

# **Accelleron Industries AG (ACLLY) Q4 2023 Earnings Call Transcript**

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**Body**

Accelleron Industries AG (ACLLY)

Q4 2023 Earnings Conference Call

March 27, 2024, 06:30 AM ET

Company Participants

Michael Daiber - Head of Strategy and Investor Relations.

Daniel Bischofberger - CEO

Adrian Grossenbacher - CFO

Conference Call Participants

Presentation

Operator

Ladies and gentlemen, welcome to the Accelleron's Investor conference for the Financial Year 2023. I am Alice, the chorus call operator. [Operator Instructions] At this time, it's my pleasure to hand over to Michael Daiber, Head of Strategy and Investor Relations. Please go ahead.

Michael Daiber

Good morning everyone and a warm welcome to this annual investor conference on the financial year 2023. We are happy to have you as participants here in the room in Zurich, as well as remotely through the webcast and the phone for the participants in house, please be aware there is no fire drill planned today. So if there is a fire alarm, it's a real one. Then please follow the green signs, go down the stairs and then hopefully the hotel personnel will take care of us and tell us what to do. And then very important, please take a look at the safe harbor statement. The presentation today contains forward-looking information that naturally comes with uncertainties. Further figures are in us dollar and prepared according to the US GAAP accounting standard.

After the presentation by Daniel and Adrian, there will be a Q&A session where participants will have the possibility to ask questions in the room. It's very simple. You raise your hands, someone will come with a microphone to assist you. The remote participants can use the webcast where they can ask questions in a written form and also the phone line where they can ask questions by dialing. I think it's star one.

Now please let me hand over to our CEO Daniel.

Daniel Bischofberger

Thanks. So ladies and gentlemen, good morning and a warm welcome to you in the room, but also on the screens. Thank you for joining Accelleron's annual analyst conference on the results 2023.

After launching our first conference at our premises in Barden, we thought it's time now to come closer to you, to Zurich and that's why we are here and we enjoy it here with me are ; Adrian Grossenbacher. is the chief financial officer. And Michael, you already got to know, head of investor relations, strategy business development and also with sustainability. So multitasking the only person here, unfortunately.

So I only have one job. So the agenda I will start with the key highlights of 2023. Adrian will then take over for the financial review of the full year and I will conclude with a deep dive on the markets and the outlook, including our guidance.

This all is followed by a Q&A session. For those here in the room, you are most welcome to stay with us after the Q&A for networking lunch.

So I would say let's start. So what are the key developments regarding our financial performance in?

In 2023 Accelleron performed strongly and laid a new foundation for our future prospects. We can look back on our first full financial year as an independent and stock listed company with excellent results. Our revenues grew by 17.2%, 15.5% organically. That means adjusted for acquisition and currency and we finally reached US$950,000,000.

The revenue grew. Growth was mainly supported by a growing demand for Accelleron's product and services in merchant marine, but also in compression gas compression. We achieved an attractive operational EBITDA margin of 24.4%. Despite supply chain challenges, especially in the H1, we can say clearly in H2, the supply chain challenges have now normalized. We are back to normal and the significant impact of additional expenses for our new business functions and systems. We had to build up because under ABB we had global business services and now as a stock listed company, we had to build up everything ourselves and it comes with a higher price tag. But the continued cost inflation on materials and labors were largely offset by price increases. We're able to agree with our customers.

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Our cash flow conversion of 99% was driven by a strong second half of 2023. RDM will go a little bit more into detail.

we completed our separation from ABB and the buildup of our new business functions in system progressed according to Time and Budget. I think it's time now, really. I would like to take the opportunity to express on behalf of the whole executive committee and the board of directors our sincere gratitude to the whole Accelleron family for not only going the extra mile, I would say they have done a whole new marathon and at the same time they made sure that they keep the customer focus. We delivered them with all our products, services and also digital technology without any interruption on the customer side. So I think it definitely deserves a big, big thank you from all of us for our great people, our family.

So then let's move on. The strong performance is also visible when we come compared to the last two years, we achieved an improvement of all our most relevant financial figures versus 2022, but as well also in 2021 when we are still 100% part of ABB. Our revenue growth accelerated from significantly from $756,000,000 in 2021 to $950,000,000 in 2023. At the same time, operational EBITDA grew strong to reach $223,000,000 in 2023. And we closed the year with a high free cash flow conversion of 99%. Considering that we had a high growth, remarkable as result. And that's thanks to a strong cash collections and a stabilization of our inventory level. So this strong free cash flow enables accident [ph] to propose at the next AGM a significant dividend decrease of 16% to zero point 85 Swiss francs per share, up from 0.72 Swiss francs per share in 2022.

So was 2023 only strong in financial, or were there other highlights? And definitely there were a lot. And let me go through. We will go through on innovation. We will see on partnership, but also where we are able to catch some megatrends. So here on the left side, so this is all about innovation. On the left side, you see our next generation turbocharger.

With our turbocharger, we are making great advancements to further grow our strong market position. The new accelerant low speed turbocharger X 300 L was launched in 2023 in June. The X 300 L is much more than just a usual evolutionary improvement.

It was developed with a strong focus on helping our customers address a lot of uncertainty on their journey when it comes to decarbonization of the maritime industry. That's why it excels with highest flexibility, which is reflected in the design, in the operation, in the maintenance concept, but also about digital readiness.

In the middle, you see our Tacoma emissions module. So upcoming emission requirements will force ship owners to report CO2 emissions. This will create incentives in the market to develop more sophisticated strategy on emissions and how to avoid them. Our new Tecomar expert emissions module supports customers to achieve optimized CO2 emission ratings, supporting them in their compliance, sustainability, performance, but also operational costs, because it's about reducing fuel costs and increasing efficiency.

