

Wärtsilä Q3 2022 webcast transcript

Heikkinen: Good morning, everybody, and welcome to this news conference for Wärtsilä Q3 results. My name is Hanna-Maria Heikkinen, and I'm in charge of investor relations. Today, our CEO Håkan Agnevall, will go through our recent performance and after that our CFO, Arjen Berends, will summarise our key financials. After the presentation, there is a possibility to ask questions. Time to start. Please, Håkan.

Agnevall: Thank you, Hanna-Maria. Thank you for the introduction. So, looking at Q3. On the positive side, a good order intake and we do see an increase of 36%. On the challenging side, we have the cost inflation and business mix burdening our profitability. But net sales we continue to grow, up 30%. The service business is also in a good progress. Service order intake increased by 27% and service net sales increased by 13%. Comparable operating result, though, decreased with 6%. If we look at the overall global market situation, we do see intensifying cost inflation, prevailing disturbances in supply chains, tightening monetary policies and a challenging macro environment that are creating turbulence within the global business environment. Then, on a recent event in Wärtsilä, we last week announced that we are taking the next step to further strengthen our marine end-to-end life cycle offering by integrating the Voyage business into marine power as a business unit. So, if we look at some of the key figures, we can see our order intake is up 36% to 1.6 billion. We can see the services is growing with 27%. If we look at net sales, we are up 30% to 1.4 billion and we see that we are growing service sales with 13%. And you can also see the relation between service sales to total sales, where service sales is 46% this quarter. And if you compare Q3 last year, it was around 53%. So, to the point that 2022 is a new build year. Book-to-bill continues above one at 1.13. And this is actually the seventh consecutive quarter where we have a book-to-bill above one. Looking at the comparable operating result, it is down from 7.9% to 5.7%. If you look year to date, though, the absolute comparable operating result is up 17%. Looking at net sales and comparable operating result. Now in the graph format, we do see net sales at 1.4 billion and we see the 13% increase in service sales. Comparable operating results at 82 million euro. It is a 6% decline. Looking at the marine markets, the sentiment continues to improve despite the growing macroeconomic concerns. Demand for new ships has moderated, as many shipyards are operating at close to full capacity. Looking at the number of vessels that were ordered in the review period, in Q3 decreased to 1095 from 1400. Vessels contracting

was largely driven still by container ships and also record high orders for LNG carriers, driven by, of course, the turbulence and the strong demand for gas in Europe, where we need to move from pipeline gas to gas carried by vessels. The transition to cleaner fuels continued with 326 orders placed globally for alternative fuels, and that represents about 30% of all the new build contracting in the review period.

Agnevall: If we look at cruise, the focus of the cruise sector has now shifted towards improving onboard occupancy levels in a profitable way and mitigating the impact of rising operating costs. And if you look at the active cruise fleet, it has been well over 90% on average during the quarter. Looking at the energy side, energy markets are affected by global cost inflation and price volatility. We do see a good continued demand for balancing solutions. The environment, the investment environment, witnessed higher quotation prices, slower customer decision making and considerable uncertainty. Supply chains are in turmoil as inflation, exchange rate fluctuations and trade restrictions shadow the global business. The decreased pipeline gas flow from Russia to Europe place new constraints and on the demands and also on the gas trade. The Inflation Reduction Act in the US will allocate substantial incentives for renewables, battery energy storage and other clean energy technologies. And we do see continued growth in demand for energy storage solutions. Service growth also continued for us and customers are showing an increasing interest in long term agreements. If you look at our market share in the gas and liquid fuelled power plants market, we declined from 9% to 7%. Looking at the overall order intake, as we talked about, it increased by 36%. There, equipment orders continue a strong journey. It increased with 45% and services also solid increase in order intake by 27%.

Agnevall: That leads to also a strong order book. And if we look at the rolling 12 month, we see the book-to-bill continues well above one, 1.16. On the sales side, net sales increased by 30%, and we see that equipment net sales increased by 49%, and service net sales increased by 13%. Now, technology and partnership highlights. And we are on our decarbonisation journey, shaping decarbonisation for marine and energy. One really important step and a milestone for that is the launch of our new Wärtsilä 25 engine. It is a leader in its range in both efficiency and emissions, and it's also very fuel flexible. So, the modularity of ship owners and operators maximise flexibility while ensuring efficiency and fuel economy is second to none. It's already capable to operating on diesel and LNG either on gas, liquid or the carbon neutral biofuels, and it is easily

upgradeable to operate with the future carbon free fuels. So, it is prepared for fuel conversion for fuels like ammonia and for methanol. If we look at the different technology sectors now in Voyage, we have a really important order for our SPECS system. It's the smart panoramic edge camera systems. Where DFDS will deploy this technology on a ro-ro Selandia Seaways and Selandia operates in a busy and challenging route, and it has now been retrofitted with this smart technology to provide 360 situational awareness.

