

Transcript for "Half-year Financial Report January-June 2025"

00:00:00 - 00:00:28

Speaker 1: Good morning, and welcome to this news conference for Wärtsilä Q2 25 results. My name is Hanna-Maria Heikkinen, and I'm in charge of Investor Relations. Today, our CEO, Håkan Agnevall, will start with the group highlights. He will continue with the business performance. After that, our CFO, Arjen Berends, will continue with the key financials. After the presentation, there is a good time for Q&A. Please welcome. Time to start.

00:00:28 - 00:01:55

Speaker 2: Yes. Thank you, Anna-Maria. A warm welcome to everybody online. If we sum up the whole quarter, it's been a very strong quarter for Wärtsilä. Order intake, net sales, operating results, and cash flow all increased. Order intake increased by 18 percent to €2.2 billion, which led us to an all-time high order book of close to €8.8 billion. Net sales went up by 11 percent to €1.7 billion. We continue to improve our operating margin. Comparable operating results increased by 18 percent to €207 million. We are now at 12 percent of net sales. On the operating results, we increased it by 11 percent to €186 million, reaching a 10.8 percent level. Services, we still continue to have solid performance in services. I know the order intake is down a little bit, but I will comment more later on, so to say. Still solid performance in services. We continue the positive journey on the agreement side. Service agreements were up by 48 percent. On the net sales for service agreements is up nine percent.

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Speaker 2: Cash flow, I will talk more about it. Strong cash flow, €460 million. If we look at our summary of all the numbers, and we can look at them from this perspective, focusing on the second quarter. Order intake, up 18 percent, €2.2 billion. You could see that it's primarily driven by equipment, up 45 percent, both marine and NEF specifically, and locked-in energy specifically a lot in energy. Equipment going from €0.9 billion to €1.3 billion. services down a little bit, but it's related to the project-oriented retrofit business, which is a bit cyclical. I'll come back to that. Now, of course, for alarm, we have a strong service business. Order book, all-time high, €8.8 billion. Net sales up 11 percent again to €1.7 billion. We also see mixed strong growth on the equipment side, 12 percent up to €812 million. Also strong continued growth on the services side, 9 percent up to €907 million.

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Speaker 2: Booked to bail at 1.27. Strong book-to-bill. Comparable operating results reaching €207 million, up 18 percent. That account corresponds to a 12 percent margin of net sales. On the operating results side, up 11 percent to €186 million, corresponding to 10.8 percent of our net sales. Industry outlook, marine and [inaudible 00:03:48]. We start with marine. The activities in our, and that's the key segments, remain very supportive. Strong ordering across cruise container ships and LNG bunkering vessels really support marine or marine business order intake this quarter. The number of vessels overall in the review period decreased to 647, down from 926 compared to the same period last year. The continued uncertainty around the economic outlook and global trade policies negatively affected the overall market sentiment. Also, new build investment appetite in some segments.

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Speaker 2: The impact on ordering has been uneven. I think that's the key message across vessel segments, which continued with strong demand in our [inaudible 00:04:45] key segments, particularly, as I said, on cruise, container ships, and LNG bunkering vessels. The regulatory drive, including the global carbon fee proposed by (MPC 83?), is incentivizing ship owners to increase their investments in ships that are more fuel efficient and can use alternative fuel. As we all know, the MPC proposal is coming up for a formal decision in October. In the first half of 2025, 183 orders for new alternative fuel-capable ships were reported. That corresponds to 55 percent of the capacity of the contracted vessels. If we look at the clocks or numbers to the right here, you can see that if you look at the overall status of the industry in the top graph, Clarkson's outlook forecast for 25, 26, 27 are actually in line or actually slightly above the 10-year average.

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Speaker 2: 2024 was a record year. It's coming down a bit. If you take a little bit longer-term perspective, you see that the projections are in line with the 10-year average. Now, for that key segment, it's even better. We can see here 25, 26, 27, clocks on data. We're really looking at a contracting level that is above the 10-year average. Good for actually continued evolve. If we turn to the energy industry and the energy market, the global energy transition continues to move forward. Growth in electricity demand continues to drive a new power capacity.

Most of the upcoming capacity growth will be met by renewables. It is the most affordable source of energy, combining wind and solar. Both of these are expected to post all-time high editions in 2025.

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Speaker 2: While the global macroeconomic environment has made project financing more difficult, the decreasing inflation and interest rates are expected to encourage investment decisions in the mid to long term, supposedly. For engineering power plants, the market demand for equipment and services has been strong. Demand for baseload engine power plants is expected to remain stable, with further growth opportunities in data centers. You see in our first data center order in the US now. The driver for engine balancing power also continues to develop favorably. Now, on the challenging side in battery energy storage, the demand is closely linked to the increased share of intermittent renewables in energy in the energy system. That continues to progress strongly. However, the US market is facing significant headwinds due to uncertainty around tariffs.