On the right side, our latest retrofoot solution called Fitz II, which is a flexible turbocharger cutout system. So you just can imagine, like on, when you have the car, where they switch off some cylinders. Here, it's not about switching off some cylinders, but the gross engine, the big engine, have more than just one turbocharger. And the lower you go in the load, the less the efficiency of the turbocharger. So there's a system that you take them temporarily out for low load, which will finally increase the efficiency and not affect the power of the engines. So our Fitz tour solution helps achieve tangible fuel savings without compromising on the engine power output.

Accelleron successfully implemented and tested the first flexible turbocharger cutout system on a container ship. And there will be many more to come. So Accelleron is well positioned to take advantage of some of the megatrends, such as data centers and new fuel applications. Let me show you three examples, starting with our high speed liquid fuel turbochargers. So the left picture, we are ramping up the business with our smallest turbocharger called TPX. It excels with high power density, which means for the engine builder, we can take a smaller engine to provide the same power output, so less investment. So this is a highly relevant criteria in the backup power segment where the engine not really runs. So it's not mainly about efficiency, it's about providing the most efficient engine that it can provide the most power output. And this means everything the initial investment cost for the owners of such a backup power system.

So the backup power market will experience continuous strong growth due to a booming demand for data centers. Not a surprise driven by cloud storage and computing, including our famous artificial intelligence.

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In 2023, we achieved a very strong figures with 1300 turbochargers TPX sold, and we expect this volume to double in 2024. The middle picture Accelleron is also selected for the world's first methanol fueled pure car and truck carriers with engine for an Mion [ph] ordered by Chinese customers. Delivery is expected in 2025 and 2026.

The right picture looking at ammonia dual fuel engines. Accelleron was also chosen for the very first two ammonia dual fuel newbuild projects featuring Vincid engines. Both customers are from Belgium.

So in 2023, we also strengthened our growth perspective through m and a partnership and new business models. Here are three examples again on the left side. On July 20, Accelleron completed the acquisition of OMT, a global leader in twostroke fuel injection system. This acquisition reinforces our commitment to growth and providing innovative solutions to customers, especially as they transition to zero carbon fuel technology.

I will come back to OMT in our outlook. In the middle, we also closed some important digital partnership. Early October Accelleron In signed partnership agreement with Mach from Germany and with Metis from Greece, enabling data transfer from ship to cloud for all Accelleron In 's digital products such as Tecoma expert or Turbo Insight.

On the right side, our growth prospect is further enriched with service agreement both for marine and energy. In 2023, we signed the hundredth tourbo lifecycle care with a greek shipping company. Now, about 40% of our service revenues are covered under a kind of service agreement.

Our ambition is to increase the service revenues coming from service agreements to an overall share of 50% in the next five years. The advantages of service agreement for customers are predictable maintenance costs, faster response time and higher reliability. The service agreement tend to include be more inclusive.

So that's a benefit for us. So that means they include more service scope than what you normally face on a transactional business. Terms can include fixed price per maintenance event to paid by the running hours.

This main advantage provide peace of mind for our customers. Our markets are on a journey towards more sustainability. Supporting the sustainability journey of our customers is at the heart of our purpose of our customers, of our company.

So our purpose is accelerating sustainability in marine and energy, but so is our own sustainability journey and we walk the talk in 2023, Accelleron In committed to the science based Targets initiative SBTI as well as the UN global Compact. We are upholding both principles and with this in mind, Accelleron In undertook various important initiatives to pave the way towards reaching its 2030 sustainable targets. That we achieved an ESG rating of a from MSCI in this month is just another important milestone on our very young sustainability journey as a standalone company.

But to ensure that our organization is fully aligned with the sustainability target, every employee eligible for short term incentive has at least one sustainability linked target. In addition, starting in 2024, the long term incentive for the executive committee members include a specific CO2 reduction targets and not only the famous scope one and two, but also including scope three elements where management has a significant influence upon and we also achieved tangible results when putting sustainability into practice. Our own PV system was installed on our roofs of our headquarters in Barn, Switzerland, generating annually about 1 electricity so covering 10% of our own local needs in electricity.

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So with that I'm closing my part and I like to hand over to you Adrian for the financial.

Adrian Grossenbacher

Thank you, thank you Daniel. Let me now walk you through our financials of 2023 with starting with the group performance. Overall, the positive market momentum and trend from 2022 continued the entire year leading to an increased demand for both the marine and energy industry, especially merchant marine product and service business as well as the gas compression business in the US were strong contributors.

Our revenues grew by 17.2% to $910 million us dollar for the full year 2023. On an organic basis, we recorded the growth of 15.5% exceeding the latest guidance. The strong growth was predominantly volume driven and to a lesser extent by price increases. The acquisition of OMT contributed about three percentage points to the overall growth.

Despite significantly higher cost resulting from being a standalone entity we managed to generate an attractive margin of 24.4%, close to last year's on the back of a healthy operating leverage.

On an annualized basis, we estimate the impact of the standalone to be slightly above 200 basis points for the financial year '23 versus '22, mainly reflected within SG&A and in line with the guidance provided back in March 2023. As we continue to invest in R& D to elevate our innovation leadership, our R&D expenses were at comparable levels of 6.3% of our revenues.

Finally, the ongoing cost inflation, namely for materials and labor, was to a large extent offset by price increases and continued productivity initiatives.

Now let us go to the high speed segment where the gas compression business in the US again spurred the top line. Additionally, the power generation business grew considerably. s a result, our revenues increased by 16.9% to $250million on an organic basis, we even grew by 17.8% for the same period.