Agnevall: It eliminates the blind spot by providing a 360 vessel view, enhancing safety, and enabling the crew to make better operational decisions based on real time data. Now, let's move on to the different businesses and see how we are doing. This is the Wärtsilä 25. It's the beauty, new comer to the family. And Marine Power. Basically all key figures improved. Service order intake increased by 21%. You can see order intake up is up 33%. Net sales 21%. If you look at the comparable operating result, on the positive side, the strong service sales continues. On the challenging side, we do see cost inflation, especially affecting material, component, transport, and also test fuels for developing our new technologies. Component availability continues to be a challenge, and also the high energy prices is affecting us in our testing. We consume a lot of fuel in our testing. If we look at the Marine Power service growth and the service agreement, we can see that net sales from installation under agreements is strongly increasing. One example, among others is a recent agreement that we struck with the CBO group in Rio de Janeiro, and we have signed an agreement on modelling decarbonisation. The objective is to support and accelerate CBO's journey towards decarbonised operation for its fleet of offshore support vessels and they are among the largest in its segments in Brazil. So, what are we doing? We are doing a detailed analysis of both short and long term solutions, including digitalisation, energy efficiency and energy saving devices, also including hybridisation and future alternative marine fuels. And since we are in Brazil, there is a specific focus on the viability of ethanol fuel.

Agnevall: Marine Systems. A great team in Japan. Net sales and comparable operating result increased. order intake decreased. So, you see the order intake decreased by 34%, whereas net sales is up 30%. If we look at the comparable operating result, on the positive side, clearly the higher sales volume is contributing to profitability. And on the challenging side, we do see an unfavourable sales mix between equipment and services. Turning to Voyage. And here you have an example of a SPECS system, one

of the cameras for the SPECS system. The order intake increased. However, the Russia exit impacted both sales and profitability negatively. Order intake up 58%, net sales down 10%. And the real challenge here on the comparable operating result is the closure of the profitable Russian turnkey business and also the acceleration of the cost inflation. Our journey on the cloud solutions continues, so we continue to increase our installed base. We increased it 20% quarter on quarter with connected vessels. Another example of the digital journey, in Voyage, is our ports operation and support for ports operation, where we also made the port link acquisitions some time back.

Agnevall: So here a very important order with the Associated British Ports and to help them to digitalise their marine operation. So, we have signed a contract for five year framework agreement with ABP to digitalise the operations in 21 ports. The project aims to accelerate the digital transformation of port calls and operation, making them as efficient, sustainable and safe as possible. And the program includes just in time solutions, machine learning and AI to optimise port calls and drive sustainability.

Energy. Order intake and net sales increased. However, the comparable operating result declined. You can see order intake up 66%, net sales is up 43%. So, looking at the comparable operating result, so what is happening there? Well, on the positive side, if you look, the mix within services, it's a favourable mix driving up the profitability. But, we do have some headwinds on the profitability. We have a less favourable sales mix between equipment and services, so, more equipment than services, relatively speaking. We have higher storage volumes, and we know that storage has a negative EBIT, it continues. And then we have a general impact of cost inflation. This is a great example and I would say a proof point of our balancing strategy. So, we will support the integration of renewables in Japan's power mix by providing balancing power gas engines. And this new plant in Japan will operate ten Wärtsilä 34 SGs. It will replace an existing combined cycle gas turbine plant, 100 megawatt, that was located at the same site before. Now, the fast charging engines will provide the grid balancing and the peaking capabilities needed as Japan increases its share of energy from renewable sources. And the main purpose of the utility scale power plant is hedging market price fluctuations. And it will enable participation in the recently launched cross-regional balancing market. To set the scene, Japan is committed to addressing climate change and has set a target to have a share of renewable energy, increasing to up to 38% until 2030. Looking at the service side of energy, it's also growing in a very inspiring way. I mean, the installed base covered by long term service agreements is clearly increasing,

as you can see. An example within the services side is an automation upgrade and long term agreement that we have made for a power plant in Cameroon. So, we will provide an upgrading project of the electrical and automation system to ensure the optimal reliability of the Kribi power station in the Republic of Cameroon. So, it's a 260 megawatt plant that has been operating for nearly ten years and it's operating 13 50DF, dual fuel engines, running primarily on natural gas. And now, we will support the customer's operational and maintenance performance with a ten year long term service contract. Now, other key financials. Arjen, please.