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Speaker 2: The growth continues in other markets, but the competition is increasing and putting pressure on profitability. When more and more suppliers focus outside of the US, competition is clearly increasing. Looking at the numbers, looking at the graph, organic order actually increased by 20 percent. Order intake increased by 18. Equipment order intake increased by 45 percent. Service order intake went down by six percent. Come back to that later. All-time high order book, rolling book-to-bill continues well above one. It's the 17th quarter that we now continue to have a book-to-bill that is bigger than one. We also see in the graph to the right here. We are clearly building our backlog also for the future. The backlog is extending out over time. We will not have all the sales this year. It's prioritized over the years to come.

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Speaker 2: Organic next sales increased by 13 percent. Net sales increased by 11 percent. Equipment net sales increased by 12 percent. Service net sales increased by nine percent. Profitability continues to improve. Net sales was up by 11 percent, which then contributed to comparable operating results increasing by 18 percent. Comparable operating result margin, 12-month rolling is now at 11.1 percent, an increase from 10.2. On technology and partnerships, two very important steps during the second quarter. First of all, a lot of excitement. Our first engine power plant to be delivered for US data centers. We will supply 282 megawatts of a flexible engine power plant to operate a new data center project in Ohio in the US. This onsite power facility, providing power directly to the data center, will operate with 15 Wetzlar 1850 SGS running on natural gas.

00:10:35 - 00:11:54

Speaker 2: We booked this order in the second quarter. On the marine side, we launched our carbon capture solution to the shipping market after the world's first full-scale installation success. There have been a lot of players working in the area, but this is the world's first full-scale and commercially viable solution. In May, we announced our breakthrough, a carbon capture solution, becoming commercially available to the global marine industry. In our test, because we've been running now full-scale test, on vessel together with solvent, we can reduce CO2 emissions by up to 70 percent, providing shipowners with an immediate solution to meet increasingly stringent environmental regulations. The ability to capture CO2 from the ship's exhaust system has major potential for the industry's efforts to reduce greenhouse gas emissions. Of course, considering the international IMO, the IMO target for 2050. It is an ecosystem that needs to evolve in how you handle the carbon that has been captured.

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Speaker 2: One very important puzzle piece to this equation has now been added. We have now commercially viable carbon capture solutions. If we look at our businesses more in detail, we start with the marine side. We had higher order intake, net sales, and comparable operating results. Service net sales increased by 11 percent, supported, as I said, by merchant ferry and cruise segments. You can see order intake was up 14 percent. Net sales also up 14 percent. We are now at the rolling 12 of 11.9 percent. We are increasing the major contributors as higher service volumes and better operating leverage. Of course, we have increased our R&D. That is, of course, dragging down the P&L, but it's certainly an investment for the future. As you know, we all position ourselves as the technology leader in the decarbonization transition in marine and also in energy.

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Speaker 2: Now, we continue to have good development on the marine service. Overall, the service book-to-bill is well above one. We have had, if you look at the last two years, 10 percent annual growth. Then some of you asked, why is the ordering taking service is down this quarter? I think you can see the answer to the right here. This is the graph that we introduced for this year, where we have the book-to-bill on the y-axis. You have the

time span. You see, the thick line is the overall. Then you see that four different disciplines of our service business. You noted that dotted line, which is the retrofit upgrade business. That is a project-oriented business. We all know a product-oriented business. That could be movements from quarters. If you look in Q2 2024, you see the peak there that is now coming out of the LTM 12. That is affecting. You can see the other disciplines, book-to-bill [inaudible 00:14:16] one. Really encouraging to see. You see, the Blue Service agreement line has a strong positive trend.

00:14:27 - 00:15:42

Speaker 2: We have a strong service business in marine. It's going to continue to grow. Energy, record high order intake, double-digit net sales growth, increased operating results. Ordering take-up by 93 percent is an all-time high order intake. Energy side, of course, driven by certain large orders. Really helpful here. Net sales up by 31 percent. We are having a rolling 12-month EBIT of 14.5 percent. You see the driver's absolute. We are up the drivers better operating leverage mainly stemming from the higher equipment sales, and higher service volumes also contributing. Also, in energy we are investing, which is, of course, having a negative impact short term but should have a positive impact long term. We are investing in R&D. Also on the energy side, we clearly see opportunities to position ourselves as a technology leader in balancing power, but now also in data centers going forward. A similar kind of picture for energy on the service side.

00:15:42 - 00:16:53

Speaker 2: It's a really good development in energy services. Overall, service book-to-bill, well about one. Here you have a little bit lower CAG over the last two years, eight percent. I would still say encouraging. It's the same story looking at the right graph here. Why is the order intake on the services side down? It's the same phenomena here with the retrofits upgrades. You see, they are below one. You can also see here the second quarter 2024, where we had a peak. No cause for alarm. You see the big thick line. It's well above one. Also, continued positive development on the energy services side. Energy storage, more challenging. Order intake decreased due to both direct and indirect impact from US tariffs. Order intake and revenue recognition, expected to improve during the second half of the year. Orientale was down 79 percent. That is quite a lot. Of course, the US tariffs and the US market are muted. Competition increases in other markets.