If we go further down the income statement, our operational BITDA margin significantly increased by around 450 basis points. This was driven by a strong operating leverage pricing measures that materialized in 2023 and a materially lower level of warranty expenses than the year before. These effects overcompensated the impact from being a standalone company and the inflation.

On the next slide we see the performance of the medium low speed segment depicted. The demand in this segment strongly grew for the merchant marine business, in service and new buildings. For the cruise business, the service further recovered, approaching pre pandemic levels. Lastly, the service for power generation recorded considerable growth. Revenues overall grew year on year by 17.3% to $665 million, respectively on an organic basis by 14.6%.

The contribution of OMT amounts to $23.5 million. Post acquisition closure, the operational EBITDA margin decreased by 200 basis points, which was mainly driven by additional expenses arising from the standalone setup and inefficiencies in the supply chain during H1.

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In contrast to the high speed segment, price increases could not completely compensate the operational cost inflation. Before moving to the cash performance let us go through the bridge from operational EBITDA to net income to highlight a few specific effects.

Starting from the left side, operational EBITDA amounted up to $223 million. Next to it you can see the one off and nonoperational cost, which amounted up to $82 million. About $75 million were linked to the buildup activities for new business functions and systems. The rest or the reminder results from the acquisition of OMT.

We managed to reach full independence from ABB in summer and ramp down the transitional service agreements on time. While we are operating fully independently, we still expect limited residual buildup cost of around 20 million us dollar linked to the completion of the standalone structure. This excludes any effects arising from the OMT acquisition.

Going to the middle of the bridge to the interest and finance expense. The interest and finance cost, including the impact of interest payments and pension income amounted to a total cost of roughly $4 One further to the right we can see the income tax expense which amounted to $27 million. The effective tax rate for '23 stood at 19.8%, which is higher than the year before as onetime effects resulting from the separation didn't reoccur and a change in profit mix.

Finally, the net income amounted to $110 million, which is lower than in the previous year, largely due to the buildup cost.

Moving to the cash flow where the conversion for the full year stood at the healthy 99% after low levels in H1 forH2, we recorded a very strong growth of above 150% driven by our intensified focus on working capital management.

The healthy conversion demonstrates our relentless focus on operational excellence across the entire organization. In general, we see most working capital components scaling with the business volume growth and expect this to continue over the next years.'

Lastly, the slightly higher capital expenditure are also reflecting continued investments into the swiss and chinese factory perimeter as well as 2 million into the OMT factory in Turin, Italy, which remains clearly one of our focal topics in 2024.

Let me conclude this section by providing some color on our net leverage and the dividend proposal. Due to a healthy cash generation, especially in H2, we managed to close the year with a leverage of around one time operational EBITDA despite the acquisition of OMT antisignificant cash expenses linked to the buildup activities.

As stated previously, Accelleron remains fully committed to a solid capital structure, providing financial flexibility for future growth.

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In line with our priority to deliver attractive returns to our shareholders. The dividend proposal to the ATM for the financial year 23 amounts to CHF 0.85 per share or an increase of more than 16% to last year. Proposed dividend represents a payout ratio of 93% of reported net income after minority interest underlying our commitment to return excess cash to our shareholders.

As we have entered the year 2024, where we expect extraordinary cost related to the buildup activities to reduce significantly, we use the opportunity to share some updates about Acceleron's capital allocation framework compared to what we presented during the Capital Markets Day in August 2022.

We will keep our focus on organic growth to leverage the opportunities in our markets for turbocharger and fuel injection. With the appropriate level of R&D and capital expenditures, we expect those to remain largely in line with current revenue ratios.

As we have proven with the acquisition of OMT. We will continue looking for upside potential of value creating bolt on acquisitions, but will stay selective and disciplined. As stated in the last line, we remain committed to a solid capital structure and feel comfortable with the leverage bandwidth of 0.5 to 1.5 times operational EBITDA. Consequently, we want to return excess cash to the shareholders by the following means.

Firstly, an attractive, stable to growing base dividend. Further excess cash would then be returned mainly by means of share buybacks unless M&A opportunities materialize. This capital framework provides attractive shareholder returns while giving sufficient flexibility to grow our business. Considering the opportunities the energy transition brings to us.

I would now like to hand back to Daniel for his view on the market outlook and concluding remarks. Thank you.

Daniel Bischofberger

Thanks, Adrian. So thank you Adrian for summarizing quite a solid financial figures and revised capital allocation strategy. Let me continue with an overview of market trends, key objectives and the guidance for this year 2024.

As we all know, shipping belongs to the so called hard to abate industries. These are industries that cannot become climate neutral simply through electrifications for shipping. It is common understanding that decarbonization is only feasible with the help of e fuels or so called synthetic fuels such as emethanol or e ammonia. The mother of all e fuels is green hydrogen. Green hydrogen means produced by breaking up water into oxygen and hydrogen in an electrolyzer, which is powered by renewable energies coming from wind, solar or hydro.

Other hard to abate industries that are also depending on green hydrogen to achieve climate neutrality include aviation, iron and steel, fertilizer, chemicals, industrial heat and power generation. A study by Deloitte states that the world needs 600 million tons of green hydrogen per year for complete decarbonization just of these industries, let alone battery, electric, car and electrical heating pump. So 600 million tons of hydrogen might not say a lot to any of us, at least not to me.

It's a bit beyond my imagination, but if you take a closer look you will realize this is anything but a walk in the park. The additional, and I repeat again, the additional amount of electricity needed for the production of the 600 million tons of green hydrogen is more than 25,000 terawatt hours annually. I'm coming from power generation.