Berends: Thank you, Håkan. All right. If we look at other key financials, I think the highlight on this slide is the positive operating cash flow of 100 million euro in quarter three. After two quarters of negative cash flow, -122 million in the first quarter and -19 in the second quarter, it's very good to see a positive cash flow now in Q3. Positive cash flow was generated basically 50-50, you could say, between profit and the change in working capital. And by reducing working capital, improving our cash flow, we were able to reduce our net debt compared to Q2 with about 55 million euro, and also gearing from .21 to .18. Solvency went slightly down, let's say, from last quarter to this quarter, mainly coming from increased cash and inventory balances, and then that was financed by payables, basically meaning suppliers and deferred income, basically meaning customers. Basic earnings per share was zero. Very much impacted also, of course, by the write-downs that we did related to Trieste. If we look at the graphs, let's say 100 million I mentioned already, about 50-50 generated through profit and changing working capital. As we said also earlier, we have been building up working capital in the beginning of the year to facilitate the higher delivery volumes. In the second half of the year, we saw a positive impact of that by the change in working capital already in Q3, and we also anticipate that the deliveries of Q4 will generate positive cash flow for us going forward. With these words I hand over to you, Håkan, back on the prospects.

Agnevall: Thank you, Arjen. So, on the prospects, we expect the demand environment in the fourth quarter to be weaker than the corresponding period last year. But we should note that Q4 last year was all time high order intake in the history of Wärtsilä. So, what we also say in that, for the full year of 2022, we expect the demand to be slightly higher than in the previous year, than in 2021. Now, the prevailing market conditions make outlook uncertain still. Okay, that was the presentation of today. So Arjen, you will rejoin me and we open up for the Q&A. And as Hanna-Maria would

normally tell us, let's go around and let's take at least in the beginning, we take one question per person asking a question, so please, feel free.

Operator: First question on the line is from Vivek Midha. Please, you can ask your question.

Midha: Hi, everyone. Can you hear me?

Agnevall: Yes.

Midha: Thank you very much. My question is on price costs. So given both cost inflation and your improving price realisation, could you maybe give us a sense of how the margins in your backlog have been evolving in the last few quarters? And if you have any sense, albeit an uncertain environment of when we might be able to see price and cost effects starting to have a net neutral effect on the group margin? Thank you.

Agnevall: So basically, you could say that if you look at our service business, we are working with price realisation almost in real time. So this is a more fast moving business. So, there the opportunities for price realisation are good. If you look on the new build or new tenders that we are doing, we are also working with price realisation. The challenge for us is, of course, the existing order backlog and you know that some of our order backlog stretches out over time. But just to give you a flavour here, if we, in our view, we could really see an acceleration of the inflation, you could say end of Q1 this year. And if you look at the order backlog then, at that stage, we had about 2.2 billion euro in our order backlog for deliveries in 2022. If we look at the order backlog at that stage as well, we had about 1.2 billion euro for deliveries in 2023. That gives a little bit of a flavour of related to your question.

Berends: And for those, it's of course very difficult actually to adjust the pricing.

Operator: And our next question is from Max Yates. Please, you can ask your question.

Yates: Hi. I just wanted to ask a quick question on the guidance. So you've obviously sort of talked about Q4 demand being lower year on year. But obviously, when we look at the comparator last year, you had a 480 million large order in it. So I'm not surprised

to see that guidance. But I was wondering if you could talk, maybe excluding that large order, a little bit around kind of how you would see the more sort of base business, should we assume that the guidance is related primarily to that large order or actually is it for the base business as well? How should we think about that?

Agnevall: So I would clearly say that this relates that we took a couple of very big orders, discrete orders in Q4. And I would also I think we are trying to, because of that, we are trying to give some cues related to when we look at the full year. And you know that we are saying full year of 2022 will be slightly better than full year 2021. That gives a little bit of steering where we are heading.

Yates: Okay. Thank you. I'll leave it there and then maybe come back another one later.

Operator: Next question is from Antti Kansanen from SEB. Please, you can ask your question.

Kansanen: Yeah. Good morning, guys. My question would be on the service growth, which obviously for orders and sales has been very strong this year. Is it possible to talk about volume growth, I mean, excluding the price realisation that you mentioned and obviously FX and then more broadly going into next 12 months or 2023, what are you expecting in terms of cyclical growth, not perhaps getting a number here, but just the kind of the tailwinds, risks, challenges and then the kind of the positives that you are seeing as well?

