than one metal supplier and they have a little bit of different sort of timing and phasing of when we renew those frame agreements with metal suppliers. So we have a little bit of stability and we have a little bit of visibility going forward to what our material prices will be.

We also have some metal hedgings that are in place. So all in all, we don't have -- you could say, in the short-term, it doesn't impact us. But in the long-term, it means we need to consider how we plan our production and how we plan our pricing structure. But we allow ourselves a little bit of breathing space to make those decisions in a meaning -- in a foundational way in line with our strategy. Tom, would you add anything?

Tom Erixon

I could add one thing on the copper, by the way. I would say that if you look at the other metals, we probably have a little bit of speculation creeping into the pricing. When it comes to copper, there is actually a foundational demand or supply problem that needs to be sorted out. So there is probably a more sustained higher price level for copper going forward.

Carl Deijenberg

Understood. That was all from me. Thank you very much.

Tom Erixon

All right. And I think we take the last question here this time.

Operator Our last question comes from Klas Bergelind with Citi. Please go ahead.

Klas Bergelind Hi, Tom and Fredrik. Klas from Citi. So just had, sorry, a follow-up question on Marine again. A lot of questions on Marine. But I want to zoom in on product tankers. Obviously, crude is strong, but product is still pretty volatile where your value is higher.

We saw a pretty strong first read in December at 19 contracts, but slowed down again in January, as you could see yesterday. The product tanker market is still pretty soft with mid-single-digit supply growth against around 1% demand growth. And scrapping doesn't seem to increase that much at the moment.

We are trying to understand on how you look at demand here in the product tanker category in 2026. If you share this view with (unintelligible 00:55:51) discussions out there, are showing a more positive picture. Because it seems like product tanker, given the short cycle nature of that business, is something that maybe can surprise positively. But I just want to hear your view there. Thank you.

Tom Erixon It's, you know, it's a good question. The difficulty on what's going to happen on the contracting side, so I remind you that in terms of the deliveries from our side, commissioning from outside and delivering from the yards to the ship owners, the 2026 pipeline is very strong. So what we're discussing is not affecting invoicing in 2026. And to a degree, we also cover 2027 already, although not fully.

So, if you're going to see any meaningful impact in a 2-year perspective on this, it means that existing slots need to be converted, that containers are being swapped into product tankers. And that type of switches is happening in the market. People are selling options and production slots. So I don't know. I would refer to Clarkson as the most solid foundation for this forecast. We don't have, I think, a better view on the market than they do.

But as I said, we came out 2025 on a pretty normalized level. I remind you that the monthly numbers and the yearly numbers are updated afterwards. So all of the bookings are not registered at Clarkson at this point in time, not for 2025 and certainly not for January. So we will see some movement there. And we don't expect tremendous volatility short-term.

But you've seen the volatility down over a period of time when we were a bit unpleasantly surprised. And then you

saw the enormous spike in -- starting in 2023 and into 2024. So we haven't exactly nailed the prognosis historically. I'm afraid we'll not be able to do it now either. But we're good for a period of time.

Klas Bergelind

We typically do the 6 months revisions to the date as well. But it doesn't look very strong. So that is why I asked the question. But I appreciate your comments. Thank you.

Tom Erixon

All right. So thank you very much. Thanks for the call. And if we don't run into each other before at some of the investor conferences that are happening in London, Miami and a couple of other places where we will be, then we will meet up at the earnings call for the first quarter in April. So thanks a lot.