

Alfa Laval
Q1 2025 Earnings Call
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Transcript

Speakers:

Tom Erixon

Fredrik Ekström

Tom Erixon

Good afternoon, and welcome to Alfa Laval's First Quarter Earnings Call. Fredrik and I will give you an update on the quarter and then open for questions. As always, in the First Quarter Earnings Call, we have to move on to our AGM directly following, so we will stick to the timetable today so that, also, the visiting shareholders have a chance to meet us. With that, let me then go to a couple of introductory comments first.

So, demand was stable in the quarter and in line with expectations across all divisions, supported by a strong quarter for transactional business and service. The execution of the order book continued well and supported a solid invoicing quarter and a positive margin development. And last, the balance sheet is seldom in focus, but today, we should recognise that we are essentially debt-free, and the 24% growth is a healthy number indeed, if I may say so.

And with that, let us go to key figures. So, let me, first, clarify the order intake numbers for the quarter. Due to big currency movements in the order book, of SEK 52 billion, was affected to an unusual degree, and the revaluation in the quarter of the order book amounted to SEK 900 million. We have always reported order intake net of revals and cancellations.

Looking at the last 40 quarters, this way of recognising orders has reflected the underlying market conditions fairly. In Q1, the NOK/dollar movement affected the Marine division specifically, and therefore included the reval of the order book into the bridge now and going forward. In all, orders were stable at -3% organically, both sequentially and compared to last year. The order book stands at SEK 52 billion, and the margin in the order book is not affected by reval.

Moving to the invoicing, it increased with 10%, and with a good mix effect, the margin grew to 17.7%. And then on to the divisional review, starting with the Energy division. Order intake was largely in line with expectations, and HVAC orders were well supported by demand in datacentre applications. The recovery in the Heat Pump business is still a quarter away or so. The pipeline of large orders was a bit slow to convert to booked orders, maybe partly due to macroeconomics.

Sales and margin were operationally stable and reflected well the underlying business conditions in the quarter. Onto the Food & Water division. A stable quarter overall, with a very solid and continued growth in the transactional business and service. The execution of the order book

progressed reasonably well, with invoicing growing 12%. The margin improved, mainly due to a positive mix, and the project business had both positive and negative deviations, in all, neutral to the margin.

Then the Marine Division, as indicated earlier, the orders booked in Q1, excluding revals, amounted to SEK 6.4 billion approximately, just below last year and sequentially in line with guidance. This was expected to be the last quarter with elevated demand in Cargo Pumping, and that guidance remains. We now have a massive order book in Cargo Pumping covering 2025 and 26 and partly beyond.

The other Marine businesses are still not fully reflecting the strong ship contracting of 2,400 vessels in 2024 in the order book at present. Invoicing developed as expected, at +16%, and the margin improvement continued, driven by both mix and volume. Then service. It was, again, a strong service quarter with SEK 5.8 billion in service order intake. It was a new record with some margin.

It was an unusually high share of orders, especially in the Marine division. Please note that, adjusted for the reval in Marine, the service share would be 36%, not 42%, but it's still a very strong number. In terms of the market development in the regions, most regions performed well with limited deviations compared to last year. Northeast Asia was, again, affected by both the reval of the order book and also, a slight decline in the Marine orders.

China continued to perform well, especially in the Food & Water division. Southeast Asia was flat, lacking a bit on large orders, but with India and Middle-East growing well, mainly driven by high capex spending in the Gulf. Europe was stable with some variations between north and South. Latin America and Brazil continued on a good level, but compared to last year, did not fully compensate for a large Petrobras order.

The US was overall stable, but slowing capex decision was a negative factor in the quarter, compared to what could have been. Then, finally, a couple of comments on Fives Cryogenics, the outstanding acquisition. For a long time at Alfa Laval, we have considered our options in cryogenics, and we are excited to welcome Fives Cryogenics to the Alfa Laval Group, pending the needed approvals.