Agnevall: So if we start with looking at the organic growth in sales year to date, now this is both new build and service. You have seen it's 22%. So you know, there is a strong organic growth clearly overall in the Wärtsilä business. Now, if we zoom in on the services side, I think what we are seeing is two phenomena and it's a little bit hard to delineate those two phenomena. One is that we see a very strong utilisation of our equipment, I would say, both on the marine and energy side. And we see that as a strong trend going forward. Then, on top of that or beside that running in parallel, of course, we have our strategy of moving up the service value ladder with agreements and we see that is giving results. So it's a combination, but we do see continued positive development.

Kansanen: But I'm just thinking mix going into 23 and this was something that we started the year talking about how adverse it will be for this year, and one reason for the soft margins. So can kind of the, you know, your backlog for next year at this point largely equipment driven. So can kind of the service momentum continue or will we see a similar negative mix in 23?

Agnevall: I think we need to see. You're right, we are certainly building our backlog. I think we need to see also a little bit of Q4 before we make a similar statement for next year. I would say so. But please note that services is growing, in our view, in a good way. It's just that the equipment is growing even faster. And I'm sure that we're going to talk more about energy here and storage for Q3. And I think one very interesting piece of information, if you look on the sales growth in Q3, you could see that that new build, both the thermal and the battery, grew with approximately 75% in Q3 Q-on-Q, whereas service only grew with 3%.

Berends: And that has a big impact on the profitability for Q3.

Kansanen: All right. Very clear. I'll get back into the line.

Operator: Next question is from Tomi Railo from DNB. Please, you can ask your question.

Railo: Hi. Can you hear me?

Agnevall: Yes. Hi, Tomi.

Railo: Great. This time it works. So just to get a correct feeling that when you are talking about intensifying cost inflation and supply chain issues. Is this a change compared to what you saw in the second quarter where I felt at least that you were talking about, in a way, having more confidence on solid, healthy backlog? So, have you seen and do you really feel that your cost inflation elements have been getting worse or accelerated during the third quarter?

Agnevall: So just to calibrate a little bit, so let's talk cost inflation and there we continue to see an escalating situation. When it comes to supply chain disturbances, it's more of

a prevailing situation. We don't see it escalating. I just want to make that clear. Now, if we look at the inflation, I would say coming up until now, you know, there was inflation related to materials and raw material. I think we see that stabilising or even tapering off. What we see here is the second wave of whatever we want to call it, and it's related to the energy prices because it really affects the cost price for some of the high energy intensity materials, like castings that we have in our engine blocks, crankshaft, etc. We also see mix by wage inflation coming, so to say. So you can say it's a little bit shift of gravity in the inflation toolbox, if you might say so. Arjen.

Berends: Correct. Nothing to add. I think that's the case. It shifts from raw materials, I would say, to logistics, I think is still the same as we had earlier as well. But it shifting from raw materials more to, let's say, the energy prices, driving in particular prices for components which are very high intensive in production process, as well as, let's say, salary pressure.

Railo: Thank you very much for the clarification. And the second question, if I may. On the storage profitability and the losses, can you comment the direction? Have the performance improved from the previous quarters?

Agnevall: So basically, coming back to my earlier comment about, you know, having a certain backlog in Q1 and then what happened. I mean, and we also know that, you know, material prices have been going up on the battery storage side. So I would say that, you know, a lot of those orders in storage we have delivered in Q3. And then, there has been a price reset and you can see that, you can actually derive it from our numbers. If you look at the cost per megawatt hour, there has been a clear price reset going forward, so to say. So in Q3, we have, you could say, delivered some of the previous order backlog that was taken before the acceleration in Q1.

Railo: And then a final one. Extra costs in Voyage. Can you comment any magnitude from the Russian operations?

Agnevall: I'm not sure we are breaking out those numbers. I mean, we as you know, we communicated our 200 million euro write off. We have divested certain parts of our business to local management. And that was that was business there with service project mix. That was profitable. And that is clearly impacting Voyage.

Berends: That's correct. It's out now.

Agnevall: Then, as you have also seen, as we have announced, that we are now integrating Voyage into Marine Power. And that, you could say that the reason behind it is twofold. I mean, first of all, we want to put really focus on creating an end-to-end perspective and business offering. When we look at the marine ecosystem, you could say, because we have some pretty unique competencies within the group. Of course, on the fleet optimisation, on the port traffic management, but also on the performance services. And I think we have here a unique capability to bring this together and really unlock value to ride on cost and help customers with efficiently taking this end to end approach. And this is also noteworthy that the new leader for Voyage is coming from performance services. So that is one of the drivers. The second driver for doing this integration. And we have said it, the turnaround of Voyage has taken longer time than we expected, than we wanted. It has been a challenging journey with pandemic, because Voyage is, cruise is a very important customer for Voyage. And also, on top of that, we have the Russian withdrawal of Wärtsilä, so to say. But we want to accelerate the turnaround. And this is another rationale where we are taking the steps that we are taking.