00:16:53 - 00:18:16

Speaker 2: Our order intake has really taken a toll. No doubt. Net sales down, 42 percent. If we look at the rolling 12 EBIT, 3.5 percent, it's still, I would say, fairly okay. Strong execution in existing projects. Credit to the team there. We see the absolute is coming down. On the positive side, we have improved equipment margin in the backlog, and we are executing in a good way. We also have higher service volumes. However, the lower equipment volumes and weaker operating leverage as a negative impact. We continue to invest in R&D. We also have higher R&D costs. We are continuing what we said before. We will increase our focus on growing in certain selected markets. We are investing in terms of headcount in new markets, customers, and products. Here you have the bridge, the EBIT bridge from Q2 24 to Q2 25. I think it's encouraging to see improvements in the marine energy portfolio business. The comparable operating results increased by 18 percent. With that, Arjen, over to you.

00:18:19 - 00:19:26

Speaker 3: Thank you, Håkan. If we look at the other key financials, first of all, as Håkan mentioned, very strong cash flow in Q2, we almost doubled Q2 last year. Definitely doubled Q1 because that was 190. Good cash flow was supported by good profitability development. We can see that also on the EBITDA line here, as well as good positive contributions from working capital. If we look at working capital from Q1 to Q2, basically €154 million improvement, now lending at €924 million negative. If we look at the improvement area as it mainly came from inventories, receivables, while at the same time, the advances received held up on a very strong level. Good cash flow, clearly supported the positive trend on net debt as well as on gearing. The good result also contributed to the positive trend on the solvency. The combination of good results, as well as good development in working capital, supported clearly, let's say, rosé.

00:19:26 - 00:20:27

Speaker 3: Basically, I'm super happy on this page. Let's say all the numbers are trending in the positive direction. If we look at the longer-term trends, first of all, the left side graph, operating cash flow, clearly, the trend is up. Very strong cash flow as I mentioned in Q2. I think Q4 24 was the record. Very close to that. Very happy with that, of course, very much driven also by good order momentum, and good down payments and milestone payments from customers. Working capital is impacted by the same, very strong performance in Q2, making another step down to the negative. If you look at the five-year average, working capital to sales ratio, it now stands at 1.3 percent from 2.4 in Q1. Clearly, let's say we are trending in a positive way. I will still and I

did it many times before highlight that negative working capital is something you could say is extraordinary for Wärtsilä.

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Speaker 3: That's because it only started Q4 2023. Since then, we have been going down on the working capital trend, very much driven also by, of course, our continuous order growth. Book-to-bill ratio for the 17th quarter in a row has now been positive. That, of course, also supports, if you have at least agree on good payment terms with customers to a positive working capital development. At some point in time, you need to execute these projects. It will level off this orange line at some point in time. I don't expect that to happen this year, to a strong positive bending, so to say, and most likely not in the first part of next year either.

00:21:13 - 00:22:21

Speaker 3: This is a new graph or a new slide, actually. Here we want to reflect upon our financial targets and how we are trailing against those. In the top right corner, marine and energy combined target of five percent annual organic growth. The last 12 months are 19 percent, so doing very well there. If you look at the profitability, the operating margin target, 14 percent is the target. Last 12 months here is 13.1 percent. Standalone quarter is 13.6, also really on the right track there. Just for reference, in the first half, we clearly improved. End of Q4 last year, it was 12.8 on a last 12-month rolling basis. If we go to the right side of that top graph slide, it's the energy storage. Clearly, the operating margin target is within the range, three to five percent. We have a challenge with the volumes at the moment. Let's say the US market is stagnant. All competitors move to the more active markets. That, of course, increases competition.

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Speaker 3: That's a hurdle to overcome in the future. Looking at the group targets in the bottom gearing, our target is to be below 0.5. I think we are almost 0.5 negative. Clearly, in the right track there. Also, the dividend we pay every year basically at least 50 percent of EPS out as dividend even in the year 2022 when we made a loss. Overall, I would say we are doing quite well or very well, actually. We are on the right track to reach our financial targets, and we are confident to reach them. With these words, back to you, Håkan.

00:23:01 - 00:24:23

Speaker 2: Thank you, Arjen. You also noticed our recent announcement on the M&A side. We continue our work to become a more focused, stable, and profitable company. We do progress to divest the business units in our portfolio business. We had the announcement that the divestment of ANCS to Salix has now been completed. On 1st of July, we divested ANCS to the Swedish investment company, Salix Group AB. We announced the signing in December 2024. We estimate to have a positive impact of €30 million on the result for 2025, of course, subject to post-closing adjustments. This will most likely be reported in items affecting comparability in the third quarter. Then we have the second recently announced transaction. That is, we are divesting marine electrical system to VINCI Energies. On 17th of July we announced that we have agreed to divest MES to VINCI Energies.

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Speaker 2: VINCI is, as you probably know, a global company focused on multi-technical solutions and services for energy, transport, and communication infrastructure. Of course, subject to the ordinary approvals, we expect that the transaction will be completed in the fourth quarter of 2024, basically. Finally, the outlook, on the marine side, we expect the demand environment to be better for the next 12 months compared to the previous, to the comparison period. On the energy, we expect the demand environment for the next 12 months to be similar to the comparison period. Here we should all note that we have had a very strong last 12 months. We had an all-time high order intake in the second quarter for energy. We still guide for similar.