Fives Cryo has a strong technology platform in heat exchangers and pumps, complementary to ours. They have a strong position in the LNG business. Alfa Laval has a complementary market position with the same customer base in LNG and, in addition, a firm position in hydrogen and

carbon dioxide, important future markets for gas liquefaction.

We expect revenues in the short term to be at SEK 2 to 2.5 billion, at a margin somewhat accretive to the Group. At the price of approximately €800 million, the multiples are a bit more attractive than early market estimates. There are no synergies included in the forward-looking numbers. We will continue to invest in capacity and technology for further growth in Fives. So, synergies will be exclusively related to driving volumes and benefiting from Fives Cryo's technology in some other areas and applications important to Alfa Laval.

We will brief on the business case further once the transaction is completed, possibly around September this year. And with those comments, I hand over to Frederik for some further details.

Fredrik Ekström

Thank you, Tom, for that. So, let's start with a quick recap for context on order intake. Order intake in the quarter amounted to 16.8 billion, a contraction of 8%, of which, almost 5% is related to currency revaluation of the backlog, with some 0.9 billion. Most of the revaluation effect is in the Marine division, with 800 million. Otherwise, the organic contraction of 3% is related to project order bookings, where the final investment decisions are delayed as a consequence of current market uncertainties.

Transactional and service business are on a good level, and in many cases, on a continued growth trajectory. Despite the rather significant order book revaluation, the order book stands at a high level of 52 billion, of which almost 32 billion is for invoicing this year. Our judgement is that the quality of the order book is high, and pricing is in line with the market cost level for inputs.

As of this moment, we do not see any major disruptions to supply chains that would cause delivery delays, but we continue to monitor the development closely. Revenue in the first quarter followed normal seasonality from a sequential perspective, but posted a good growth at 10%, supported by a strong order book, as we just discussed.

Our manufacturing units report, stable operations and deliveries are in line with expectations, with no abnormal customer requests for delays in delivery. Revenues in the quarter contained a balanced mix of project, transactional and service business, which, in addition to positive purchasing price variances and good manufacturing utilisation levels, yielded a gross profit of 36.8%, compared to 34.9 in Q1 2024.

Estimated cost increased with 6%, which is a couple of percentage points above cost increases where additional FTEs become annualised. R&D spend also increases with 8% as we continue to invest in new product development. Drop-through in the quarter is on a good level, increasing operating income with 27% and boosting EPS to 4.82 crowns per share. The adjusted EBITDA result increased with 20% to 2.9 billion, which increases the adjusted EBITDA margin to 17.7%, which is better, year on year and sequentially.

For the last five years, we have been on a growth journey, and it is worth noting that, despite some variations on margin levels, we are now back to a high margin level with an almost doubled adjusted EBITDA result, if we compare between Q1 2021 and Q1 2025. Cash flow from operating activities is burdened by advance payments to suppliers, prepaid expenses and annual invoices, as is usually the case in Q1. It is also burdened by paid, assessed taxes in Sweden that, over time, will be compensated by other tax jurisdictions.

Capital expenditure of 634 million reduces cash contribution to a free cash flow, before acquisitions, of 771 million. Financing activities has a negative swing in relation to Q1 of 2024, primarily related to positive revaluations in that quarter, while interest, debt cost and lease amortisation remained on approximately the same level, bringing the final cash flow for the quarter to 457 million.

The 457 million in cash flow contribution has increased our cash balance to 8 billion, which yields a net debt, in comparison to the last 12 months' EBITDA, of only 0.13. The current balance, combined with our BBB+ rating, puts us in a good position for our capital structure, post the Fives acquisition and the upcoming dividend payment.

Finally, some guidance in relation to Q2 and the whole year 2025. Estimated capex for Q2 is somewhat higher than Q1 at 0.8 billion. Whole-year guidance remains on the same level, as previously indicated. Currency impact, given current FX levels, points towards a positive currency contribution of 50 million in Q2 and 200 million in the whole year. PPA for amortisation does not include the Fives acquisition, as the PPA will only be prepared after closing.

