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G1AG.DE - Q3 2023 GEA Group AG Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2023 / 1:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the GEA Group AG Q3 2023 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Oliver Luckenbach, Head of IR. Please go ahead.

Oliver Luckenbach - *GEA Group Aktiengesellschaft - Head of IR*

Yes. Thank you very much, and good afternoon, ladies and gentlemen, and thank you for joining us today for our third quarter 2023 earnings conference call.

With me on the call are Stefan Klebert, our CEO; and Bernd Brinker, our new CFO. Stefan will begin today's call with the highlights of the third quarter, Bernd will then cover the business and financial review, and afterwards, Stefan takes over again for the outlook 2023. Afterwards, we open up the call for the Q&A session.

Please be aware of the cautionary language that is included in our safe harbor statement as in the material that we have distributed today.

And with that, I hand over to Stefan.

Stefan Klebert - *GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director*

Thank you very much, Oliver, and good afternoon, everybody. It's my pleasure to welcome you to our conference call today and also to introduce you to our new CFO, Bernd Brinker.

Bernd has been appointed by the Supervisory Board with effect from October 16. He has taken over the responsibility for all the functions for Marcus. Bernd has over 3 decades of financial and capital market experience with global industrial groups, and was most recently for a period of

7 years, Group CFO at the public traded dormakaba Holding AG in Switzerland. I'm very happy that the Supervisory Board was keen in filling the position so fast.

A decision for an interim solution is easier to make instead of waiting for the outcome of a month-long fully fledged selection process. That is the reason why Bernd is initially appointed for 1 only year.

I would like to thank our Supervisory Board that they were able to find a very good solution in a very short time and secured the services of Bernd after such short notice, after the very sad passing of Marcus.

And I'm convinced that Bernd -- that with Bernd, GEA has gained an experienced CFO who will act in the best interest of the company. Bernd, welcome on board once again and all the best in your new role.

Before starting with a review of our third quarter results, let me share some important news which we have published yesterday evening.

Yesterday, the Executive Board and the Supervisory Board have resolved that we will start another share buyback program in the amount of up to EUR 400 million until 2025. The first tranche of the program worth EUR 150 million start tomorrow and will run over the next 6 months. All repurchased shares under the share buyback program will be canceled. And in addition, the current 8.2 million treasury shares resulting from our previous EUR 300 million share buyback program will also be canceled. So in total, we are talking about cancellation of worth about EUR 700 million.

This news demonstrate our conviction in GEA's operating strength, a further development and our Mission 26 targets. Furthermore, the share buyback program does not limit our growth opportunities. It has no limiting impact on our investments, on R&D, spending or potential acquisitions.

Like the previous share buyback program, there is an ESG feature linked to the buyback. The first tranche will be featured with a donation for a GEA specific project with Viva con Agua in Tanzania, which supplies clean drinking water to schools.

I'm coming now to our third quarter results. In an environment of raising interest rates, geopolitical uncertainties and adverse foreign exchange movements, GEA was able to demonstrate its resilience once again and delivered another quarter of solid organic sales growth and strong EBITDA margin expansion.

Order intake has been heavily hit by translational FX. Organically, there is only a slight decline of 1.7% year-over-year. Reported sales have basically been flat year-over-year, but up by 6.9% organically, leading to a further improvement of our EBITDA before restructuring expense by 4.2% to EUR 207 million. The respective EBITDA margin expanded further by 0.6 percentage points to 15.3%.

Since Q1 2020, we have continuously increased our quarterly EBITDA margin year-over-year. And now in Q3 '23, it is the first time that we achieved a quarterly margin above 15% since Q4 2017. This is a fantastic achievement.

And last but not least, we also increased our ROCE significantly by 3.3 percentage points to 33.9%. This is a level of capital efficiency GEA has never achieved before.

With that, I hand over to Bernd.

Bernd Brinker - GEA Group Aktiengesellschaft - Interim CFO

Thank you, Stefan. Good afternoon, ladies and gentlemen. As some of you may already know, I'm very familiar with GEA and its CEO, due to my participation in the selection process for the CFO role back in 2018/'19, where I was 1 of the 2 finalists. Since then, GEA was already and always on my radar screen in terms of strategic development and performance.

I'm impressed with the management team under the leadership of Stefan and Marcus and Johannes have achieved since 2019. And now I'm here to support and drive this journey in order to achieve the Mission 26 objectives and beyond. I'm very much looking forward to closely working not only with my GEA colleagues, but also with the investors and analyst community.

I will now provide you with an overview of our business and financial performance in the third quarter. As Stefan just highlighted, we were able to continue with the strong margin expansion in the third quarter. But the top line here, I'm talking about order intake and sales, was adversely impacted by translational FX.

Order intake declined by 9.1% to EUR 1.25 billion, but was only slightly down by 1.7% when looking at it organically. Three large orders with a total value of EUR 138 million were received in this quarter in comparison to 5 large orders totaling EUR 128 million in Q3 2022.

Q3 2023 was another quarter of strong organic sales growth. Sales was up by 6.9% year-over-year on an organic basis, driven by strong service and solid new machine sales growth. EBITDA before restructuring margin reached 15.3%, a significant 0.6 percentage points increase, and was driven by an improved gross margin and stable operating costs.

Return on capital employed improved further due to the increase in EBIT before restructuring expenses, over compensating the higher capital employed. All divisions contributed to this positive development, except for food and health care technologies.