00:25:23 - 00:26:23

Speaker 2: On the energy storage, we expect the demand environment for the next 12 months to be better than in the comparison period. However, the current geopolitical uncertainty particularly impacts this business. It may affect growth. Then we have the general comment. Given the current high external uncertainties, it's very hard to make forward-looking statements due to high geopolitical uncertainty, the changing landscape of global trade, and the lack of clarity related to tariffs. There are risks of postponements in investment decisions and of global economic activity slowing down. That's today's presentation. I would say overall, that's a strong Q2. Now we go over to the Q&A, Hanna-Maria.

00:26:24 - 00:26:24

Speaker 1: Thank you, Håkan.

00:26:24 - 00:26:25

Speaker 2: Arjen, you will join back.

00:26:25 - 00:26:28

Speaker 1: Thank you, Arjen. It sounds like we have many good reasons to smile.

00:26:29 - 00:26:29

Speaker 3: We do.

00:26:29 - 00:26:45

Speaker 1: Continuing with the Q&A, I kindly ask all of the panelists to start with one question. Please leave the follow-up questions for the second round. You can also raise some questions in the chat. Handing over to the operator. Please.

00:26:47 - 00:27:06

Speaker 4: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Max Yates from Morgan Stanley. Please go ahead.

00:27:08 - 00:27:54

Speaker 5: Thank you. Good morning, everyone. I guess just my first question is just trying to square up the energy guidance and thinking through your expectations of data center orders. I guess a question we're all wondering is, should we think about the guidance being broadly stable, that maybe we get one of these orders falling again in the next 12 months, and that's how we think about the stable outlook? Obviously, since you've now announced the order, could you just give us any color on other discussions that you're having? Would it be reasonable to assume that we get another one of these in the next three months, or are we thinking more along the lines of one of these a year, hence the broadly stable guidance? Any color there would be helpful. Thank you.

00:27:54 - 00:28:49

Speaker 2: I think you should really consider the 12-month guidance. It's not a three-month guidance. It's 12-month guidance. We know this is project business. We always underline that this is lumpy. I will not give guidance on how many orders we're going to receive in the coming 12 months. When it comes to data centers, we have ongoing discussions with potential new orders. Those discussions are in varying degrees of maturity. Normally, I would say they take time. These are projects, these power plant projects, and they normally take time. I think you should consider this from a 12-month perspective. I would say also, as I said, we are given this guidance considering also a very strong order intake over the last 12 months and an all-time high in Q2.

00:28:51 - 00:29:15

Speaker 5: Sorry, can I just squeeze in one very quick one? On the pricing on this data center order, if we use your prior quarters of price per megawatt in your energy division, would the pricing on this order look completely different? I would assume it should be meaningfully better than what would be a normal power plant order on a euro per megawatt basis. Would that be a correct conclusion?

00:29:15 - 00:29:39

Speaker 2: This is with Europe on megawatts. First of all, there is always this challenge of how much EPC content there is and how much equipment. Now, these are equipment. Data centers, autos, we have a good price realization. Of course, it's a competitive market. I would say, they are certainly not dragging down our overall margins.

00:29:41 - 00:29:42

Speaker 5: That's good to hear. Thank you very much.

00:29:43 - 00:29:44

Speaker 1: Thank you, Max.

00:29:48 - 00:29:52

Speaker 4: The next question comes from Uma Samson from Bank of America. Please go ahead.

00:29:54 - 00:30:19

Speaker 6: Hi. Good morning, everyone. Thank you so much for taking my question. My question is on your marine outlook. You're guiding to be better than the last 12 months. Then on your slide page four, you have the line showing the key segment versus the general marine contracting. That seems to show that that comes down in 2025. How should we think about that? Where do you see the market to be better in the next 12 months?

00:30:19 - 00:30:52

Speaker 2: The line is breaking up a little bit. I will try to answer the question that I thought you were posing. If you talk about our core segments, we clearly see a continued positive development in cruise, ferries, also some parts of the LNG space, and also some parts of the merchant space. You see in the graph there, I think Clarkson is agreeing with us in their numbers as well. That is the major driver.

00:30:55 - 00:31:23

Speaker 6: Thank you. I was just referring to the second graph on page four, that, because that clearly shows that your key segment is coming down from a high level on 2024, versus 2024. That's why I was wondering, how should we think about that? Do you see the cruise ferry segment to significantly outperform that? What makes you feel that it will be better than 2024 if the contracting is done?

00:31:23 - 00:31:47

Speaker 2: If you're referring to the slide downturn on the 24th, I think look at the longer trend, so to say. Also, I'll restate, we have a positive outlook on the demand side. It's driven by our core segments. We do see that those core segment will perform most in the future.

00:31:48 - 00:32:42

Speaker 3: If I can add to that comment, [inaudible 00:31:49]. That graph that you are looking at is the Clarkson forecast. That is not our order intake, the Clarkson forecast on ship contracting. As you can see from that graph, if you look at a 10-year average and our core key segments, it's well above the 10-year average. Our markets are developing very well. We believe that we have a good position to capture a good number of orders. Clarkson input is one of the inputs that we use for making our guidance. It's not the absolute holy grail of forecasting. We use, of course, also our own business intelligence. We have other sources to take offshore. We have other sources to use than Clarkson, for example, as well, but also, of course, what our salespeople hear and see in the market. It's not the only input we use to make our guidance. This one is particular the graph relates to Clarkson forecasting.