Tax rate guidance remains in the span of 24 to 26%, and there's a recommended dividend of 8.5 crowns per share to be approved by the AGM later today. Finally, we can also communicate that, given the uncertainty that prevails, we have started an internal initiative to control costs as a pre-

emptive action. It will not affect product development projects and should not be understood as a cost-saving project, rather a cost prudence initiative addressing discretionary costs. And with that, back over to Tom.

Tom Erixon

Thanks, Fredrik. So, a couple of forward-looking comments, and let me, for simplicity, just start with the divisional outlooks. Regarding the Energy division, we believe that demand will be somewhat stronger in the second quarter, compared to the first quarter. For the Food & Water division, we expect demand to be on about the same level as in Q1, and for the Marine division, we expect demand to remain on approximately the same level as it was in Q1, that is including the reval effect, so the posted number.

For the Marine division, it's important to remember that all parts of the portfolio, excluding the Cargo Pumping, are expected to continue to grow, while, as we have guided you earlier, the demand in the Cargo Pumping after exceptional quarters, is coming down to a lower level for a number of quarters ahead. And with that, I think we're ready for questions.

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

Daniela Costa

Hi, Good afternoon. Thank you. I will focus on a question on margins, actually. You had very strong margins in Marine. The orders are coming down, including what you flag in Pumping Systems particularly, which I believe you had said, in the past, is accretive. Can you talk through the margin sustainability going forward? And how do you see this balance between that and maybe orders slowing down in coming quarters?

Tom Erixon

Thank you. I'm not going to give guidance comments as to where our margin is going to go, but reflecting on where we are, it is true that the Cargo Pumping is accretive to the Marine margin. That had some effect. We have also, as you know, worked with profit improvement programmes, specifically in the Boiler segment, where we had a nice improvement coming through in the quarter. And on top of that, we have, for some time, seen a strong service business developing in parallel to the capital sales.

So, all of that makes us very comfortable with where we are in both the current order book and the pace of short-cycle businesses in Marine. And to some degree, that holds true

also in Food & Water, when it comes to service, when it comes to short-cycle. So, we're ending the quarter on a good note.

Daniela Costa

Thank you.

Operator

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

Klas Bergelind

Hi, Tom and Fredrik. Klas at Citi. So, you highlighted, Tom, slow decision-making there in Energy and for the Water on the larger side. But if we zoom in on Marine, the other half of the business outside Cargo Pumping, have you started to see any sort of hesitation? Thinking about this as a business that should benefit here from the early contracting, of course, given the global trade backdrop potentially changing, I wonder if conversations had started to change a bit, Ekström as well? That was my first one.

Tom Erixon

No, I think it's difficult to jump to the conclusion on that. I think what has been true for some time is that the contracting was unusually strong in 2024. The forecasted numbers were exceeded towards the end of the year. So, it's no surprise that the first quarter, in terms of contracting, is starting on somewhat of a slower level. But I don't see any meaningful impact on the current Marine activities, in terms of the business, from the current trade disputes.

Klas Bergelind

Yes, it's probably too early. Then my second one is on Fives Cryogenics. It seems like a very nice fit. Can I just ask you, on the longer-term growth prospects, it seems like you imply, in the near term, high single-digit CAGR, which is not too different, compared to the to the Energy division. But if you think about a bit longer term, is this a 10% growth business, if we look further out, if we want to look at the prospects?

And then, also, it's a decent deal, but you have a very strong, obviously, strong balance sheet, a lot of firepower to do more deals. If you could help us a little bit with the remaining white spots and how you think about the balance sheet at the moment? Thank you very much.