Due to the strong cash generation in the quarter, our net liquidity remained basically flat year-over-year at EUR 233 million, even though we had a EUR 56 million cash outflow on the second tranche of our share buyback program in Q4 2022. So all in all, another solid quarter.

Looking a bit deeper into the group performance. Order intake was negatively impacted by EUR 96 million translational FX effect, which explains most of the year-over-year decline. In organic terms, the order intake declined by 1.7% year-over-year. Organic order intake growth at the 2 divisions, separation and flow and heating and refrigeration technologies could not fully compensate the decline in the other divisions. From a customer industry perspective, beverage and pharma have been strong with double-digit growth rates, while all other industries reported a decline.

Given the strong order backlog at the end of Q2, sales grew solidly by 6.9% in organic terms. Service sales grew organically by an outstanding 12.2% year-over-year, driven by healthy growth across all divisions. This is now the sixth consecutive quarter with double-digit organic service sales growth. But also new machine sales have been solid, growing organically by 4% year-over-year in the quarter.

The divisional performance has been, however, a bit mixed here, while the new machine business at Farm Tech, separation and flow and heating refrigeration technologies has been growing nicely organically, the other 2 divisions, Liquid & Powder and Food & Healthcare Technologies reported a decline.

The service sales share, because of the strong service sales growth, was 36.2%, 1.6 percentage points higher than last year. The strong organic sales growth combined with an increase in the gross margin and stable operating expenses, resulted in an EBITDA before restructuring expenses of EUR 207 million, an EUR 8 million improvement versus Q3 2022. When looking at the corresponding EBITDA margin, we achieved a significant year-over-year improvement of 0.6 percentage points.

Now let me continue with the figures for the division, Separation & Flow Technologies, which had a very strong quarter in terms of organic top line growth and profitability. Order intake declined by 4.6% year-over-year due to an adverse translational FX impact of EUR 38 million.

In organic terms, the order intake has been growing by 5.8% year-over-year. This increase was driven by our bread and butter business, so orders below EUR 5 million. No order above EUR 5 million has been received in this quarter. From a customer industry perspective, beverage and marine and, to a lesser extent, energy have been the growth contributors.

Organic sales grew considerably by 11.1% year-over-year, driven by strong performance in both the service and new machine business. The service sales share increased on a very high level, further by 0.5 percentage points to 46.2% in the quarter.

EBITDA before restructuring expenses increased by EUR 7 million to EUR 102 million and the corresponding EBITDA margin improved on a high level further by 0.8 percentage points to 26.0%. Higher sales and a higher service sales share resulted in a notably increase in profitability.

Let's move on to Liquid & Powder Technologies. Order intake decreased organically by 5.8% year-over-year. While the customer industry's new food, pharma and especially beverage showed a positive development in this quarter, it was not enough to offset the decline in dairy processing, food and chemical where orders have been delayed.

Liquid & Powder Technologies has won 2 large orders, totaling EUR 122 million this quarter versus 5 large orders of EUR 128 million in Q3 2022. Both large orders were received from the customer industry beverage.

Order backlog is almost unchanged from Q1 2023 at a record level of EUR 1.6 billion. Sales increased organically by 4% year-over-year. While service sales grew organically by an outstanding 20.3% year-over-year, the organic new machine sales decreased slightly by 0.3%.

As in the first half of 2023, the high order backlog has not yet been processed as many larger orders have longer project schedules and are still in the engineering phase. In addition, a few projects are executed at a lower pace due to customer-specific reasons like delays in civil work on the customer side. This explains the muted new machine sales generation in the first 9 months, and is expected to lead to an acceleration of sales growth in the coming quarters.

Due to the strong service sales growth, the service sales share increased by 3.1 percentage points to 23.7% in the quarter. Liquid & Powder Technologies has done a pretty good job in growing their service business over the last years. While service has only accounted for 21% of sales in fiscal year 2021, it stands now close to 24%.

EBITDA before restructuring expenses declined by EUR 3 million year-over-year to EUR 46 million, resulting in a corresponding EBITDA margin of 10.5%, down from 11% in Q3 2022. This was driven by lower gross profit resulting from lower sales volume and less favorable product mix, while operating costs have remained stable year-over-year.

Continuing with Food & Healthcare Technologies. Order intake was down organically by 4% year-over-year. In terms of customer industries, we have seen strong growth in pharma, which was supported for the receipt of one large order of EUR 16 million.

The food industry, however, reported a decline. Sales declined organically by 4.3% year-over-year on the back of a very strong prior year quarter with 13.3% organic sales growth. The new machine business declined by 9.1% year-over-year, whereas the service business has been growing by 6.4%. As a result, the service sales share increased by 3.5 percentage points to 34.4% in the quarter.

EBITDA before restructuring expenses decreased significantly by EUR 12 million year-over-year, and the respective margin dropped from 11.1% in Q3 2022 to now 6.8% in the Q3 2023.

Gross profit declined year-over-year, mainly due to a lower margin in the new machine business, because of insufficient pass-through of cost inflation to customers in some projects. Operating costs have only increased slightly and are almost on prior year's level.

As we are still executing these projects, we will most likely see an impact on profitability also in the fourth quarter due to POC accounting. However, to a lesser extent than in Q3. We have taken steps to address the ineffective pricing strategy and underperformance, and we are quite optimistic that we will bring the business back on track within the first half of 2024.

