Siemens Energy Q3 FY26 Pre-Close Group Call

Operator

- Good afternoon, and welcome to Siemens Energy's pre-close group call for the third quarter of fiscal year 2026.
- Before we begin, please note that today's call is being recorded. The recording will be available on Siemens Energy's website until the quarterly results are published.
- Before we start, I would like to remind you of the Information and Forward-Looking Statements disclaimer, which applies to comments made during this call.
- At this time, I would like to hand over to your host today, Mr. Tobias Hang. Please go ahead, sir.

Head of IR

- Thank you so much Moritz. Good afternoon, good evening, and a warm welcome to the Siemens Energy pre-close call for the third quarter of fiscal year 2026.
- The purpose of today's call is to reinforce our previously communicated guidance and to recap the key messages that we have consistently shared over the course of the quarter, including during our Q2 results, at conferences, and in our ongoing investor interactions.
- We plan to publish our Q3 FY26 results on Wednesday, August 5 at 7:00 a.m. CEST, with the webcast scheduled for 10:00 a.m. CEST that morning. As usual, we will share our company-compiled consensus one week ahead of the earnings release, and our silent period will begin immediately after this call.
- Let me briefly guide you through today's agenda. I will start with a short update on the current environment, followed by our perspective on market developments, demand and pricing trends across our businesses. I will then touch on seasonality and conclude with a few additional remarks related to the third quarter. We will conclude the call with a short Q&A session to clarify some of the statements given during the call. Please remember that we cannot provide additional information than the information we have already provided during the quarter.

Let me start with the current environment.

- From a business perspective, the impact from the Middle East conflict continues to be limited. As in the previous quarter, any effects are primarily related to logistics and timing rather than underlying demand, consistent with what we have communicated before.
- At the same time, we continue to see strong interest in new projects across the region. In addition to local initiatives such as Vision 2030, which are accelerating the shift from oil to gas, disruptions to existing power infrastructure during the Iran conflict have further increased the need for additional capacity and higher reserve margins.
- Against this backdrop, we were recently selected to provide gas and steam turbine technology for the 2.6 GW Taweelah C Independent Power Producer project in Abu Dhabi – a project that we booked in Q3.

- Importantly, we see no major operational disruptions and overall, no material impact on our guidance, underlining the stability and resilience of our organization, which resulted in a smooth execution in recent months.

Let us now turn to the broader market environment.

- Our core message remains unchanged. We are operating in a structurally growing electricity market, driven by electrification and long-term demand trends.
- Market momentum remains very strong. Based on the current visibility, we now see a sustained gas turbine market in the range of around 110 to 120 gigawatts on average per annum for the upcoming years.
- Importantly, demand is not driven by a single customer group. While data centers and AI-related demand remain an important contributor, order intake continues to be well diversified across geographies and customer types.
- The gas market remains clearly supply-constrained. While tighter supply conditions are attracting additional entrants, including smaller players and alternative technologies, this is expected given the market conditions, however, we do not see this as a meaningful competitive threat. Announced capacity additions for large gas turbines meet our current market view and the overall market behavior is very rational. The additional capacity additions we are seeing in the industrial gas turbine space do not affect the overall supply-demand imbalance, as those products cannot substitute large gas turbines in the medium term when capacity, efficiency and total lifecycle costs are more important factors than short-term availability.
- Pricing across our markets remains favorable. In particular, faster delivery continues to command a premium, reflecting that for many customers speed is currently more critical than efficiency. This is especially visible in projects related to hyperscalers and data centers, where pricing remains particularly strong. This accounts for Gas Services and Grid Technologies products and solutions.
- Overall, we continue to see no signs of demand weakness, and order visibility remains high, well beyond the current fiscal year. As we already mentioned, we see a strong project pipeline for Gas Services for fiscal year 2027.

Let me now dive deeper into Gas Services.

- As already indicated during our Q2 results call, we expect the third quarter to be another strong quarter, and this view remains unchanged. We continue to see that the strong market demand has carried into Q3, and we do not observe any slowdown.
- A friendly reminder that quarterly order intake may be volatile due to the large-project nature of the business. As mentioned before, this can result in timing shifts of projects between quarters. Accordingly, performance should be assessed on a full-year basis rather than focusing on individual quarters.
- From a structural perspective, the market remains supply-constrained rather than demand-constrained, with strong backlog visibility and a growing number of commitments including reservation agreements. It is also important to clarify that slot reservations are not speculative in nature but rather represent structured

agreements that are typically converted into firm orders within a defined timeframe.