Tom Erixon

Yes, the Fives, as I indicated, has two exposures going forward. One is on the LNG side, and compared to when these discussions and dialogue started, the LNG market has, for several reasons, strengthened now and going forward in the next five years, compared to where we were a couple of years ago. So, the LNG application will remain important.

At the same time, the carbon capture application, the hydrogen application, is developing a bit slower than

expected, but that's obviously, in our world, a very significant growth opportunity for us going forward, where cryogenics is absolutely crucial. So, what the growth rates will be, I think, will largely depend on what you believe on the transition and the climate policies going forward.

We still hold to the transition leader strategy, and we believe that things are going a bit slower than we hoped. But over time, that's where we're going to go. So, it will be a fantastic story for us if the world develops the way we want it to, and if it doesn't develop the way we want it to, it's going to be an okay investment. I think that's how... It's an okay investment with an optionality that is super-important.

Klas Bergelind

That makes sense.

Tom Erixon

Then I would add to that, that the part of the technologies that Fives is using is very advanced and is very interesting for us in some other heat exchange applications as well. So, we're actually gaining access to a knowhow and a technology that is a bit more useful for us. So, we are very excited about this, and I dare to say that, also at Fives, the team is quite excited to join us.

White spaces, there are many, but it's very difficult for us to speculate, in terms of our next coming acquisitions. But let me just say that probably in the region of SEK 10 to 20 billion is still available, should we have the right opportunities, going forward. We are continuously scouting. There is a pipeline, and, yes, so this may not be the end of the story this year.

Klas Bergelind

Thanks, Tom

Operator

The next question from John Kim, Deutsche Bank. Please go ahead.

John Kim

Hi, good afternoon. I'm wondering if we could just spend a little bit of time on the Energy division/HVAC. It'd be helpful to get a bit of colour on what you're seeing on commercial versus residential. I know that the change in refrigerants has prompted an opportunity to upsell or resell into the base. Just wondering what traction looks like on that, and given current outlook, when you see an HVAC trough, I suppose, or a turn?

Tom Erixon

I think we passed the trough on HVAC. I don't have a real good split between residential and commercial for you. I don't know if you have a better update, Frederik?

Fredrik Ekström

No. In the current levels, it's probably 60 in favour of commercial and 40 in residential.

Tom Erixon But you initiated the new refrigerant projects way back then, so maybe you want to comment on that?

Fredrik Ekström Yes. No, it's nice to see now, finally, that the natural refrigerants are starting to take a real position in the market, both when it comes to process chillers, but also heat pumps, where it's two different refrigerants. One is, of course, carbon dioxide, and the other one being propane. It will higher the efficiency. It will enable the substitution of wall-hung boilers. And I think that's an important part of it because the temperature programme that you're able to reach with propane is much higher.

And then, of course, the environmental footprint of both the new refrigerants is much lower. It is also to the advantage of our product, which then has a lot of features that are enabled by the two new refrigerants and then, of course, serves, also as an entry barrier. So, I think it's an exciting prospect ahead, and it really allows for the substitution of fossil heating.

John Kim Should we think of it more as a growth vector or margin improvement?

Fredrik Ekström No, a growth vector is where I would place it. I don't know, Tom, if you see it differently?

Tom Erixon I think, you have to have the R&D muscles to be able to follow this. And I think we are the technology leaders in this area, so the more difficult it gets, the more it is to our advantage, when it comes to market position. So, I think it puts us in a good space. We are ready with a product programme. I'm actually showing it at the AGM today, so wish you were there, but it's in a good place.

And I just wanted to add, on the HVAC side, that we think we passed the trough. We are a bit cautious where we go on HVAC in Q2, but certainly on the second half of this year, we expect to have a better traction, especially on the heat pump side, where we're going back to some sort of normality after a long period of very, very weak demand. So, it remains an upside for us going forward.

John Kim Thank you.

Operator The next question from Vlad Sergievskiy, Barclays. Please go ahead.