Moving to Farm Technologies. This division with the strongest organic sales growth and margin expansion in this quarter. As you might remember in the last conference call, it was stated that GEA might see a temporary phase of normalization in order intake -- in order intake growth after several quarters of very strong growth.

At the same time, it was expressed that the company is not concerned about the impact of lower raw milk prices on the business. However, higher interest rates lead to more expensive financing of equipment, and might here and there have an adverse impact on the investment appetite of farmers.

In this quarter, we have seen that the normalization of order intake continued with a slight organic decline of 1.3%. In reported terms, order intake has decreased by 14.3% year-over-year due to currency translation.

Sales increased organically by an outstanding 21.9% year-over-year. This strong development was driven by an impressive organic new machine sales growth of 34.6% year-over-year, mainly driven by automated systems and a healthy service sales growth of 8.3% year-over-year. As a result of the very strong new machine business, the service sales ratio declined on a very high level by [5.5] (corrected by company after the call) percentage points to 42.7%.

EBITDA increased strongly by EUR 7 million, and the according margin improved to 15.7% from 13.6% in Q3 2022. Gross profit has been significantly above prior year's level, driven by strong organic sales growth and better margins, which overcompensated the increase in operating costs.

Finally, let's turn to Heating and Refrigeration Technologies. This division also delivered a very solid set of results. After a pause in Q2, the division continued its growth trajectory and achieved an organic order intake growth of 6.8% year-over-year.

From a customer industry perspective, dairy processing and food were the main growth drivers. With demand from customers for energy-efficient technologies continued, especially in heat pump solutions, including AddBetter solutions and district heating.

The order backlog has further increased year-over-year and quarter-on-quarter to EUR 264 million. Organic sales increased strongly by 8.5% year-over-year, and was driven by both a strong new machine and service sales growth. The service sales share increased by 1.4 percentage points to 37.1% because of the divestments. Adjusted for M&A, the service sales share remained stable.

EBITDA rose by EUR 2 million to EUR 18 million, and the according margin improved from 11.5% in the Q3 2022 to now 13.1% this quarter. Gross profit was up year-over-year due to significantly better gross margin, which overcompensated the increase in operating costs.

Closing the divisional chapter now with the overview on the EBITDA contribution. The first important message is that we have been able to increase our EBITDA before restructuring expenses by EUR 8 million, despite the significantly profit decline of food and health care technologies and the weaker performance of liquid and powder technologies in this quarter. This shows once again the resilience of our business model due to our product diversification.

And the second important message is that translational FX also has been a drag on our EBITDA. It has lowered our EBITDA by EUR 13 million in the quarter. Excluding this FX effect, as we have defined it in our full year guidance, our EBITDA would have improved by EUR 21 million to EUR 220 million.

Coming now to another important topic, which is net working capital. As you might remember, it was stated in the Q2 call that we are confident that the net working capital to sales ratio will come down over the next quarters, and will be slightly below the guided corridor of 8% to 10% by year-end.

We made progress towards this target in the third quarter. The net working capital to sales ratio improved from a year-over-year as well quarter on quarter perspective to now 8.3%.

Net working capital in absolute terms has been nearly flat year-over-year at EUR 449 million, higher advanced payments and lower trade receivables have almost fully offset the decline in trade payables and the increase in inventories.

On a quarter-on-quarter perspective, the net working capital went down in absolute and relative terms from 8.5% of sales in Q2 2023 to 8.3% in Q3. The sequential net working capital reduction is driven by higher advanced payments as well as lower trade receivables and inventories. At

8.3% of sales, the net working capital ratio is within our guided corridor of 8% to 10% of sales and already closer to the target where we want to be at year-end.

What really stood out in this quarter is the strong cash generation. 95% of our EBITDA before restructuring expenses has been converted into free cash flow before restructuring expenses in this quarter. But let's have a look on the details.

Operating cash flow was EUR 236 million, which is significantly above prior year's quarterly figure of EUR 146 million. The increase is mainly explained by the change in net working capital. While Q3 2022 has seen a net working capital outflow of EUR 67 million, this quarter has generated an inflow of EUR 10 million.

The step-up in CapEx related to outflow of EUR 7 million year-over-year to EUR 48 million is absolutely in line with our full year '23 guidance of around EUR 240 million. As a result, Free cash flow is at EUR 187 million and substantially above prior year's quarterly number of EUR 103 million.

Consequently, our free cash flow conversion ratio before restructuring, which is calculated over the last 4 quarters has improved from 34% in Q2 to now 45%. It is still below our target corridor of 55% to 65%, but clearly moving into the right direction.

We are confident that free cash flow generation will continue to improve over the course of the fourth quarter. But as we already stated in the previous analyst call, we do not expect to reach the lower end of our target corridor of 55% to 65% at year-end.

Net cash, including lease liabilities increased from EUR 65 million at the end of the second quarter to EUR 233 million, driven by the net cash flow of EUR 168 million.

With that, I hand back to Stefan for the outlook.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Thank you, Bernd. Let me now come to our outlook for the fiscal year '23. Before coming to our well-known guidance slide, I would like to draw your attention to the performance of our guidance parameters in the first 9 months.

When looking at organic sales growth, EBITDA before restructuring expenses and ROCE, the latter 2 at constant currencies, we are well on track for our fiscal year '23 guidance, which we have upgraded. Just to remember you at end of Q1.