00:32:44 - 00:32:51

Speaker 6: That's clear. Thank you very much. [silence 00:32:46-00:32:51]

00:32:51 - 00:32:56

Speaker 4: The next question comes from Akash Gupta from J.P. Morgan. Please go ahead.

00:32:58 - 00:33:38

Speaker 7: Hi. Good morning. My question is on storage outlook. In storage, you're guiding for higher activity in the next 12 months than in the past 12 months. I wanted to ask how much of that is a reflection of underlying market versus the weak quarters we have seen in the last three out of four quarters, which means that your base is not really that demanding. On the market outlook, we saw the headlines overnight that there is a big tariff that the US is going to impose on battery materials from China. I'm just wondering, have you incorporated that uncertainty on the business in your outlook?

00:33:38 - 00:34:33

Speaker 2: Thank you, Akash, for the question. I would say it's a mix of both. We are certainly coming now from a low level. You're right in the sense that is, of course, part of the guidance. I would also say that we do see continued growth of basically all markets, except the US. When we think about market growth going forward, the US situation is extremely uncertain. I don't think anybody can make any predictions around that. We look more outside of the US. As you know, geographically we are fairly well diversified with other strong markets like Australia, the UK, and other markets in Europe. This is behind our outlook. [silence 00:34:26-00:34:33]

00:34:33 - 00:34:40

Speaker 7: Thank you. [silence]

00:34:40 - 00:34:44

Speaker 4: The next question comes from Sven Weier from UBS. Please go ahead.

00:34:46 - 00:35:34

Speaker 8: Good morning, and thanks for taking my question. It's on the service order intake in the two charts that you've shown on the rolling 12 months. I was just wondering, it's all fair what you said about projects. That's lumpy. I would be curious about the pipeline on projects that you see. Is there a chance that this gets better again? The other question I had is just when you look at field service and spare parts, the trend also seems to be clearly rolling over more slowly towards the more slowly development. This is a cannibalization also from service agreements that you have those items in there, or how should we think about those two lines coming off. Thank you.

00:35:34 - 00:36:26

Speaker 3: A few comments on that. Of course, the more agreement you have, a part is shifting. That's a fact. I would say, overall, I think as we have said many times before, if you keep your book-to-bill rates above one, you're growing. There will always be fluctuations between single quarters on whether something is up or something is down. It has a lot to do with timing. Now, when it comes to the retrofit projects that Håkan was mentioning earlier, as well as the main reason of this rolling 12-month book-to-bill ratio going down, just for your info, I think you can calculate it from the numbers that we provide, but I will give you the numbers, out of the 2024 full year order intake for retrofit projects, in energy, 43 percent came in Q2 last year, and 37 percent in marine.

00:36:26 - 00:36:51

Speaker 3: Q2 last year was extremely strong. It has all to do with timing. It could have also been distributed differently, but it came all in that quarter. If we look forward, and that is confirmed by both energy and marine, we have good opportunities also in service and upgrade. As Håkan said, we are not concerned. Let's say we believe in our service business. We move up the service value ladder. That trajectory is not stopping.

00:36:54 - 00:37:04

Speaker 8: As things are, can you just repeat what you said at the beginning? The audio was bad in terms of what you said on parts and field services. There is a cannibalization with the agreement.

00:37:04 - 00:37:22

Speaker 3: If you do an agreement, you do operation and maintenance, there is, of course, a little bit moving from field service, for example, to agreement sales. There is always a little bit of movement in between the lines if you look like that, but it's not majorly.

00:37:22 - 00:37:26

Speaker 8: Not so much on the spare parts bit?

00:37:26 - 00:37:28

Speaker 3: No, less on the spare parts.

00:37:28 - 00:37:45

Speaker 8: Again, if you look at those lines or some spare parts, it's coming close to one, is that something just also that you see as a pump issue, or is there an underlying slowing there also in the market?

00:37:45 - 00:38:42

Speaker 3: I would say it's more periodization. What is crucial, of course, for transactional service businesses is the running hours of the fleet. The ships are running, transportation is not stopping, it's not slowing down either. The running fleet is doing well. Actually, the same goes for the energy side. The running hours of our installed base are fairly stable. That, of course, offers opportunities. If you then get more agreements and propose solutions from an upgrade perspective to customers that they are not even aware of themselves, because we know it. We have implemented similar solutions on the other side of the world. It also works for you. You have the same conditions. That's how we move up the service value ladder. That's how we continuously grow. For us, the main thing is to keep the book-to-bill ratio above one. That's the sign of growth.

00:38:42 - 00:39:20

Speaker 2: Also, to complement Arjen, especially on the energy side, because we have addressed this in some of

the service calls that we've been having, we see that the overall running hours of our installed fleet is going up. Overall, but certainly in energy, it's not that balancing power is having a negative impact on this. The overall running out of the fleet is going up. What we do see as well is that sometimes when we install a plant for balancing purposes, the energy efficiency is good that some of our customers started running it more and more and more. Which is, of course, good for running hours and for our service business.