Operator: Next up is Johan Eliason from Kepler Cheuvreux. Please, you can ask your question.

Eliason: Yeah, hi, thank you for taking my question. I was a bit curious on this, you mentioned in the marine side, that around 30% of your orders for ships were for alternative fuels. I was just curious, are you considering sort of gas as an alternative fuel? And secondly, if you look at your value opportunity for those ships with alternative fuels, is that higher or lower than the current opportunity with the traditional fuels?

Speaker2: So in this classification, we do include LNG into the alternative fuels. So you could say it's heavy fuel diesel on one side, and then we talk about alternative fuels in this type of classification. Just to clarify that. And the more alternative fuel orders, the more opportunities for us. Then, we should also be careful a little bit because on the big container vessels, for instance, it's two stroke engines and we are not in two stroke

anymore. So you cannot put, it's not an immediate connection, but clearly the more alternative fuels, the more support for our business. Absolutely.

Eliason: And if you look at these alternative fuels, excluding the LNG, is it primarily methanol today or what are we talking about?

Agnevall: Yeah, I would say it's primarily methanol. I mean, there are customers exploring biomethane, but that you can run in our existing technologies. So biomethane is certainly an avenue. Methanol, the orders are coming there. And then we have ammonia coming a little bit in the future, not in the orders yet, but it will come.

Eliason: Okay. Thank you very much.

Berends: But, of course, just to add, customers clearly anticipate, let's say, the journey on the fuels. So, if they now buy an LNG capable engine, this is the one that is easier convertible to the new fuels than call it a diesel engine.

Operator: Next is a written question from Daniela Costa from Goldman Sachs. Do you think storage can already break even next year given the growing volumes, and can you comment on how the levels of advances are usually on storage versus traditional business?

Agnevall: So if I start with the first one and I'll let you answer the second one. The first one, we have clearly said that the turnaround of our storage business will take place over a few years. And we stick to that communication, so to say. Then, we should we should note, as we also have earlier communicated, that, looking at rolling 12, our gross margins are positive. And then, of course, why are we not break even or before or above, is we are scaling the business, we are investing in R&D and project management, so to say. But this turnaround will take a few years. And then coming to the financing.

Berends: Yeah, on the, let's say, customer payment terms, as you might understand, I don't think we will comment on that. We don't want to make our competition any smarter, but let's say what we are aiming for, and I would say we are pretty successful

in that, is that in any storage project we aim to be project positive cash flow throughout the project execution. So that's all I can say.

Operator: Next up is Antti Kansanen from SEB. Please, you can ask your question.

Kansanen: Yeah. Thanks for the follow ups. First, on the labour cost or wage inflation. Could you talk a little bit about where you kind of see the biggest risks? I'm thinking about, for example, the storage projects. Is kind of the installation cost something that is substantial of the overall cost mix, and you would be kind of a vulnerable given the longer delivery times and the inflation that happens in between. So overall, can you open up that theme a little bit?

Agnevall: If you look on where do we have a lot of labour? It's clearly on the service side. I mean, there we have a big, big chunk of Wärtsilä colleagues. But this is also an area where our opportunities for price realisation are the best, so to say. So, if you look at the global perspective, I think where do you see the wage inflation? It varies from, from different countries. I would say in the U.S. we certainly see a very strong wage inflation right now. But it's a mixed picture.

Berends: Yeah, I think that it's not, let's say, one size fits all answer to this. And of course, also in Europe, where there is a lot of pressure, I think many countries are also, governments are thinking about how to support this. So I think that is not one size fits all answer. It depends very much on geography. Governmental support. For sure we will see statutory increases most likely in many places, and we need to see how that plays out. But for us, it's very critical that we are very tightly connected to, let's say, our pricing departments, the ones making the quotes. That when we anticipate a certain salary raise that we already in advance, let's say, adjust for that in the pricing so that we are not acting as a sponge in the middle, let's say, during execution of projects later on.

Kansanen: Okay. And then the second one for me is coming back to the backlog. And obviously on the storage side, I mean, you flagged that you had some one billion of, let's say, the low margin backlog to be delivered in 2023. So there's still a little bit of margin pressure for Q4 early next year. How much is this in storage? I mean, reflecting, Håkan and the comment that you mentioned of the storage deliveries in Q3 and then the incremental price reset, is this something that flows through next year or already at Q4?

Agnevall: So I don't think we break down the one billion there. But I mean, and you know, a little bit the time frame, I mean, if you look on our thermal side, I would say that normally the lead time from order intake to sales recognition is somewhere in the region of 12 to 24 months. Whereas on the storage side, the same time period is probably 9 to 12 months. So there is a shorter lead time.