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I can imagine what that means, but just this is exactly plus minus the electricity produced today, by all power plants worldwide. So we need exactly the same electricity to produce just the green hydrogen for those end industries which are not only hard to abate, but are essential for our daily life.

And the corresponding electrolyzer, I explained, we need to crack the water into hydrogen and oxygen. The expected or the needed capacity of electrolytes is about seven and a half thousand gigawatts, of which is less than two gigawatts are installed today. So the total investment for the development of this green hydrogen infrastructure is estimated that around 9 trillion us dollar, or 9000 billion us dollar, which sounds a lot, but which corresponds to one 10th of global GDP.

Or take Switzerland, eleven times Switzerland GDP. So the major takeaway, just as a food of thought, it is doable, no doubt. But if we want to reach the goals of the Paris climate agreement by 2050, we must build this complete new ecosystem within the next 26 years.

And we have already almost hardly started. And furthermore, it requires clear regulations as well as coordination and collaboration between states and various industrial sectors. So let's have a look into how the marine market is preparing for this transition to new fuels whenever they become available.

In 2023, the International Maritime Organization, in short IMO, which is part of the United nations, has finally updated their decarbonization target and aims at net zero by around 2050, comparable to the efficiency rating of fridges. We all know the a and c and D ratings. The IMO has defined a so called carbon intensity index rating, in short CII, to categorize vessels by their CO2 emissions.

So a is good, d is bad, and it's clear that in order to keep the ratings, they have to reduce the CO2, or even if they have to want to improve their rating, they even have to further reduce the CO2 emission. And the implementation of the local regulation of this IMO is still pending in many countries. A positive example is the EU.

The EU has however adopted an emission trading system that will apply for the shipping industry starting this year. So CO2 will have a price. Whenever someone wants to ship goods by ship to a european port, you can see that ship owners start preparing for this change by investing in energy efficiency and upgrades of the existing fleets.

Many ship owners are also making sure that their new vessels will be compliant. In a zero carbon world. Thanks to dual fuel capabilities, 50% of all vessels in the order books of the shipyards are as of end of 2023, were alternative fuel capable, while most of the ship were still natural gas dual fuel.

So not really zero carbon fuel, but still gas has 30% less CO2 emissions. We can see an update in methanol in the last two years. In the next years we expect the orders for ammonia dual fuel vessels to pick up.

So the shift to dual fuel vessel helps accelerants twofold. With the new more expensive fuels, fuel efficiency and fuel flexibility will be more important and an area where we are leading without turbocharger in the fuel injection. We even foresee higher growth as new ships come already will come with both fuel system installed already.

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So two fuel injection system and in addition the fuel injection for ammonia and methanol are much more expensive than dual diesel fuel injection just because of the complexity of handling the new fuels. So now we have started about the green hydrogen, where we see there's still a long way to go. We have seen the maritime industry is doing all what they need to do on the technical side.

But now let's move back from the long term view to this year's outlook in the different markets and more or less, I have to say those who have seen us at the half year, also at conference. Not much has changed since then. But let's start with marine, which represents more than 50% of our revenues in containership shipping.

We come back from an exceptional 2023 where we saw extraordinary service revenues, among others, linked to a catch up effect after 2022 with record high freight rates and as a consequent delayed dry docking. So Cosmo tried everything not to do a service in 2022 because there was just gold on the street. But they caught up then in 2023.

It needs to be seen to which extent service revenues levels can be kept in 2024. But in turn we see a good fleet utilization and a health sea shipyard order backlog in the tankers markets. High freight rates are starting to translate and we are slightly more optimistic than last year.

While Bulker remained subdued, the service business is expected to stay on a healthy level for both tankers and bulker. For cruise ship. We see that the demand from passengers is back, but the number of ships is still lower than pre COVID and we do not see significant increase in new orders yet, as most cruise ship companies still need to deleverage their balance sheet.

The only exception is MSC. But we know MSC has a lot of containership and they made a fortune in 2022. So they are investing now in cruise ship in specialized vessels, including lng carriers.

We saw very positive order levels at the shipyards in 2023. That should translate into a positive impact on our orders and revenues in 2024 and the years to come. In the energy sector 2023 we saw record orders and revenues for gas compression in the US.

While structurally we still see the demand for north american liquefied natural gas, we expect a normalization of demand during 2024, a slight cooloff as the turbocharger for this application are produced in series. We also foresee a certain volatility as our customers might reduce their stock levels which will negatively impact our revenues in this year. From the medium speed power generation, we see a continuously healthy demand on the service side.

On new builds. Demand for turbocharger in medium speed power is still weak. A possible uptake for thermal balancing application cannot be reported.

Yet demand for high speed gas power plants was solid in 2023. In Europe, we currently see uncertainty in new building based on still relatively high gas prices and also high volatility in the gas prices as well as regulatory uncertainties. Long term, the energy transition with the move to more intermittent renewable energy should clearly drive the demand for thermal balancing in our grids.

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In our growth field, high speed liquid fuel, we expect the positive momentum to continue. This is linked to the good acceptance of our product TPX as well as the increasing demand for data centers. So what are our key priorities in 2024? We want to continue gaining market share in our turbocharging business thanks to our strong position for new fuels as well as for upgrades of existing fleets, our improved high speed liquid fuel product portfolio and our growing share of service agreement.