00:39:23 - 00:39:24

Speaker 8: Understood. Thank you both.

00:39:28 - 00:39:32

Speaker 4: The next question comes from Vivek Midha from Citi. Please go ahead.

00:39:34 - 00:40:04

Speaker 9: Thank you very much, everyone, and good morning. I had another follow-up question really on energy thinking on the margin side. Given what we've seen in Q2, as you commented, the data center order likely pretty positive for the margin, but at the same time, going forward, the mix should be moving more towards equipment. How should we think about energy margins over the next, say, two years? Is there much upside here given those developments? Thank you.

00:40:04 - 00:41:13

Speaker 2: We have two things that are happening. Certainly, I think if we continue in a good way, we should see more new bills coming out from the energy side. We do know that services have higher margins than new bills. That's one thing. You should also note in the margin of the things that we deliver that they are improving. I think there are two major factors that will highlight. The margin in order backlog is developing in a positive way. You should look at some of the structural things that we have been doing. We talked a lot about the move from more equipment, less CPC, but also some of the structural changes that we have made, ceasing manufacturing in Trieste, and working with operational excellence. All those factors contribute to a more positive margin development for new builds, standalone, so to say. It starts to get a more mixed picture in a positive way, I would say, because modern renewable is improved.

00:41:13 - 00:41:17

Speaker 9: Interesting. Thank you very much.

00:41:21 - 00:41:26

Speaker 4: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:41:29 - 00:41:47

Speaker 10: Thank you. I wanted to ask you about the Strong Energy Equipment orders in Q2. Could you provide color? How did those split between base load balancing and data centers? If you look at your expected pipeline going forward, how does that split between those three segments?

00:41:47 - 00:42:26

Speaker 2: We talk about balancing and baseload. Data center is a sub-segment within baseload. We will not separate out data centers. There are too few orders. We will disclose too much. If we look at the order intake in Q2, it was all baseload-oriented. (Recode?), baseload application, data center baseload, some of the other orders baseload, but this will vary from one quarter to the other. Going forward, both balancing and baseload will be important.

00:42:29 - 00:42:41

Speaker 10: Thanks. Can I just have a follow-up? Excluding the data centers, would you say that the baseload market looks better now than it used to, or is there any...

00:42:41 - 00:43:18

Speaker 2: I think it looks stable. With the caveat, you could say it varies quite a lot. If you have a big auction in Brazil one year, it could really swing up. Then, if there are no big opportunities, you can go down. Therefore, I would say it's stable. It's no secret that Brazil is coming for auction. They have been postponing the auction for quite some time now, but it will come eventually. There are opportunities that are interesting going forward, also in, you could say, the normal baseload business.

00:43:20 - 00:43:21

Speaker 10: Thank you.

00:43:25 - 00:43:29

Speaker 4: The next question comes from Antti Kansanen from SEB. Please go ahead.

00:43:32 - 00:44:09

Speaker 11: Hi guys. It's Antti from SEB. Just one question for me related to the power plant side, and I guess the US markets. You mentioned that on the data center side, there are various degrees of maturity on the projects that are in the pipeline. After booking the two large ones on the power plant side on Q2, what is your own delivery capability? Also, now that the backlog is stretching longer. How do you take into account the potential tariffs between the EU and US in booking the US orders' data centers or other kinds?

00:44:09 - 00:45:08

Speaker 2: Good question. I start with the tariff, and then I go to capacity the tariffs. We are forwarding that to the customer. We are not taking tariff risk on our side. Now it's 10 percent. Let's see what's going to be. Clearly, with the language and the agreements we have with our customers, we are not taking the tariff risk. On capacity, we are still running, I would say, at around 75 percent-ish as part of our technical capacity. However, I would say that for certain parts of our product portfolio, our lead times are now starting to increase as well, where there are other parts of our product portfolio where we still can deliver around 12 months. I will not go into the details because we don't want to disclose that for competitive reasons, so to say. You could say with a good streak that we have had, certain parts of our product portfolio, the lead times are now increasing for deliveries.

00:45:10 - 00:45:28

Speaker 11: Maybe a follow-up on that one. Do you believe that creates some urgency among your client base? There's a little bit of scarcity, whether it's turbines, whether it's now your engines. Do you think that will have an impact on any negotiations that you are having, or is it more about what the client's their own project pipelines are?

00:45:29 - 00:45:51

Speaker 2: No, I think in general, I think there is a recognition, not only in data centers, but in the power plant market overall, that lead times are getting longer and longer. That is something I think that all parties that are involved are recognized. That is, of course, having an influence on the negotiations.

00:45:55 - 00:45:56

Speaker 11: Thank you.

00:45:59 - 00:46:03

Speaker 4: The next question comes from Sven Weier from UBS. Please go ahead.

00:46:05 - 00:46:45

Speaker 8: Thanks for taking my follow-up question. It's also on data centers. Maybe two parts of the question, if I may. The first one is just, obviously, now that you had the announcement, I was just wondering whether this has done anything to your incomings. I could imagine that a lot of people planning data centers maybe still have a bit of a conservative mind on what power-generating assets they use. Engines are still something maybe relatively new. Do you feel that's changing the minds of people and the pipeline gets bigger because of the announcement that you made, or does it not make any difference?