As a result of the strong development in the first 9 months, we confirm our guidance, which we have, as I just said, upgraded in May. Organic sales is expected to grow organically by more than 8% after 8.9% last year. Our EBITDA before restructuring expenses, we forecast to reach the upper part of the range of EUR 730 million to EUR 790 million, with a comparable margin of at least 14% and ROCE should exceed 32%. Please bear in mind that the guidance for EBITDA and for ROCE is based on constant exchange rates.

With rising interest rates and growing geopolitical tensions, we are no longer in a booming environment. Nevertheless, we are still seeing many projects in our pipeline. Overall, we are confident that we can achieve a flattish organic order intake for the full year '23, which confirms GEA resilience even in turbulent times.

Let me close my presentation with this slide. In September, we have been awarded for the second time in a row with Managers Magazine's Investor Starling Award at -- last year, we ranked first among the MDAX companies. This award is based on a comprehensive analysis of capital market communication based on numerous criteria in the categories reporting, investor relations and capital market performance.

The investors and analysts, thank you very much for voting for us. This is a motivation to keep on delivering on our promises, and this concludes our presentation. The next update will be in March with our Q4 and full year '23 figures.

And now I hand back to Oliver for the Q&A session.

Oliver Luckenbach - GEA Group Aktiengesellschaft - Head of IR

Yes. Thank you very much, Stefan and Bernd. And with that, over to you, operator, please be so kind and start the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sven Weier from UBS.

Sven Weier - UBS Investment Bank, Research Division - Executive Director and Analyst

The first one, Stefan, is on 2024. I think you said in an interview today that you expect a decent 2024. I guess that includes also some sort of organic top line growth, even if it's probably quite a bit lower than this year. Now we can all do the math on the order intake, of course, right? And what you just said implies kind of flat numbers for Q4 sequentially, which is not enough to increase the organic.

So I was just wondering what you see in the pipeline, do you see an acceleration of the order intake in the first half then to achieve an organic top line growth or -- how do you see that rising next year on the top line?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Thank you, Sven, for this question. I mean we are living in a very volatile world. I mean all the geopolitical issues, inflation, interest rate. It's not so easy to predict.

However, what I can clearly say, we see a very good pipeline. I mean everything we can see in our CRM system looks interesting and good. We see, of course, that especially larger projects, customers have a tendency to postpone, to think twice, but there also might be upside potential once the situation is maybe calming down a little bit in the environment that we see more and more things flipping in again. So it's not that we don't have a good picture for the future, it's more that we see that customers are thinking twice that the overall situation is postponing decisions.

But yes, we look with a certain optimism into [2024] (corrected by company after the call), and it's also right, I mean even if we don't give the guidance for '22 -- for '24 today, it's clear that you can expect a further growth in sales next year. And also, we have, of course, also the intention to increase our profitability further. We are on track on our Mission 26 target which are -- where we promised to deliver more than 15% EBITDA at least at the year '26. And we also promised to see organic growth between 4 and 6 percentage points per year. Now 2 years in a row, we had a growth of more than 8%, and that will not be the case next year, but it will still be a growth next year.

Sven Weier - UBS Investment Bank, Research Division - Executive Director and Analyst

That's very clear. And I was just wanting to follow up because on the large orders, I thought it was actually not so bad in Q3 sequentially, but it was also the base orders that were quite a bit softer.

So is that more on the transactional business? What do you see there? Would you say there is a bit of a reacceleration than in the first half on just on the base order side, which I know it's also not driven by, of course, your service business. But yes, I thought that was also a bit softer in Q3.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. I mean, base orders might have a certain tendency to be maybe early cyclical, while larger orders might have a tendency to be more late cyclical. That is maybe mainly based by the decision-making processes.

I mean you also know Sven that very often, we see orders in the size of EUR 50 million, EUR 60 million, EUR 80 million, and we have many of them in our system and in our pipeline, talking to customers. And of course, if some of these ideas come true and we get the orders, that will also make a difference and will boost the order intake.

So we -- as I said, we are quite optimistic, but it's sometimes not so easy to predict, especially not if it is about a quarter, because the quarter is a very short period of time. And very seldom we can predict precisely when a customer is placing larger orders, because that is also following a lot of internal processes, approvals. And then you also know that we only book the orders once we have got the down payment, it depends on the countries where it comes from.

Some days, it's very difficult to, let's say, to predict in which quarter is happening. But what I simply can confirm again we see a good future for GEA. As long as people need to eat and drink, we are in safe harbor as long as we do not do any serious mistakes, which I don't see we do. So quite optimistic for you here.

Sven Weier - UBS Investment Bank, Research Division - Executive Director and Analyst

And may I just lastly ask on the buyback because, I mean, this time, you're going to cancel the shares which I think is an important difference to the previous buyback, where I think you thought you could use the treasury shares in M&A. So should we take that as an additional sign that more bigger M&A is actually quite unlikely because you cancelled the shares this time?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. I mean, in the meantime, we also generated additional cash. And every week, every day, we are generating cash and this will improve over the time our firepower as well. So we -- the share buyback is not at all that we say there is no opportunity for M&A, however.

And I mean you feel that since years, we are very careful in what we do. We look really in detail to the companies. We also have to consider our multiple and the multiples of the potential targets. Do we have enough synergies to bridge that end and -- but we still have significant firepower, minimum EUR 2 billion, which we could do without any capital increase activities -- and this is, I mean, gives us enough potential to do any M&A whenever we would have a decent target, we would be able to do that without losing investment grade, of course.