We are expanding our Tecoma expert solution in scope and reach and in our fuel injection business we are increasing the capacity in factory and R and D to take advantage of the strong growth in the fuel injection market for both low and medium speed, and we will conclude the buildup of our new business function and system required as an independent and stock listed company. Before moving to the guidance for 2024, I would like to use some time to discuss one of the main priorities for this year, the investment in our recent acquisition OMT. As mentioned before, we expect a significant growth in demand for fuel injection equipment linked to firstly the increasing demand for dual fuel engines, and secondly to the fact that the fuel injection systems for methanol and ammonia are significantly more complex and more expensive at the same time.

OMT is currently running close to full capacity, so we have a year of backlog. Already. We have clear growth ambitions with OMT in both markets in low speed where we want to keep our strong market leader position, as well as in the medium speed where we aim at gaining market shares with new fuel application.

It's now the window of opportunity to break into the medium speed to cope with the increasing demand, we will invest in R&D and production capacity. So we are increasing production capacity by hiring new people, adding shifts, outsourcing of less critical production, step to third party, and buying new equipment. The investment in a new R and D test center will support new fuel development project, especially in the medium speed segment.

The test center is expected to be completed by end of 2025. So now let's move to one of the key question everybody asked at the beginning of the year. So the guidance for 2024 so for the turbocharger business as outlined in our outlook slides before, we see a stabilization on a high level after two years of double digit growth at constant currency.

So we see some business slightly going up, but we also see some business slightly cooling and some are flats for Acceleron. As a group, including OMT, we expect to grow revenues by four to 6%, currency adjusted thanks to mainly recognizing a full year of OMTA revenues. For the first time, we guide an operational EBITDA margin of around 24.5%.

In the second half of 2023, we managed to reduce the standalone costs, which should have a positive effect on 2024 as well. On the other hand, we expect normalization in 2024 of the previous very favorable index based pricing, mainly in the high speed product business, and continuous price pressure in medium and low speed product business, with a corresponding negative impact on the profitability. We expect free cash flow conversion, net leverage and dividend pulsing fully in line with our revised midterm guidance.

Dear participants, 2024 is a very special year for us. A gentleman named Alfred Bushy invented a turbocharger in 1905 in Wintertour in the cantone of Zurich. He patented the turbocharger as, and I need to quote an internal combustion engine systems with a compressor, a piston engine and a turbine connected behind it.

So that's how we call it, the turbocharger. Much simpler now with this word, an invention that was as simple as it was ingenious. But only a few people at that time recognized the importance of this simple invention.

It took almost 20 years for the world to recognize the importance of this technology. It was not until 1924, so exactly 100 years ago, that the first turbocharger were manufactured for locomotive and marine engines. To increase performance.

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They were manufactured by BBC turbocharging, the predecessor company of Acceroon. So our commitment to innovation has ensured that our technology remains just as relevant a century later. Today, we are proud to be the leading provider of heavy duty, mission critical turbochargers.

We will celebrate our hundredth birthday with internal and external events, some events just about to be finalized, some still in the thinking. I hope we will see some of you at one of those events. So thank you for your kind attention.

We are now happy to take over questions both in the room and via the audio system. And Michael is the master.

Question-and-Answer Session

Operator

Exactly. Thank you very much. [Operator Instructions]

Unidentified Analyst

Two questions please. One question just to understand. Sort of like your comments around high speed and I think it was clear on the gas compression side what you said. Can you help us through how the different parts of the business contribute? So how big is gas compression versus data centers? Just to join the various pieces together there. And then the second thing I would have fought lots of capital goods companies. They've closed 23 after with big backlogs. I would imagine you don't publish the figures, but what visibility do you have in backlog for this year and factored into the zero to 2% organic you have there and what's the pricing carryover as well from that so that we could think about how the info out this year really looks under your scenario.

Daniel Bischofberger

Thank you, Daniela. So three questions. The portion of gas compression data center and visibility. So gas compression is about slightly more than 10% of our business has grown significantly, almost 30%.

So you can do the math where we were before. So the data center is now today. That's the famous TPX. It's a 6 million business and we expect this to double this year if everything works well. And our supply from 6 million to double. So it's a small business, but an important one. And that's where we see to really also may gain market share because we had nothing before. So the visibility 75% of our business is service more or less three months visibility. It's clear as long as the ships are running there will be service done.

But if the going gets tough they might stretch the services and do later and so. But it's three months. On the product side it's more or less three to six months, but on the medium and low speed we have the visibility because the ships are ordered at the shipyard.

So normally we don't get the order immediately when they get the order, so they go through the process. But I would say to a big portion, we already know whether we are more likely on these ships. So.

And shipyards are booked out until 26 and still increasing. So on the product side, medium and low speed we have good visibility. But here also, if you do the math, 75% is service, 25% is product, and half of the product is medium and low speed.

So for 12% we have a kind of good visibility. On the high speed product business, that's a fast moving things. Probably there six months.

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Good. Thank you. Maybe the pricing carry over on that side.

The service side as such is the sticky part. While in high speed, Daniel mentioned we have had index based pricing or we still keep and therefore we see a certain slowdown on that side which was favorable in 23. In medium low speed, the product side we face continued, let's say competitive pressure.

Therefore I think it's namely on the pricing side of the service with the stickiness just a carryover. There is nothing back to the midterm where we said between zero to one. We try to be selective on the service side where we really see cost increase.

But as already mentions every time, we are not the cheapest in the market and we have to be careful not to stretch the limit. So we have a good partnership with our customer. That also means we don't try to take advantage and boost with we gain margin from price increases.

We try to protect our margin on the service side while as I said, on the medium and low speed, it's a project business and it's about to us to win or lose, which I don't like. Good.

I have two questions. First question is regarding the residual buildup cost of 20 million. Maybe could you explain again what is exactly included there? I mean, does it still include the ERP system? Because I think that was the biggest chunk.