00:46:46 - 00:48:05

Speaker 2: I would say short term, maybe not a huge difference, but long term, I think it makes a difference because it is really about, Sven, you have been with us, showing the advantages of reciprocating engines compared to gas turbines. That is the journey we are on. Now, as we talked about before that data centers are moving in because it used to be less power, now, there is a sizable chunk of the market which is really moving right into our sweet spot. There are still many people for whom the right technology, the reciprocating is new. This certainly helps me to long-term, I would say. The key thing here, why are we competitive? We are competitive. We are more fuel efficient. We are more modular. That means because these power plants, I think we talked about it before, they need high uptime reliability. Then the redundancy concept becomes very interesting. This modular approach of our engines is an advantage.

00:48:05 - 00:48:27

Speaker 2: We don't need water or very little water compared to our gas turbine competitors. There are some, you could say, intrinsic advantages, which we feel really excited about. It's the good old story of taking our new customers with us, showing the benefit, and showing that we can deliver. I really like that journey, I must say.

00:48:27 - 00:48:51

Speaker 8: Regarding the pipeline, of course, we understand these projects are at different stages of negotiation, but are we really talking about a handful of such projects for the next 12 months, or is this like a double-digit number of such projects? It's just very difficult for us, I guess, to decide the opportunity here.

00:48:51 - 00:49:16

Speaker 2: It's more than a handful. The challenge is, it's a very dynamic space. There are opportunities coming up, and then the day down again. They stay silent for a while, then they come up again. It's only more than a handful. There is a lot more, but they go a little bit. That's why we say varying stages of maturity. We also highlight, these are power plant contracts. They take time to negotiate.

00:49:19 - 00:49:20

Speaker 8: Understand. Thank you, Håkan.

00:49:24 - 00:49:28

Speaker 4: The next question comes from Antti Kansanen from SEB. Please go ahead.

00:49:31 - 00:50:04

Speaker 11: Hi guys. Thanks for the follow-up. I think this was referred a little bit on the pre-silent calls, but given the vast data center opportunity and I guess the positive impact that it has on the margins profitability, it's likely a good business. How do you manage the fact that keeping slots available for your data set your clients going forward, given that there's a bit of an uncertainty, whether it's tariffs, whether it's their own project, timelines to be able to address that, now that the lead times are getting longer and longer.

00:50:04 - 00:50:34

Speaker 2: Basically, we should just to complement, one thing. Data centers are interesting suddenly from equipment, but also very interesting service business just to highlight that. Now, we don't work with pre-reservations with our customers. There are some other players that do that. We don't. It's people that contract with us, where we can reach mutually beneficial agreements, and then we move ahead. We don't pre-reserve capacity.

00:50:37 - 00:50:38

Speaker 11: Thanks.

00:50:38 - 00:51:10

Speaker 2: Then on the capacity side, on top of what we already talked about utilization and lead times for certain parts of our product portfolio extending, you also saw in Q2 we went out with a €50 million investment primarily in R&D but also in manufacturing capabilities. Of course, we are investing and we are expanding our capacity. [silence 00:50:59-00:51:10]

00:51:10 - 00:51:36

Speaker 1: We still have some eight minutes left, but it looks like there are no further questions. Please, if you have a question, now is a good time to raise it. Actually, there are some questions now on the chat. Due to recent high amount of energy equipment orders help you to gain service sales in the long run, how important is the connection between equipment sales and service relationships?

00:51:37 - 00:52:15

Speaker 2: It's a very strong connection. Of course, the new build equipment will certainly generate service profit going forward. I think a very positive trend over the last couple of years, we have become better on already from very early to start talking about service agreements. As you know, we have our service value ladder. There are different types of agreements. Short answer, this will certainly have a positive impact on the service business.

00:52:15 - 00:52:21

Speaker 3: Especially because Q2 order intake was all baseload. Yes, exactly. That's even better.

00:52:21 - 00:52:37

Speaker 1: Then another question regarding data centers. On the data center deal, was the data center customer a major player in the market or a smaller one, say, not in top 10? Will the following deals come from other customers or from the same? What do you expect?

00:52:38 - 00:53:01

Speaker 2: I think if you look at the end customers, they are the big hyperscalers of the world. Then there are players in the field of providing data center power. I think we are working with both established players and also newcomers. As I said that, it's a very dynamic market, I must say. There are a lot of players and it's evolving rapidly.

00:53:03 - 00:53:06

Speaker 1: Thank you. Now it looks like we have some additional questions on the line.

00:53:09 - 00:53:14

Speaker 4: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:53:16 - 00:53:41

Speaker 10: Thanks. I just wanted to ask about the equipment profitability in NFC. I assume you won't give any numbers on the margins, but directionally, is it fair to assume that it's already more profitable than the marine equipment? Where are we in the historical context of the margins in [inaudible 00:53:34]? How much potential do you see for that to improve going forward?