Kansanen: All right. Thank you. That's all from me.

Operator: Next up is Tom Skogman from Carnegie. Please, you can ask your question.

Skogman: Yes. So, this discussion about price realisation and so on is of course interesting, but when I look at the numbers, what I can see is that you used to have a much higher level of orders in 2016 to 2018 for your power plants, including engine that what we have seen in the last year. So my conclusion starts to be that you have been forced to use the price weapon to win the few orders that have been available. You know, and of course now we have cost inflation hurting. But to me, it almost looks like you have lowered your kind of original sales margin also in power plant orders compared to historical levels. What is your comment on this?

Agnevall: I would say it's not as simple as that. I would say this is a mix. And why it's a mix, it's depending on which markets you're operating on. So I would say that there are certainly new orders where we have a good price realisation. There are certain, if we talk thermal now, there are certainly orders where the competitive environment is stronger. So it's a mixed picture. I would say that what is impacting our profitability, if you look on the thermal side now, is really the cost inflation. And how that is affecting order backlog? If we look on the storage side, there is a separate story and you know it. Q1, a big price hike on the materials side. And then a digestion of new prices going into Q2 and Q3, so to say. And in Q3, as I said, if you, when you look at the sales, we are, you could say eating some of that order backlog that of orders that we took before Q1 this year.

Skogman: So your message is now that H1 will still be tough next year in terms of energy margins, but the outlook from the second half next year is a bit better, given what you know about pricing in your order backlog now at the moment, is that right?

Agnevall: No, we don't give any guidance for the next half year or so to say. So that was your interpretation, which I respect, but we don't give guidance for the next half year.

Skogman: And then I just wonder about, you know, energy. Of course, we have an energy crisis in Europe and so on, and your product should be more competitive than it used to be. But I guess I mean, what we are really lacking is some kind of a clear legislation in the European Union. Your orders seem to come from Japan, the US, Australia and some from the UK, but almost none from the European Union. And I kind of struggle to understand what is kind of the missing part in the legislation or in the the pricing of, you know, selling balancing power in the European Union compared to other regions, and will there ever be any change in the EU? Because now we should have a perfect market here.

Agnevall: So, a very interesting topic. I would say that first of all, if we look at how the current high energy prices in Europe is affecting the world. I think it will also drive higher energy prices in Asia, quite frankly, because Europe is now buying gas from the Middle East and there is a bit of a competition with Asia. North America has their own gas. So I think we will see somewhat different prices in North America. But if we zoom in on Europe, what are the other consequences? I mean, the more short term consequences, clearly people will burn more coal or lignite, which is of course not good for the environment. And people will also prolong the operation of nuclear, so to say. And we also know that there is in some countries, you know, a very growing discussion of nuclear. But when we look at nuclear, let's be frank, it takes decades to implement nuclear with permitting implementation. So, I think now a lot of the debate, you could say, is rather short term focused, for obvious reasons. We need to get through this winter, we need to get through next winter, and it is to find new gas, burn more coal, you know, ship in the gas, build LNG terminals. I think this is very high on the agenda. In parallel with that, you know, crisis handling, we do see an increased focus on renewables. And I think the key enabler of renewables is this, I would say it's a political discussion about permitting. Because we talked about that before. Everybody wants green, but not in my backyard. And I think here Europe needs to move forward. Because there are a number of offshore wind projects that are held back by permitting. So coming to your question, when will we see more of our balancing solutions, both the

thermal and the battery in Europe? It is when we get more renewables into the mix and we start to close down the big coal fired combined gas cycle plants. And this will take time in Europe. When we see the US, we can really see that the development is happening there and this is why we are so excited about the US market. And why is the US going ahead? Well, in the US, the conclusion is, and it will be the same conclusion in Europe, that solar and wind are the cheapest energy sources. And in the US, permitting is not a same issue as in Europe. So in the US we see a very strong turn going into renewables and then we see the growth of storage, we see the growth of balancing. So US is actually, in our view, kind of accelerating and going in the forefront of this development.

Skogman: But there is no certain incentive to invest in balancing power in the US that is different from Europe, that you would have a separate energy market for balancing power. So because it feels like it's a tough decision for a board to invest in a very expensive power plant that you expect to use, let's say 70 days a year or so. Then you need a really high power price those days you use it basically.

Agnevall: Yes. I would say in the US, what is on the incentive side, is actually the IRA, the Inflation Reduction Act that the Biden administration recently launched. Because that is tailored to support with tax credits both renewables and storage, battery storage. But I would say, when we talk to the US customers, they are all certainly helps, but it's not the big enabler for this whole shift.

Skogman: Thank you.