And the second reason is regarding the new capital allocation policy. Now you say you have a base and stable dividend, but you don't really say how much it is from reported net income. I mean, it is fair to assume that there should be a big jump in 2024 because standalone costs are gone.

But could you get maybe an indication? So let's say roughly 70% of net profit or something like that. Let me start with the residual build up cost I think there to the 20 million. Indeed, as you know, we were speedily moving out, establishing these systems.

So we have certain efforts still to finalize those. And surely this relates back as well to the ERP. The ERP is working, but it can be elevated in one or the other instance.

And therefore, a certain element of these 20 million relate back to this. But we are operational. There are no concerns on continuity.

It's just really making those elements, let's say, more productive, which is then beneficial for the organization. So it's an investment into efficiency and productivity of the future. And those costs will flow through the P L.

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Right. Those costs flow to the P L. As you know, this is a cloud based solution.

So little to no room in that sense, or from a gap point of view, to take on the balance sheet. It's mostly expensed to the second one, I think. Let's take a step back.

Qualitatively speaking, we expect net income to materially grow on the back of lower, non operational, one time cost. That's correct. We always said the first, let's say, mean to return cash capital to our shareholders is a growing, or let's say constant to slightly growing dividend, complemented then with a share buyback, or if there are m and a opportunities materializing that the capital would be relocated.

I think that's qualitatively, in terms of giving specific guidance on the dividend, I think will come in the course of the year clearer. Daniel? I think it's had a lot of discussion with investors over the last one year because they were a little bit confused with our capital framework, which I have to admit, I agree. But it was clear that whenever we do an adjustment on the dividend, it should be stable, at least also in the bad times.

And so that's why we will definitely adjust dividends if you are confident that we can keep that level also in the way forward, because what was definitely not appreciated if you would reduce the dividend. So in that light, it's clear if everything goes according to plan, if our non ops go down, the corresponding net income goes up. So this delta net income will be returned as a dividend and as a share buyback.

How much portion we will have in the dividend and how much on the share buyback. We will review and see where we are standing there. Does it help, Yannick? Yeah, unfortunately, but I can't give you a quantity.

But I think you were not expecting to get that one. Okay, good. Thank you.

Yannick, could you maybe give like a timeframe when the share buyback is about to commence, or do you have any plans for it? As always, we are not the bank, so can build on us that we return excess cash. Beside that, I think no specific guidance yet to the timing of a share buyback. It's a valid option we consider when we see okay, we don't want to return everything as a dividend because it gives us still some flexibility on the share buyback.

The micro seems not to work right. Maybe another micro, please. Thank you.

Me again a clarification on the one off expenses. This 20 million as a follow up, is it still in part of the budget of those initially announced one off or is it additional? I mean, let us again take a step back. This is quite the journey, as we know, a massive endeavor for the company.

Back in 22 we said 105,000,000 in total for that program. We expensed 35 million in 22, 75 in 23, meaning we're at ten. We have here an additional 20.

Yes, that is a bit above, but when we look into the total context, this is a 1015 percent because we had as well the swiss franc appreciation which has eaten up certain elements. So really on a constant basis, a ten to 15% which we think is a comparably small deviation right to the initial what we set for a journey which not many companies ultimately accomplish. It remains our goal to close this by this year within the frame we have guided.

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Final question, we're already in March. It's Q1 one. Could you give us maybe a bit of a trading update and how this includes the assumption or is included in the assumptions of the guidance? If we would have different sign, we definitely would have different guidance given.

Now we are on track again, it's not a walk in the park, but we are on track with all the KPIs we have guided here. But still nine months to go and considering that we have three months backlog, it's not a given yet, but we are committed. I would take two questions from the chat.

In the meantime, I think there's one question from Lawrence Hess from shorter investment management on the midtime guidance for dividend. I guess you have answered it, but the question is when free cash flow is stronger, or do we have to expect a strong dividend increase? Or will you rather gradually increase dividend at a slower pace and give back the rest in share buybacks or spend it on M A? I think there the question is answered. Martin Bedchard from ran botmer is a little bit more accurate on this question.

Is it reasonable to assume that the payout ratio, including share buyback will be above 80% if no m and a and the leverage ratio is in that bandwidth. I think we confirm we are not the bank. So consequently it's up to 100% returned.

There are no m and a materializing good, but again might be a portion, might be dividend a portion. Exactly. Share by always wanted to.

Okay, I would then give the hand to a question from the phone as a reminder for questions over the phone please press star and one. Our first question from telescope comes from the line of Kim. John Deutsche bank please go ahead.

Hi, it's John from Deutsche. Thanks for the opportunity. Wanted to push a bit on the guidance.

If we look at both the revenue guide on percentage terms and the margin expansion or lack of it, it feels fairly conservative. Are there certain apples to oranges maybe unequal cost distribution we need to think about because the operational leverage on the guide looks pretty low. If you back out OMT follow up question to that.

Is it fair to say if you're guiding four to six and OMT adds four, that you're only really looking for about zero to 2% growth in the core? Or is there something else we need to think about? Thanks. On the revenue guidance, yes, I think it's fair to assume zero to 2% on the organic side in addition than OMT, as mentioned by Daniel, on the margin, I mean we do not have big seasonalities. I think we have highlighted that on the standalone cost, meaning the part of the new functions within the operational EBITDA, we have seen h two coming in a bit lower than h one, which we try to carry forward and further optimize.

Nevertheless, as mentioned by Daniel as well, we do have certain pricing headwinds. So consequently the 24.5 is a combination of these effects.