00:53:41 - 00:54:23

Speaker 2: I won't compare marine and energy new build margins. I would say that the key, I think I mentioned it before, the margins are improving on the new build order backlog. That is, of course, partially driven by, you could say, a favorable market environment, but it's certainly also supported by the big structural changes. We have made more equipment, but we have also improved our efficiency. We have shrunk our footprint. We have worked hard on good old continuous improvement. That journey continues. The margin is improving.

00:54:26 - 00:54:27

Speaker 10: Thank you.

00:54:31 - 00:54:36

Speaker 4: The next question comes from Tom Skogman from DNB Carnegie. Please unmute your microphone.

00:54:37 - 00:55:13

Speaker 1: Hello, this is Tom from the DNB Carnegie. I was also going to ask about the same subject. The survey share of sales is higher in marine. You are at very high delivery volume levels there while, on the power plant side, you're used to having much higher sales. The service share of sales is lower. What explains this margin difference? Is it the markets, or is it that you have a wider variety of products that are outside the core on the marine side? How should we understand this?

00:55:13 - 00:56:12

Speaker 2: I would say it's different type of customers. It's different type of markets. I think common theme, what we have done, and you see that trend continuing, we are really moving up the service value ladder. Moving from transactional service business, both in marine and energy, more into agreements. It's been a very strong trend in energy. Taking the US as an example, in the past, we didn't have agreement in the business in the US. Now it's really growing and taking off. We also continue this positive trend of, we have 30 plus percent now of our installed base under agreements. Renewal rate is still above 90 percent. This story is really working out for us.

00:56:14 - 00:56:30

Speaker 12: Would you say that it reflects that it's more repeatable customers perhaps in the marine industry, and in the power plant side, it's more going to different customers, perhaps more exotic places where you have a higher risk premium in order? Is that...

00:56:31 - 00:57:10

Speaker 2: On the marine side, there are certain, for instance, in cruise where we have fewer, but very big customers. That, of course, creates a certain environment. Marine, you also have many small customers. Whereas on the energy side, you're right in the sense that there are many more customer relations that it's one every five years, etc. It's a little bit more opportunistic, so to say. There are differences in the characteristics.

00:57:10 - 00:57:35

Speaker 3: Also, the customer you talk to is different. In energy, you talk about the new equipment sale as well as the lifecycle agreement with one customer, the benefit comes to that customer. On the marine side, the operator gets the benefit of your machinery. The yard is negotiating the new build contract. It's a different dynamic and much more complicated on the marine side, though.

00:57:35 - 00:57:41

Speaker 12: Is there any difference in payment terms that would explain the margin difference?

00:57:43 - 00:58:33

Speaker 3: I think payment terms are never the same in any contract. I would almost say it's unique, case by case. Let's say there are many things you negotiate. It's the price. It's the payment terms, the warranty terms, the indemnities, whatever. Sometimes you win on one and lose a little bit on the other. Sometimes it's the other way around. You cannot always win on all the points, so to say. It's very different per customer. Typically, I would say that's clearly a big change that we have been really pushing for is that we want to have positive project cash flow in all our projects. That's the ultimate aim with all our salespeople go out and sell. That's what we aim for. We succeed more and more. We do not always succeed, but it's trending in the right direction.

00:58:33 - 00:58:42

Speaker 12: Then, finally, would you be more optimistic about the potential to expand the margin in a Marina or in power plants if you have to choose one?

00:58:43 - 00:58:46

Speaker 2: We can expand margins in both.

00:58:46 - 00:58:58

Speaker 3: In both, I would say so. It's also good to remember that our manufacturing footprint or R&D footprint is shared between the two. If you make a saving in your manufacturing footprint, it benefits both.

00:59:00 - 00:59:01

Speaker 12: Thank you.

00:59:06 - 00:59:11

Speaker 4: The next question comes from Louis Billen from Alpha Value. Please unmute your microphone.

00:59:12 - 00:59:30

Speaker 13: Hi. Good morning. Thank you for taking my question. Could you give us more information about your Navy business? You mentioned that it was one of the drivers for the quarter. I understand it's quite small. Do you anticipate any changes?

00:59:30 - 01:00:15

Speaker 2: Navy overall is less than four percent of its revenues. It's a small business. Of course, there are growth opportunities, considering the current geopolitical situation. We are working on that basically. Right now, I wouldn't say it's a major contributor to the current improvements that we are having. I think Navy will grow. We should also acknowledge that the defense business takes a long time. It's a long time between decisions and execution, and then you see the full impact. There is potential.

01:00:15 - 01:00:24

Speaker 13: Maybe a follow-up. Are you selling main engine or auxiliary engine for the Navy business, or it's mixed up?

01:00:24 - 01:00:30

Speaker 2: It's primarily propulsion-related equipment, not so much engines.

01:00:32 - 01:00:45

Speaker 1: I'm afraid that we are running out of time now. Thank you for a very lively Q&A session. Now, I hope you can enjoy summer during the next couple of weeks. Virtual Q3 report will be published on October 28th. Thank you.

01:00:45 - 01:00:47

Speaker 2: Thank you. Have a nice summer.

01:00:47 - 01:00:47

Speaker 3: Thank you.