Vlad Sergievskiy Yes, Gentlemen, good afternoon. Thanks very much. If I can ask, on Marine profitability, please, do you think there is more upside, versus Q1 levels, from the mix or operating leverage as you move through 25 into 2026? And are there any meaningful parts of Marine business, which are

underperforming, compared to your own internal expectations and could catch up, supporting the overall mix?

Tom Erixon

Well, I think, on your second point, I would say, we are pretty much where we want to be. There's always a little bit of... Listen, if the piano were playing everything clear, I would love to see that day, but there's always going to be a little bit of slips and things. But I think, for us, the quarter in Marine was quite clean, and so I don't think there are improvements. We did restructuring activities in the end of 2022.

We are still restructuring and working on an improvement programme for the Boiler business, so we're not completed there. That completion will take this full year, so into 26. We know we will be a bit better. Where the market prices and competition will be, we don't know, but I think, I have to say, it was an okay quarter for us. In terms of the mix, I don't see that changing dramatically in the quarter to come.

We are on a good level with order books and solo invoicing accordingly. So, I think, in my book, this was a fair reflection of our operational performance in Marine in the quarter.

Vlad Sergievskiy

Thank you very much. And if I can ask about Energy as well, how do you see demand, which is related to oil and gas segment, given the recent direction of commodity prices? And also, would you be able to give us some more clarity on what was, or how big was, this inventory revaluation effect from the margin last quarter?

Tom Erixon

There was no inventory reval effect last quarter. Last year, I think, maybe... Which was elevated. So, let's go back. We expressed, during a couple of quarters, the fact that we were working with an elevated margin in the Energy division. That was partly supported by reval effects on the inventory. I think the difference, Q1 last year and now, is about, I'm looking at Fredrik, yes, about a percentage point, so around half the difference.

This level here, we think, is, as we expressed, a good reflection of the operational performance of the unit, bearing in mind that we are still not fully loaded back on the heat exchanger side for brazed heat exchanges on heat pumps. So, that's where it is. In terms of the Fossil side, it's okay. It wasn't a super strong quarter for Fossil, but we believe that we are mainly driven by the gas application, and we don't see any immediate change on those announced projects and where they're going.

So, for us, it's too early to call the investment cycle over. There is a number of products in the pipeline here, so I think, for the short term, it will not change dramatically for us.

Vlad Sergievskiy

Excellent. Thank you very much.

Operator

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

Andreas Koski

Thank you, and good afternoon. A couple of questions. First, it looks like you have changed the phasing of the backlog deliveries a bit. Is that based on customers postponing deliveries, or is it just based on your internal judgement or when the backlog will be delivered?

Fredrik Ekström

So, we're continually looking at our backlog, and of course, that's in tight dialogue with our customers. And sometimes, it is about fitting our manufacturing windows, and sometimes it's about fitting their ability to receive the projects or the components. So, it is a bit of both, but we continually assess the phasing of the backlog, and when it's large projects, and it falls on the wrong side of the year, then it results in a complete movement in backlog.

So, we will continually do so, but I don't recall there being particularly large movement. I think what we see is a more pronounced invoicing in the quarter that causes a movement in how the backlog is phased.

Andreas Koski

Okay, and then, can you explain why the backlog did not move in size, despite a significantly stronger [28:58 unclear ?]? Because I guess, the backlog is based on the currency rates at the end of Q1?

Fredrik Ekström

So, without getting too technical about the question, the big movement in the backlog or the revaluation of the backlog happens when we book in a currency that is not the same as the reporting currency. I'll use the example of Framo since it's the most apparent one here. Most, or the majority, of those orders, are booked in US dollars, but the Framo entity reports in NOK.

That causes a revaluation, and it's a revaluation we do every single month. So, it's nothing particular to a quarter. It's something we do on every month. In fact, if we had done the revaluation a few days later, it would have had a completely different outcome, but that's beside the point. The point is, we have always chosen to have a backlog that reflects the invoicing value of that backlog. And when I say backlog, of course, I mean the order book and not delayed orders in any shape or form.