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Probably just quickly again on the zero to two. On the zero to 2% we went through and we have shown you some two pockets where we see cool off which is the gas compression which is about ten to 11%. And there we definitely see cool off.

Also because we see our customers are reducing their stock. So that means we can only deliver once. So that's normal one.

In addition, on the high speed, again we have index based pricing with a lot of customers. That means it follows indices and also over a long time they are perfect. They are not always perfect when it comes to timing.

Last year we really benefited from those index. We saw more cost increase in the year before and then we saw a slight cool off of the cost last year but the price went up because it all has a time lag. And now we see now the price coming down because the costs also went down.

So this is already an impact on that one. And so that's on the high speed, on the medium and low speed, as already mentioned, in the half year, what we have seen, because in 2022, if you take look on the Mersk P and L, and if you see some informal information about MSC, they made a fortune, and this was all about freight rates, and they tried to avoid any dry dock whenever possible. So dry dock is every ship has to go through a bigger maintenance every five years.

So they put the ship in a dry dock and they work, and so they pushed everything into 23, because the freight rates weighed down. And five years doesn't come every year, unfortunately, it only comes every five years. So Christmas is only every five years.

But here we have to be careful. I don't want to do too much black painting. I mean, on the ship, we have more or less two engines, the main engine with a big turbocharger and a lot of auxiliary engine that produce the electricity while the main engine turns the propeller.

So during the dry dock, what they do is to do the maintenance on the main engine, including our turbocharger. So that was a 30% increase we had in this year, just following the dry dock. So the auxiliary turbocharger, they can do at any port, stay where they have a little bit longer time to stay.

So what we see is definitely the main propulsion turbocharger goes down while the auxiliary still is continuing the trend, which is positive, but we definitely see, unfortunately, negative impact from that one. And as I said, merchant marine, all in all, it's 45% of our business. So these are the two things that are pushing us down.

This will normalize, but this year it's the cooling off. And that's why we only guide for zero to 2% on the turbocharger business. These are the two pockets.

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While we have shown you the backup or the emergency is a small business, yet still it will give some nice growth. But absolutely we'll never have a chance to compensate for the merchant marine. And also, what was the other thing where we earned the gas compression, it's 10%, but it was giving a big push, and it's now also cooling off, which will come back, so it will not be compensated by the good things.

So that's why we are more on the zero to 2%. I hope you're able to understand our logic. Thank you.

Just a quick follow up on the OMT investment. How should we think about CapEx this year in the halves, given the investment into OMT? Thank you. For instance, investing into a new R&D center.

And this is in the single digit, definitely in the context of the overall group, not material, but material for OMT and to make the growth plan happen. Right. Ultimately, as capacity remains a major constraint.

So in totality, I said, roughly in line with the current ratios, we are between three to 4%. Maybe we are a bit towards the 4% when we invest higher into OMT, but would then expect a certain normalization. So not material for the group.

I said, good time. Okay, thanks. Welcome.

You're welcome. Good. Next one, no more questions on the telephone.

Yes. Sylvester Vogel from UBS. I got three questions.

I would ask them one by one. The first one is just a clarification of an earlier asked question. When you were providing the split for data centers and for gas compression, there was also the point about medium speed power versus high speed power.

Maybe I missed the answer there. Could you provide you what is the sort of exposure, what you have to these sort of subsegments? That would be the first question, more or less. High speed power is about 15% and medium speed power is also about 15% of our revenues.

But again, be careful, they can swing. So if you ask me in one year, they might be slightly different. Sure.

And follow up question on the pricing side. Can you just quickly remind us what was the pricing effect that you had in 2023? On the group level, we said less surprising than quantity. So it's roughly around four percentage point of total growth, meaning 15 in total, 4% thereof in the price, eleven volume, roughly.

Got it. And the last one is, again, a bit on pricing. But with regard to your service business, and how has actually the pricing been done relative to the swiss franc? How much of a tailwind potentially you can see on the back of that one for 2024? It's definitely a big portion of our service business in swiss francs, but the customer always do the calculation.

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It's clear. I mean, if the swiss franc goes up, then we are happy. If you can keep the pricing, then there's little room to further increase.

So some prices are in swiss francs, and then we have no potential to increase because the swiss francs appreciated against the local currency or us dollar in that respect. Got it. Many thanks.

Good. Then I would take other questions from the chat. First one, Alexander Boganski from Research Partners.

What percentage of your 2023 revenues came from services? How do you expect this share to change in 2024? I think we were in the past around three quarter, and we are close to it as well, in 23, as basically product and service roughly equally. Let's say profited from the growth as such going forward. We always said we do not guide on this, but we do not expect that this will materially change over the midterm.

Hope this answers it to the extent it was surprising. I mean, even if there's more push on the product, you might see 1% more on the product side. So it's not a landslide.

Normally what you see exactly, it's plus minus one, 2% where you see the shift from product to service. Okay, one more question from Tongi de Monval, from OdobhF Asset Management. What kind of market share has OMT? So in the product business, the flow speed about 40%.

On the service side, it's a bit much less. But there's a lot of tailwind product. And the stickiness to the OEM is slightly different.

But OMT is more in the high end fuel injection, where the stickiness in service is much more. It's clear on the medium speed. We are mainly in service business in the old engine.

But probably there's a difference in business model. Just would like to explain you again. The two stroke business is a kind of licenser and licensee.

So that means you have two licenses which are Vincid and mine. Normally they own the design of the fuel injection because it's part of the business model that they have a lot of licensees. They can produce the engine.

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So the engine builder, like Hyundai, who is licensed, get in several suppliers. So we are more or less producing based on the design. But also here OMT has a special position because also those have good experience in the fuel injection.