Operator: Just a reminder, there's still time to ask questions. So feel free to raise your hand to ask them. And next up is Max Yates. Please, you can ask your question.

Yates: Thank you. Just two quick follow ups for me. So if I look at your working capital, kind of over the last ten years, you've had a very significant improvement in your trade receivables in particular. So, I realise we're in sort of in some of these markets, and I guess a bit of a lower volume environment. But I just wanted to understand, when we look at your working capital, do you think [unclear] businesses like storage grow as some of these markets recover, this is a sustainable level, or is there anything exceptional we should think about in the receivables level?

Berends: I think it's a good question. I would not like to go into the details of this too much. Of course, it's very much different per business. Let's say when you take Energy, power plants or storage or, let's say, call it Marine Power or Marine Systems. I think the mechanics is very different. I think we are at a good level, and I do believe that there is possibility to sustain it at this good level as well. And that's where I want to leave it.

Yates: Okay. And the second question was just around obviously, what we're seeing in the. Actually, sorry, the question I ask is around the Clarksons data. So we've obviously seen that get weaker in Q2 versus Q1, Q3 versus Q2. And your Marine orders kind of in aggregate are actually performing, I would say, relatively well considering. So, when you look at that data, are you concerned that we're yet to see the impact in your business or would you put the sort of relative strength down to your exposure to certain segments, content per vessel? Is there something else that we're kind of missing that's going on here?

Agnevall: Yeah, I wouldn't, you know, say that we have a direct correlation between the Clarksons overall data and our business, so to say, because there is so much 2-stroke business and etc., you really need to look at specific segments and it's the offshore, it's the specialities, it's the cruise, etc. So, I think what we see on our newbuild, on the Marine side. Actually we, and this we have communicated, we took out quite a lot of Russian newbuild orders from our order backlog and we have actually been able to refill them with orders, for instance, from the ferry side. You know, some on the LNG side, etc. So it is a mixed picture and we are not the biggest player on the big container segment, because obviously it's a lot about two stroke there. And on the auxiliary side for containers, this is normally not our strong spot so far. It might change with introducing of new green fuels. But if you look currently, it's not one of our strong segments. So when we look at the marine newbuild, we see it rather stable. This is still on a lower level. It's rather stable. But, you know, we are cautiously optimistic about the development going forward.

Yates: I'm sorry. Just one final one on Voyage. I just wanted to understand the thinking behind sort of putting that back into the marine divisions, because obviously from the outside, it was helpful to have the disclosure. We could track how it was performing when it was turned around. So if you just talk about the decision to put it in there, and

also how we should think any differently because of what has happened with cost and Russia about a realistic timeline for this to break even.

Agnevall: So basically, I mean, to put things in perspective, why it was the 300 million euro business, give or take. So it was clearly the smallest business within the whole Wärtsilä family, so to say. But the key driver, as I said before, were twofold. We wanted to, because we actually have a pretty exciting, we think, combination of different competences. Voyage was a result of, you could say, five acquisitions that we made through a number of years. Actually we created Voyage to put them all together and put focus on them from an integration perspective, but also to, you know, to really craft our story in digital marine. And I think, you know, we have done some good progress during the last two years, but we have also learnt a lot during the last two years. And I think the marine industry has also developed in their understanding and maturity on the digital solutions. And therefore we see an exciting opportunity to connect you could say the fleet optimisation that we have in Voyage, it's connected. And we also had the port traffic management system, but connected to performance based services that we have in Marine Power because, you could say, we are all about moving up the service value ladder. So instead of focusing on selling discrete equipment, what services can we build to unlock savings and emission reductions for our customers? So the logic is, now we try to put this together, including the performance based services. So you could say it's a shift. We shift to the performance side. So that was the key driver. Then the other driver, as I talked about, is that we wanted to accelerate the turnaround. I mean, we should acknowledge that this business, during the last two years, has faced the pandemic, it has faced also the Russian exit of Wärtsilä, and that heavily affected Voyage. Because we had quite a significant footprint in St. Petersburg, software development, etc. So we wanted to accelerate this by also, you know, drawing on some of the resources within the Marine Power kind of team, so to say. So those are the two rationales.

Yates: But this, I mean, this is often the problem you're giving sort of customers kind of competency. You're bearing the cost for it and you have to try and get a payback. And I guess it's harder from us from the outside to see that payback coming back. And it's not just being rolled into your existing offering and given away for free. So, I mean, should we interpret this as you're willing to invest in this business for maybe longer than

previously we thought. Now that you're rolling, you're rolling it in. So we may see losses go on for longer. That's kind of how it feels from the outside.