- So, the movement that you see then, from 52 to 52, despite the movement of the order intake, the difference of that is the revaluation in this quarter.
- Andreas Koski Okay. And then, lastly, on the outlook. So, you had orders of 16.8, including the revaluation effects, and my understanding is that that is included in the outlook for the second quarter. But is that outlook also based on, say, current currency rates because the Swedish krona is so much stronger now?
- Fredrik Ekström The answer is yes. We don't speculate in the currency. So, the order book stands where it is until we revalue. But it's correct to understand that... I would make the bridge for you this way. If, last quarter, we came down SEK 900 million because of currency. This quarter, we see that corresponding decline on the Cargo Pumping side. So, we are back to approximately the same level as we were in Q1, assuming that currency is not moving one way or another. It could go both ways, obviously. Absolutely.
- Andreas Koski Thank you very much, both of you. Thanks.
- Operator The next question from Sven Weier, UBS. Please go ahead.
- Sven Weier Good afternoon. My question was also exactly around that point, because I was also wondering if the starting point for the Group guide is the 17.7, rather than the 16.8. And I think you just said that.
- Tom Erixon We completely understand.
- Sven Weier So, now, you basically said the starting point is 16.8, or I might have not understood?
- Tom Erixon It is, yes.
- Sven Weier Okay. Thank you.
- Tom Erixon And I think at this point in time, if I just may, we looked at the difference between revals over the last 40 quarters, and there have been very few quarters with any meaningful numbers. So, although we are going forward, including that in the bridge, we don't expect that, generally speaking, it will be a difficult factor to take into account. For all we know, it will remain pretty stable. But anyhow, for clarity's sake.
- Operator The next question from Sebastian Kuenne, RBC Capital. Please go ahead.
- Sebastian Kuenne Thank you for taking my questions. The first one is on the Energy side. You spoke of very strong demand from datacentres. Could you, maybe, give us a bit more detail on whether this is liquid cooling or conventional air cooling with

the gasket and heat exchangers? And what portion of Energy business is currently on order intake? That would be my first question.

Tom Erixon

I think, currently, and take into account that these numbers are moving and can move quite rapidly, but if I would take a running 12-month rate, we are somewhere around SEK 2 billion/2 billion-plus in order intake. I am not sure what exact split we have, but probably a bit less than half of that is gasketed applications and the rest. So, the mix, for us, has been moving clearly into liquid.

Sebastian Kuenne

Excellent. Second question is, again, on the currency. This revaluation of the order book also means you then book lower revenues for existing contracts, and you give some indication on the FX translation's transaction effect. But I think this is not related to the existing contracts. It's just a transaction. I guess, you have some hedging for the existing contracts in place that go below the EBIT line. Could you share some indication of whether we will see some tailwinds from this hedging of the contracts that you had to write down or revalue? Thank you.

Fredrik Ekström

No, and you're absolutely right. The revaluation of the order book is related to currency and affects the invoicing value, to the extent that it reflects the same value as we have in the order book. However, when we enter each one of these contracts, of course, we do put a hedging contract in place as well. Then that is, of course, to protect us against these currency movements.

So, from a generation of profit, the order should be protected, assuming we keep the same timeline as the contract is based on. So, the answer to the question is, if we have done everything right, and the timing clicks as it should, it should be profit-neutral from the expectation or from the level that we took the initial contract on.

Sebastian Kuenne

Yes. So, profit neutral, therefore, margin accretive, at least for the time that you bring those contracts through the P&L?

Fredrik Ekström

Sure, if you assume that the current FX level stays exactly where it is, then your assumption is correct. I wouldn't make that assumption.

Sebastian Kuenne

Yes, thank you very much.

Operator

The next question from Max Yates, Morgan Stanley. Please go ahead.