Sven Weier - UBS Investment Bank, Research Division - Executive Director and Analyst

It's very clear.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Thank you, Sven.

Operator

We will now move on to our next question. Our next question comes from the line of Klas Bergelind from Citi.

Klas Henrik Bergelind - Citigroup Inc., Research Division - MD

So a couple of questions from me. So obviously, solid sector results, orders look solid in the key divisions, and we got a decent buyback. But just on the guide for the year, you're leaving this unchanged. You're still guiding EBITDA towards upper end EUR 790 million, excluding FX and say that FX is a negative 25 for the year, that's EUR 765 million all in. It would imply EUR 200 million of EBITDA actually below in the fourth quarter and a margin of 13% to 13.5%, and that's nearly 10% below consensus.

And when we look at the divisions regarding lower on LPT and FHT, but that's quite small. So my question is really on FHT where the implied guide looks pretty weak. I know there's a lot of detail here, but it's important to understand, if you left the guidance unchanged despite the strong third quarter, indeed signaling a weaker fourth quarter, or if you're leaving the guidance just as a conservative move on your behalf. I'll start there.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Maybe I'll take that question. I mean, first of all, let me maybe explain in FHT, we also have a lot of POC contracts. Let's say, where we do POC, and that means that also we will see some of the things and issues kicking in Q4 as well. Now, we could not book all provisions in Q3. This is simply because of the fact that also we do POC here for the larger projects in FHT.

Well, what should I say with the guidance? I can tell you we are very optimistic that we will achieve our guidance. You know that we have a certain policy that we rather like to under promise and over deliver. So that's what I can say. We feel very good and very confident that we reach our guidance.

Klas Henrik Bergelind - Citigroup Inc., Research Division - MD

Yes. No, I appreciate this one. It's just the -- just the simple mass backing out FX just quite a much weaker margin in the fourth quarter. And I guess are you saying that you expect FHT to be the main sort of view conservative there, that being the main drag rather than that you see other divisions sort of getting weaker quarter-on-quarter?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

I haven't -- maybe -- I don't know if I got your question right because the sound quality is not so good here. I think as I mentioned, it's -- I understood that you said, why don't we upgrade the guidance because if we consider that FHT is on track again, then it would not be sufficient headroom in the guidance anymore.

And my argument was that FHT is also doing POC, and therefore, we also see some of these bad projects also kicking in, in Q4, simply because of the fact we cannot build the provisions, and we need to digest it time by time with the POC sales. And therefore, all this together makes us confident that the guidance is still okay-ish, even if we know and that's the chart I showed you. If you look at the 9 months numbers, it looks good, yes.

Klas Henrik Bergelind - Citigroup Inc., Research Division - MD

Okay. No. And I apologize, we got a lot of questions from investors today on the implied fourth quarter, so that's why I asked the question.

And my second one is on the buyback. Obviously, Sven touched on it, but -- just if you could comment a little bit on the opportunities out there from an M&A point of view, beyond the buybacks, (inaudible) the packaging, the [indiscernible], whether you still see a healthy pipeline? Or if there is anything that is sort of signaling that you're struggling to find targets, multiples that you hire, et cetera, which obviously the combination here of a buyback and bolt-on M&A going forward.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes, there is nothing, let's say, in the pipeline where we could expect that we do any significant or any meaningful M&A acquisition in due time. And as I said, I mean, of course, multiples are coming down, not only for GEA also for other companies, and that appears to be a good opportunity to make M&A. But on the other hand, you know a lot of very interesting companies, which would be interesting companies for us are family-owned. They don't care so much about the multiples at the stock market right now, they are more long-term oriented. They have no the pressure to sell.

And that is at the end, that there are simply in our industry segment, a very little number of significant targets at the market. And then that combined with our strategy that we always said we can achieve Mission 26 without doing any acquisition, we don't need to do any stupid things. We are not under pressure to do any M&A, but we are very much open to do M&A at the moment we find the right target.

But we are very, very selective, therefore. And what we also clearly considered when we sized the share buyback program, that it will not kill our ability to do significant M&A in the future as well. Now we do both now. That's also something we perceived from you and a lot of your colleagues, why don't you do a share buyback was very often the question, and that also [made] us thinking, and we think it's a good capital allocation for the time being. It doesn't hinder us to do meaningful M&A in the future, but that all depends on having the right target and finding the right target and that in our industry segment not easy, and we are very selective.

Klas Henrik Bergelind - Citigroup Inc., Research Division - MD

Yes. I agree. That makes sense. One quick final one on the margin in FT. It's quite interesting to see that the service sales share is down by 5.5 percentage points. And despite your improving the margin to this extent, there has been a remarkable improvement in the profitability of FT, would you say that pricing is running ahead of cost for your (inaudible) division? Or is this an underlying improvement? Are you over-earning do you think? Or is this an underlying improvement to the margin in for (inaudible)?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. I mean the improvement of margin in FT comes from various factors. First of all, I think last year was not the best year for FT. We had also impacts from, at least in the first quarter from -- you might remember on the Hygiene business where we did not increase prices fast enough, though this is also something you have to take into consideration, if you look at the growth of profitability.

However, the team is doing a great job here. We have also an extremely interesting growth that gives us if there's a full workload in the production that gives us over absorption in the production services is growing. Digital solutions are growing and that altogether makes the profitability growing.