OMT is the one who really knows how to produce them. Very often the design we got from the licenses like Mion and Vincid are good, but not good enough. So they do it in the final one.

But the design still belongs to the licensers, while the four stroke business is a different one. So normally the design is done and owned by the fuel injection company. So and very often then you are single source.

And now that's clear. Once they have designed the engine, they are not opening up. But now it's the window of opportunity because they are designing or not of new engines, mainly for the fuel injection system.

So now it's the time for MT to get in and get these development contracts and being the exclusive supplier. So that's why this whole new fuels gives us now the opportunity to really break in. And that's why we are increasing the R D capacity just to be the number one.

And we got a lot of four stroke engine builders where we are now designing methanol and ammonia fuel system for them. And then, as I said, this design belongs to us, but it's part of the contract we have with Uom. But it's clear it's an exclusivity on both sides.

We are not allowed to use this design anywhere else. Good. One last question from the chat from Martin Bedchard, from rodden bottomer.

Again, how much revenue did you generate with LPG chips? Could you share this information? I would say it's minor. I mean, I would say, if I'm not mistaken, I bring, I think on this whole LNG and LPG, probably the majority is LNG and LPG is probably less than 1% or whatever, or do you attend to in the low single education at that point. But it's minor and it has swings, it goes up and down, because certainly not the biggest split lpgs.

So I think no more questions in the chat for the moment. I don't see any questions from the phone. Is there any questions in the room, any hand that I have not seen yet? Stefan or Daniela? Thank you.

Stefan Zola, Solar Capital I actually have a bit of an understanding question regarding the change from the fixed cost to the running by the paid by the running hours scheme concept. What does it mean and how does it impact the margin? Normally the very traditional business customer asks us, can you do a service? We review, we give him a quote for the scope and then he agrees and we do the job with this. The fixed price is more or less.

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We have a frame contract and we say, okay, a normal overhaul, that's the price you have to pay. And if the scope is higher, it's in us. If the scope is less, then it's on us, and on the pay by the hours is more or less similar.

We estimate the scope based on what we know and because we should know. But instead of paying by the event, he pays by the hours. And this is not a risk for us because the service depends on the running hours.

So if it stands still, there's no service. We don't have cost, but we also don't have revenues, so it's quite matched. So that's the way, by the way, like on the chat engines, paid by the hours, that's even that, the equipment, they pay by the hour and not only the service.

So this is a normal model, as I said, the good thing is we get much more scope because we take much more on board. And very often this also comes because customers more and more are challenged by the new fuels. So their crew anyway.

They always struggle with the competence of their crew. It's not so easy to get any more people on the ship for three months and not seeing anybody. So it's already a challenge today to run the ship.

And now they need to focus now on the new fuels. Imagine ammonia, highly poisonous. Methanol is also not something I would recommend to drink.

So that means now they need all the attention of the people to train them for the new fuel. So they say, look, we have so many people on the ship, forget it. Can you take care on the turbocharger? We don't want to be the expert anymore.

You take care and they outsource more and more. And that's why then this business model helps as well. So look, no worry, that's the price you pay and we take care.

If there's more scope, it's on us. If less scope, then it's also on us. And that's the way we do the myth.

Whether it's now a fixed price per event, over a longer time for several events, or paid by the hour, that's just the way they pay. I think one question from just a quick one on this topic of the dual fuel having more content than on the OMT. Perhaps a stupid technical question, but if we think dual fuel, is it twice the content or can you help size for us how much more it is? Number one.

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And so yeah, I mean look on the cylinder, normally when you have a diesel injection, you have three diesel injectors. It's not like on the car, there's not so much cylinder. So they are really big.

So sometimes 90 cm average. So they have three diesel injectors. When they have dual fuel, they have another three.

So that's number one. So someone would say times two. Very simple.

Not exactly. Because the new injectors tend to be much more expensive. They need different material because methanol and ammonia is not so nice to metal like diesel.

And also because it's more poisonous in general. You have a central pump for the high pressure. Now you move that to the diesel injector because you don't want to have a line worth 1000 bars with ammonia in a pipe.

And then if you have a splash, then not a good one. So this increase, but I can't tell you now how much more expensive. But it's definitely more expensive.

It's not only times two, but the interesting thing is now, and unfortunately it's not that I get the increase in prices, then more profit, it's more complicated, it's more material. The challenge will be definitely. It's not only us who are at the limit of the capacity, more or less.

Everybody in this field is at the limit. And now it's really a race. Get more capacity, build up capacity, look for factory and build factories.

Because, as I said, the market will grow. So for the time being, it's not even the demand which is the limiting factor, it's the capacity which drives. And we hope that we are not becoming the limit factor for the shipyards to build chips, that the small diesel injector are not available anymore.

So it's really an exciting challenge, but also a challenge of OMT. On the two stroke, there's Koreans and Japanese and Chinese. On the four stroke, you have the big ones, like Bosch.

But here we see a good way to get in. I mean, they're all doing a good job. But I think all this, as I said, this competence, how you treat methanol and pneumonia, they're really strong.

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And that's now the window for us to get in and take market share. Once you're in, you're in. And here it's definitely more important.

When you're on the two stroke, you're not good in capacity. You might lose something, but you get it back, because you are more or less manufacturing for the licenser. But on the four stroke, if you are not on the R and D, you're not in.

And that's why we have a strong push. And we will do everything to become a significant player in that helps Daniela. So if there's no more question, I would have the pleasure to tell you where you can go for a quick lunch.

And you will have to go one stair down. We have. Okay, we have to go.

That's the last announcement.

Question-and-Answer Session

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