Max Yates

Thank you. Good afternoon. I wanted to ask around tariffs, and I imagine you, like everyone else, have been doing quite a lot of work internally to try and better understand how it

may affect your business. So, I guess the first part is, is there any kind of direct impact that you've uncovered as this has been rolled out? And I guess, the other question, in the US, I'm just wondering, given you're market leaders, you have a good view of the market, how much of the market comes from China, i.e., nothing to do with your business?

But is there an argument that you may have a competitive advantage in the US if you produce locally, because some of the lower end of the market gets knocked out because competitors can no longer export from China? So, just thinking through some of the indirect impacts as well. Thank you.

Tom Erixon

Thanks. Good question there. If you take a brief answer on tariffs, the answer would be, it doesn't have any meaningful impact, the way we can see it in the quarters to come. We are either covered in contracts or have implemented price increases accordingly. So, we don't feel that is much of a topic for us. In terms of our imports into US, they are, to the degree they exist, mainly related to Europe, so it's almost a non-existing part that goes from China.

And that is related to the fact that there were tariffs on China already before. So, we had redone our product flows several years ago. So, it's not too much of an issue for us. The question is more, where is the macroeconomics going as a result of it? And that ties on to your second question. It's a good question. I cannot give you a super-clear answer, but it is clear that there are, among other things, in the spare parts market, pirate copies from China coming into the US, on the heat exchanger side specifically.

So, I hesitate to say that it's to our advantage. It's a disruption for customers and everybody, but I don't think we are disadvantaged versus the market, when it comes to our presence in the US or how tariffs will affect us, or the dependency on China. I think we are possibly somewhat positive in that scenario, but I don't want to make too much of a statement around it.

Max Yates

Okay, and just a really quick follow-up. On your Energy guidance of demand up, I completely understand, it's almost impossible to guide in this environment, but I just want to understand what it is that you're seeing in your business that is making you...? Presumably, it's related to one of the subsegments. Is it because you're a bit more optimistic on HVAC? Is it something else that you're seeing?

Is it because of timing of some orders, and some maybe slipped into this quarter? Just to understand the thought

process behind that, completely appreciating, it's hard to guide in this environment.

Tom Erixon

I think the short-cycle business is running in an okay pace. We don't see big changes on that up until the end of the quarter, so we don't feel it's prudent to change our outlook in the quarter when there is not a clear signal on it. The project pipeline is always subject to some sort of probability calculation, and of course, the probability is difficult to set specifically, but if we look at the pipeline per se and the projects in the pipeline per se, that project pipeline is not weaker than it was before.

And there are some opportunities in that, and there are some things we would like to see differently, but all in all, when we look at those numbers, this is, to the best of our knowledge, the most probable outcome that we have. We are clearly aware that, should market go more negative, it could affect some of those decisions. But I think our line of sight is pretty much as good as it was last quarter, last year, so I'm not exceptionally worried about the outlook. It is our best representation of what we see.

Max Yates

Understood. Thank you very much.

Operator

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

Carl Deijenberg

Thank you very much. So, two questions from my side relating to the Energy division. I wanted to come back a little bit on the margin development there, year on year. If you could just remind us the magnitude of the effect of [40:47 unclear ?] utilisation you're facing on the brazed side, and also what's the magnitude of the devaluation effects that you're mentioning here in Q1?

Is that roughly half/half of the 200, that's contraction or...? Yes, any sums there would be helpful, just to understand what that could look like in H2 if we have a little bit better volumes in HVAC.

Fredrik Ekström

Yes, well, let's put it this way. I think, when we look at the utilisation levels for the brazed heat exchangers to address that question directly, we have a real good tailwind when it comes to the datacentres and the heat exchangers for liquid cooling. And that means that a lot of what would have been an undercapacity driven by the lower heat pump volumes is, to an important degree, mitigated.