And that's also very, very good to see, especially for me because you also might remember that when I started in 2018, a lot of questions were always, why do you have Farm Technology? Why do we keep Farm Technology during that time? Farm Technology was below 10% EBITDA, and now we are really on absolute great numbers, and we showed that we really could create a lot of value here for the companies and for the shareholders.

Operator

We'll now move on to our next question. Our next question comes from the line of Sebastian Kuenne from RBC.

Sebastian Kuenne - RBC Capital Markets, Research Division - Analyst

I have 2 questions. One relates to currency and one to the project pipeline. In currency in SFT and FT, when I do the calculation for the order intake, it looks like there's a negative currency impact of 10% for SFT and 13% for FT. And I was wondering whether that relates to regions where you sell

and you have a very strong headwind or whether this includes readjustments of the existing order book for currency effects? That would be my first question.

Bernd Brinker - GEA Group Aktiengesellschaft - Interim CFO

Okay. Clearly, so Bernd here. Hi. Nice to meet you, Sebastian. We talk only about currency translation impacts, which are a result of, let's say, the translation of the numbers into our euro environment. So there is no adjustment in terms of order behavior.

Sebastian Kuenne - RBC Capital Markets, Research Division - Analyst

But that means you have an FT. You have a 13% currency effect. And when I look at the currency development, the yuan is down 12% year-on-year. Japanese yen, 11%. Dollar, 7% in Q3 versus Q3 on average, what currency was it that hit FT so hard?

Bernd Brinker - GEA Group Aktiengesellschaft - Interim CFO

So what we have in not only in FT, but also in ST, we have the Argentina's peso. We have the rupees from India and we have also, I believe, the Turkish lira. And in addition, in all our business, we have the U.S. dollar.

Sebastian Kuenne - RBC Capital Markets, Research Division - Analyst

Okay. That would explain that. Good. And then regarding project pipeline, you mentioned earlier -- Stefan, you mentioned earlier that the higher interest rates affected farm investments. Regarding larger projects, do you see delays in the tender processes or even renegotiations at this point where customers say, "Okay, I need to go back to the drawing table, or do you even see renegotiations of existing orders? Or does that not happen at the moment?"

Operator

Please standby while our speakers reconnect.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Customers are, let's say, are terminating, all of which are in place. That also, I would say, different to other machine-building companies where that might have from time to time.

Renegotiation for the existing projects, we also do not (inaudible) a contract. We even see sometimes our opportunity to increase placed orders in terms of value when customers are coming up with additional ideas or additional visual and we can also generate additional sales from that or normally, there is rather a tendency that place order is decreasing over the time then decreasing, and the delay then comes from the fact that customers are thinking quite if it is the right time that to invest if the economy is stable enough -- I mean you know all these uncertainties, and that is causing some delays or a lot of delays in large projects. And it's not that projects are canceled or customers are saying, now we've spent 1.5 years to plan a new brewery, but now we made a decision to don't do the brewery. It's simply that they are normally postpone it then.

Sebastian Kuenne - RBC Capital Markets, Research Division - Analyst

Yes. Yes. There was a disconnect of the phone line here. In the first part, you said there is significant delays of projects, but no cancellation is just a pushout. Is that correct?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

That's what -- it is absolutely unusual or I do not know if it -- it definitely did not happen for any significant orders in (inaudible) here in GEA that any or was cancelled. And that's normally also not what customers are doing. If the order is placed, we can be extremely sure that the order is executed.

It might be sometimes that they say, okay, we do it a little bit later or please postpone it a little bit, things like that or our building whenever it is associated with the new building, we are not yet ready to the building because we have a (inaudible) of 3 months in the building. But there is no risk, let's say, that this plays any significant growth that customers are starting to change the order.

Sebastian Kuenne - RBC Capital Markets, Research Division - Analyst

Understood.

Operator

We will now move on to our next question. Our next question comes from the line of Max Yates from Morgan Stanley.

Max R. Yates - Morgan Stanley, Research Division - Equity Analyst

I just want -- I just wanted to come back to the Food & Healthcare Tech margin. And particularly, that comment where you talked about in the release that cost increases were not passed on to customers appropriately. I mean, could you explain kind of exactly what is happening there? Because I think kind of the commentary for most of this year has been that you've put up prices and kind of appropriately offset the cost. So this is obviously a slightly new comment. It's something that was in your backlog? And I guess, how do we get confident or what exactly happened? Sort of why did it happen? Was it slow to put up prices? Was it something else? Was it tougher market conditions that customers push back.

And then secondly, sort of how do we get confidence that this is an issue that's isolated just to this division? Or is this something that we will likely see kind of unfold as you deliver on your backlog in other divisions? So just fleshing that out would be really helpful.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Maybe I answer the second part first. We definitely don't see in any other division. Where we saw it was in FT last year in Hygiene business. This is what we also explained and we changed it extremely quickly to be extremely good. So that's the reason why you see this year, much, much better margins.

If you also look at the improvement of our margins even in times where our personnel costs are going up. And if you look at the gross margins, we are reporting, we see that we are really very good in executing and [parting] over prices.

However, in FHT you also know that we change the company management of the division about 1 year ago, and the -- there have been some realities in the adaptation. We have acquired a decentralized management guiding system that we have a lot of entrepreneurs in the organization. So this is nothing you see centrally. That's also the reason why you can see the vast majority of the company understood it.

I also mentioned last year, I think here in the call that we started very early in (inaudible) increase. I personally did call with all the top managers and encouraged them to increase prices. But like always, is a huge organization. You might have some black sheep sometimes who don't do that. And really exactly what happened here and we are about to fix it.