Agnevall: Well, I would say that certainly, if you look at digitalisation of marine as a theme, we are in that journey for a long run. Then, that is clearly an interesting arena to work in. Why? Because, and many of you know it, there is so much inefficiency in this ecosystem. There is so much waste of time and fuel. It is very exciting. It's also, clearly we can see that with digital technologies, which of course, this journey we are taking in many different industries, we can clearly see the benefits of, you know, implementing digital technologies. Now, it's a very fragmented ecosystem. And here lies the cracks to get people and equipment and players to talk to each other. But we do see a very interesting line of business, but maybe more with that to performance based services. It's a little bit like a decarbonisation services that we launched recently in energy that, you know, focus more on agreements than selling equipment. Now, as I said, we bring in the second reason for bringing it was to accelerate the turnaround, not to push to prolong it.

Berends: And I think we can really be unique, right? If we combine engine efficiency, propulsion efficiency with Voyage efficiency. And that's what the customer is really needing. Also, in the future, the new fuels will be more expensive. So, let's say, focus on efficiency improvement no matter when it comes from the engine or the propulsion system or the voyage, is very critical going forward for any customer.

Yates: That's helpful. Thank you very much.

Operator: And the last question is from Sven Weier from UBS. Please, you can ask your question.

Weier: Good morning. A couple of follow up questions, if I may. The first one is on the shipping freight rate costs for you. Was just wondering the impact on the EBIT, how much of a delay, what you typically see between, you know, the reduction, the massive reduction that we currently see in those shipping rates and you seeing the benefit of that? That's the first one. Thank you.

Speaker2: So I'll let Arjen digest your question a little bit, Sven, but I will give you another aspect of the answer. I think what we are focusing a lot is, of course we need to be cost efficient and we need to have competitive shipping rates for our own business. But I think one other critical element is the reliability of the shipping. And this is where we have focused together with some of our shipping partners, that to make sure that our transports actually execute. Because if you consider the liquidated damages we might face in our projects, they outweigh, you know, a minor saving on transport. Then, of course, it's a balance. Of course we are challenging our forwarders to provide us something competitive, but we really focus on the reliability. And I would say that this is one of the reasons why, on storage side, we have been, you know, having a fairly solid execution track record towards our customers and delivering on time and fulfilling our obligations. When it comes to detailed numbers, I don't think we are disclosing.

Berends: No, I don't think we disclose it. But let's say, I think to answer your question, it's also a matter of what's the size of the equipment you want to ship. Let's say whatever fits in a container, take service components or whatever. I think that we will quite quickly link to the current available prices for container vessels. But if you want to plan a transport, let's say half a year out or even longer than that, that's even I think today still quite impossible, because there is nobody yet willing to commit to it. And then of course, it's also probably a chartered vessel. So then it's not so simple and then it will probably take a lot longer time before lower transport costs will translate into our numbers.

Weier: But the structure of the contract is as such that we should have seen the worst of the prior increase already or is there still a lagging effect that is yet to come?

Berends: Sorry, I did not get your question fully. Can you repeat?

Weier: The question is on the time lag of the freight rates. I wonder, if you look at the first nine months, have we seen kind of the worst impact from higher freight rates already or is this also a lagging effect on that?

Berends: I would say, let's say the, the cost inflation from logistics, if we can sum it all together under that frame, I wouldn't say it has radically moved. It started to become

bad in the beginning of the year and I would say it's still quite bad. So it's not getting worse. But let's say it's not getting better either.

Weier: Okay. And the other follow up I had was just following up on the storage market in Europe. And I wonder to what extent this is also a market share issue, because you are competing against Fluence here and with a strong, you know, Siemens partnership probably supporting it quite a bit. And Fluence has just recently received a major order from Germany for grid balancing. I was just wondering if Europe is also a market share issue for you in terms of the ability to strike orders?

Agnevall: I wouldn't say that. I mean, we have a strong Energy team in Europe, but I would also say that we continue to be selective in our order intake, focusing on the right customers and the right context. And Germany, if you take that, you know, certain orders, they come with pretty draconic terms and conditions. I think we have a balanced view on those etc. I certainly would not, we are in Europe and we are very strong in the UK, so to say. And also on the Benelux, we are certainly building our presence. So in Europe for the long run, also on the storage side.

Weier: Okay. Thank you.

Heikkinen: Thank you for great questions and thank you for the presentation and great answers, Arjen and Håkan. So, now it's time to close this call. Wärtsilä full year results will be published on January 31st. Before that, we are also hosting a couple of public calls. First will be the CEO mid-quarter call with Håkan, and then followed by pre silent call with Arjen. Welcome to those calls as well. Thank you.

Agnevall: Thank you very much.

Berends: Thank you very much.