And, of course, that is something that we have said from the beginning, that if it wasn't going to be the very quick ramp-up of the heat pump volumes we saw, that the conversion to liquid cooling was going to come on the horizon. So, are

we being able to utilise everything to the optimal levels? The answer is no. But on the other hand, it's on a good level that doesn't necessarily have too big of an impact on the result or the margin of the Energy division.

And then, to your question of the revaluation, I think Tom already, to a very large extent, answered it. It's not so much that there isn't an absence of revaluation. It's the gap between one being there and not being a large revaluation at all this quarter. So, it's more the delta between them than it is the substantive value of it.

Carl Deijenberg

Yes, fair enough. And then, just also coming back to the datacentre side, I just wanted to hear your own thoughts also. Given that there's been, let's say, a couple of mixed signals coming out of the US in the last couple of months, I guess we're seeing quite a few suppliers/OEMs, reporting quite good numbers here in Q1, while some hyperscalers are postponing or cancelling some leases.

And I appreciate that you cater a much wider offering than just capacity expansion, but have you sensed any change in discussions for [43:12 unclear ?] in that side of the business here in Q1?

Tom Erixon

I don't think so. I think, as we discussed here previously, we've been, relatively speaking, late in the cycle. So, we feel we are still in an early phase, when it comes to the contracting. Our line of sight for the next quarters is quite good, and we don't see any changes of that. So, I think we are very much in the operational mode and, to some degree, a growth mode still.

Carl Deijenberg

Okay. Very well, thank you.

Operator

We have the next question from Uma Samlin, Bank of America. Please go ahead.

Uma Samlin

Hi, good afternoon, everyone. Thank you so much for taking my question. I just have a follow-up on tariffs. From memory, you do supply, for example, the heat exchangers from your Italian factory to the US. And how does that work with the tariffs for the things that you're supplying from Europe? And also for your existing contract in the US, how does it work?

Does it mean that your customers will just have to show the entire burden of the tariffs and pay an increased cost? And also, that applies to spare parts, for example. Thank you.

Fredrik Ekström

I can take the first part of it, and then Tom can take the second part. So, our supply to the US from Europe, when it comes, particularly to brazed heat exchangers, but the same thing applies actually to gasketed heat exchangers, is

that we are shipping over components or subcomponents. The final assembly and the final value-add is actually done in the US.

So, a substantial part of the value of our product that is sold to the customer in the US is actually created in the US. It's only the subassemblies or the plates, and in some cases, gaskets and bolts, that come from out of Europe. So, from that point of view, the exposure that we have on the tariffs is on what is the imported value of those components and not on the total value of the product.

Tom Erixon

Yes, and so, it means that we are, generally speaking, in the 10% tariff aspects, and if we recalculate prices depending on the amount of value added locally in the US, the amount of value that we have to recalculate is relatively small. It is a fraction of our \$1 billion in turnover in the US, and that fraction needs to be multiplied with somewhere between 1.05 and 1.1, depending on product groups and value added.

So, the pricing effect is there for customers. Nobody likes it, but that's where it is. We've taken the policy decision that we calculate the tariff costs without margin. So, that part of the price increase that we put on is reflecting purely the cost of covering the tariffs. We think that is the right way to deal with our customers. We're not going to make money on tariffs. We don't feel that's a fair way to price our products.

So, you could say that, to a very limited degree, if these tariffs remain in place at the current level, there will, down the road, be a very marginal margin effect on the US. But given that it's only a part of our products and a part of our turnover, I think it will not be noticeable in the Group accounts.

Uma Samlin

Thank you very much. That's super-helpful.

Operator

That was the last question. I would like to turn the conference back over to you, Gentlemen, for any closing remarks. Thank you.

Tom Erixon

Okay, well, thank you very much. And some of you, maybe we'll see you at the AGM in a little while, and we're going to display some of the fantastic new products in launching phase, including some from Fredrik's old unit. So, we're looking forward to that. Thank you very much, and we'll speak to you in a quarter at latest. Thanks.