We need to digest a little bit more in the Q4, as I said, is because of the fact that we use POC here, but it will not harm our guidance or our overall profitability because on the other hand, we have some out-performance, and next year, I'm very optimistic that we can get rid of that.

Max R. Yates - Morgan Stanley, Research Division - Equity Analyst

Okay. And just my second question. I mean, obviously, you mentioned that we're in a kind of volatile -- well volatile environment, which is absolutely fair. I guess, what I wanted to understand is, obviously, for next year, there are a range of outcomes in terms of the global economy, what happens in Europe.

So I just wanted to understand, at this stage of sort of sales growth whether you grow a bit, whether you're flat, whether you're down a bit, I don't know, it's difficult to say. Are there any kind of immediate cost actions that you're taking across the business to prepare for what looks like at least a slower year of growth versus what we've had in the last couple of -- versus what we had in the last couple of years?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes, really. I mean, first of all, let me repeat what I already said, also for '24, you can expect that GEA is growing and you can expect that GEA is improving the margin further. That's a very clear statement. I maybe don't give complete guidance today.

Of course, we are also looking at our costs. We are also doing workshops at the moment, already where can we take out cost where do we see based on the order intake delivered this year, already some slowdown. Where do we have overcapacity. This is exactly what we are doing and where we are managing the costs very early and very proactively so that this gets me really confident that we continue our good journey of the next year in a more rough environment compared to what we saw in the last 2 years.

Max R. Yates - Morgan Stanley, Research Division - Equity Analyst

Just a very quick final one. Just in terms of the conversations that you're having with customers around price rises. Obviously, there's a lot of moving parts, some of the raw materials are coming down. Wages are still going up.

Are you seeing in any of your segments, kind of customers, particularly, I don't know if things -- where demand is clearly slowing on orders, like FT, are you seeing customers now actually starting to kind of push back on price and in some cases, demand lower prices? Or any comments on what you're seeing there would be helpful.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. I mean it's always a discussion negotiation of our prices in (inaudible). Of course, when inflation kicks in and every customer has a very clear understanding that while we need to grow significantly that was also [indiscernible] opportunity we use the vast majority of our organization, and we did it very successfully.

Of course, there is a discussion going on. Of course, we also say to our suppliers what comes up, needs to go down. But it always has something to do with the market position. We see market value with the performance of the organization. So we also have a very clear message out. We do not buy any order intake by prices. We keep the prices up. We -- and we have a significant market position like you know. So we will definitely not start to enter at any price wars. We would also not participate in price wars and we keep the prices where they are.

Max R. Yates - Morgan Stanley, Research Division - Equity Analyst

That's very helpful.

Operator

We will now move on to our next question. Our next question comes from the line of Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

The first one I have is on duration of your backlog. If I look at it on an absolute basis, your backlog is down 2% year-on-year as some of which could be due to FX. But when we look at the phasing of this backlog and more keen to understand, like the visibility that you have from Q3 backlog for 2024, and we compare that same point last year for 2023, can you talk about how does the duration of the backlog compares versus earlier period also on the back of like we have seen some slowdown in base orders, but the larger orders are still doing okay. So I want to know how the duration of backlog has changed versus 4 quarters ago. That's question number one.

Stefan Klebert - *GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director*

I mean, you are right that the backlog is slightly below the previous year. But in fact, (inaudible) it's in our company over the mix of the longer lasting projects and the medium and short lasting projects as -- it also could be that a backlog which is 2% lower than the year before, gives us a long duration of workload, simply because of the sale of the projects which are in.

So that's difficult to answer the question. But as I said, we expect over for next year, you can imagine that we are already in the budgeting process quite advanced and that we see additional and good growth order for next year, and that should make you optimistic that the order backlog is a good starting point. And I also need to mention that at the end of last year, the back of what is really high. It was also a very good one compared to the years before.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

Sorry, the line was not clear. Maybe I'll follow up with Oliver after the call. And the second one I have is on LPT service growth. You had 20%, which was a very strong number and a bit of acceleration versus what we have seen in LPT as service growth earlier in the quarter.

Maybe if you can talk about what's driving this very high service growth in LPT, and are there any refurbishment projects or this is simply like what type of service it is when it comes to 20% growth in third quarter?

Stefan Klebert - *GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director*

Very good question, Akash. Thanks for that. I mean in LPT, it's also that we brought in new manager here for service like you might remember, and what is our main driver here are service contracts, yes.

This is -- it's a different business as we compared to as have seen SSP is mainly based on spare parts. And on an LPT, the significant growth we see is mainly based now on service contracts and also on a very active approach of customers of the installed base we never conducted actively.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

And the final one I have is more of a housekeeping question. We saw that corporate cost in Q3 was quite favorable compared to last year. And if I look at year-to-date, it's like 7 million, 8 million lower than last year. Any comment on where should we end up on full year corporate cost?

Bernd Brinker - *GEA Group Aktiengesellschaft - Interim CFO*

Bernd here, (inaudible) here. So what we expect for the full year number (inaudible) in Europe. You're right, there was some lower cost for Q3. This is on the one hand side, you save some money in tech to original expectations, and there are also some allocation businesses, which are business (inaudible).

Operator

We'll now move on to our next question. And the question comes from the line of Debashis Chand from Societe Generale.

Debashis Chand - *Societe Generale Cross Asset Research - Equity Analyst*

Sorry, the line is pretty bad after the disconnection so apologies for the duplication of questions. I just want to come back on pricing. So just given the high interest rate environment and with inflation still material headwind. I just wanted to know like how do you see your visibility to increase prices next year? And perhaps, if you could highlight other levers you have at your disposal to improve margins if there is less support from pricing next year?

Stefan Klebert - *GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director*

Yes, of course, I mean, we also continue to increase prices next year. It is of course, not anymore possible in such a huge rate line was positive the last year (inaudible) last year and (inaudible) ensuring the cost which will increase in our house is something we need to pass on to our customers. It's very clear.

And normally, there is also a clear acceptance for that, though you should not worry about prices because we actually also despite some very few [indiscernible] exceptions, quite successful in bringing prices up.

Debashis Chand - *Societe Generale Cross Asset Research - Equity Analyst*

And I have another follow-up on FHT margins. You all -- we already were flagged in the second quarter conference call. And the comment was like you will be able to get the margins back on track by end of this year. But now it looks like it has been pushed to the first half of 2024. So has anything materially changed over the last 3 months when you have looked at these projects in the backlog, which maybe you may not have seen in the second quarter?

Stefan Klebert - *GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director*

No. But Debashis, this is what I just said. The impact of the reason why we also will see some impact also in the Q4, it's simply based by the fact that we have a POC contract here, which we can -- where we can -- where we are not allowed to build sufficient provisions, let's say, at the moment we recognize it. So we have to digest it while we are executing the project in the POC sales. But it will not have a significant impact anymore in the first half year next year.

Operator

We will now move on to our next question. Our next question comes from the line of Christoph Dolleschal from HSBC.

Christoph Dolleschal - HSBC, Research Division - Head of Equity Research for Germany

I have 3 questions, if I may. The first one is on LPT, if you could just explain to me a bit more why the margin is down. You're saying it is due to lower sales, or I mean less favorable product mix. On the other side, the service share significantly up. So can you elaborate a bit more whether you probably also were buying contracts because you said you brought in new management on the service side? That would be the first one.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

I mean LPT is always a mix of the projects we execute here. And in the project business, we always have sometimes projects, which are ending up much better than tabulated and sometimes we also have projects which are not creating a GEA March we expected, and also here, we have this one single project at [Aviation] which was quite significant, that might indicate the overall margin. But this is nothing which is -- should be the underlying problem.

Christoph Dolleschal - HSBC, Research Division - Head of Equity Research for Germany

Okay. Then the second one would be on SFT and the margin now topping at 26%. Would you see 26% as topping? Or is there some more room going forward because you also elaborated on being able to grow the margin in the group next year?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

I like that question. I always -- I mean it is -- first of all, I think it's a fantastic margin, and there are some competitors who I think are really (inaudible) when they see this margin, how we ever can end up with the margin of that.

Nevertheless, I think there is always opportunity to improve in any company, in any business. But I would say this is really a fantastic margin, though if we can keep that or slightly further increase, I think everybody should be happy because this is really outstanding. This is excellent.

Christoph Dolleschal - HSBC, Research Division - Head of Equity Research for Germany

Could I rephrase the question. Differently, but I wanted to say that positively, I was rather thinking like whether, but it's a good answer that you're saying you're happy to keep it.

And a more general one on the key customer industries and basically following up on what some of my predecessor's said. Could you give us a bit more of a general picture where you see your key customer industries performing? Because if I look at your orders from, let's say, the food and beverage guys, it is a bit of a mix and somewhat inconsistent picture because some of your divisions have growing business, others not.

So can you rather give us a more general view on which industries you see as currently being more in trouble and also you mentioned some delays on some of the projects, which key customer industries are that specifically?

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. I mean, let's say that's also a good thing of GEA that we are in a lot of markets, and you always have some swings upwards and downwards, and it is, let's say, always balancing. The beverage is really good, but you also might remember that during COVID times, beverage was significantly a bit down, especially in the beer market for that because of the close of all this restaurant, pubs and bars.

Pharma has been strong. I really think that pharma continues to be strong because there is increasing need, increasing business large. There is a lot of R&D going on in pharma, which also will help us. Dairy processing is a normalization, I would say, after a very strong year. That's also the same

for dairy farming, where we see a little bit decline that was this year, we had which was based on mainly lower milk prices, but we also see that there is a turnaround here that milk prices are going up.

If we now see sooner or later decreasing interest rates, also dairy farming will pick up again. We see -- yes, marine is an interesting and dynamic, and we also are quite optimistic that also the new food topic will, after a kind of normalization come back in '24, later '25. That all in all, we see more, let's say, more upside potential and the medium to long term one.

Operator

There are no further questions at this time. So I'll hand the call back to Stefan Klebert for closing remarks.

Stefan Klebert - GEA Group Aktiengesellschaft - Chairman of the Executive Board, CEO & Labor Director

Yes. Thank you, operator. So thanks for your interest, thanks for your good questions and for participating in our call.

Let me just summarize the key takeaways I think, one, I hope that we have been able to show that we have a very good operating performance. Also in Q3, we have been 6 years the first quarter where we generated a margin above 15%, and we are very well on track to achieve our upgraded guidance for the year '23.

The announcement of the share buyback shows our confidence in our markets and also in the performance of the company and that we are on track on Mission 26. We also see further organic sales growth and margin improvement next year.

And with that, I close the call.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please stand by.

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