- Siemens Energy's focus in relation to slot reservation agreements is the conversion of those into orders within on average 6-12 months, which is also visible in our large order backlog of around 60 GW as of Q2 Fiscal Year 2026. This short-term conversion offers us the opportunity to benefit from increasing pricing dynamics and a better planning horizon. Generally, we apply a rigorous project-selection process, enabling us to work with a limited number of clients and maintain long-term engagements supported by sustained service opportunities.
- We have also continued to expand capacity in a disciplined manner. The capacity additions we have announced in recent years are not only justified but necessary to address the structural supply demand imbalance in the market. Even with additional capacity coming into the market, we continue to see tight supply conditions.
- The progress on our capacity expansion is running well. In the second half of this fiscal year the first phase of the medium sized gas turbine expansion will come online, adding 30 additional units to the 50 we were producing per year before. This offers us the opportunity to increase our deliveries by more than 1 Gigawatt in comparison to the previous quarters. The big step up in capacity additions will take place in Fiscal year 2027, when we will be able to produce around 50 large gas turbines per year in comparison to around 35 units before.
- Turning to profitability, the current quarter may see benefits from a stronger operational performance, as we observed already in Q2, including potential positive FX impacts.
- Typically, service revenues based on long-term service agreements follow after a lag consisting of turbine delivery and warranty phase, which means that the full benefit of today's order intake will materialize in general 3 years after installation. However, we already see that pricing strength in new unit business is carrying over into service contracts, which supports a gradual improvement in service margins over time.
- On the supply chain, volumes are increasingly secured well into the beginning of the next decade. Supply chain constraints remain present but are significantly less severe as we are focusing on having the framework agreements in place to serve our new unit and service activities with external and our internal supply.

Let me now turn to Grid Technologies.

- The underlying market remains extremely strong and continues to be driven by the global need to expand transmission capacity, integrate renewables, and replace aging infrastructure.
- Grid is still, in our view, somewhat underappreciated by the market despite being one of the most attractive long-term growth opportunities. Regionally, Europe is currently ahead in terms of investment, while momentum in the US is clearly picking up, and several other markets are showing strong growth.
- In the US we saw a strong demand, also from data centers related projects. We have booked around €2 billion orders related to data centers in the first half of the year, which reflects almost the same amount as to the entire Fiscal Year 2025. As

mentioned, customers in the US are also willing to pay a premium when the equipment can be delivered faster. Our portfolio for data center consists of power transformers, circuit breakers, Statcoms and general solutions to connect the equipment.

- From an operational perspective, we continue to be very well booked, with high backlog visibility and strong book-to-bill ratios over multiple years.
- Capacity expansions are progressing well, and the benefits from these investments are increasingly visible in both growth and margin development. We could raise our guidance to a revenue growth of 25 to 27 percent (from 19 to 21 percent before) and the profit before Special Items target to 18 to 20 percent (from 16 to 18 percent before) for Fiscal Year 2026, already meeting our mid-term targets for Fiscal Year 2028 two years earlier!
- Margins continue to improve steadily, driven primarily by operating leverage, productivity gains, and execution improvements, rather than pricing alone.
- Another important factor is our continuous capacity expansion which is taking place globally. We are expecting a step up in revenue in the second half of the year as several brown-field expansions in Austria, Italy, China and Saudi Arabia come online. Between 2026 and 2030 we will further increase capacities for Large Power Transformers and Switchgears by 50 percent, which accounted to 45 percent of the revenues in Fiscal Year 2025.
- Overall, growth remains limited by execution capacity rather than demand, and we continue to see a very robust outlook for this business.

Let me now turn to Siemens Gamesa.

- As already communicated, on order intake, a significant portion of offshore orders has shifted to fiscal year 2027. As a result, order intake in the third quarter is expected to be mainly driven by our general baseline orders in Onshore, related mainly to repowering orders in the US, comparable to Q2 Fiscal Year 2026.
- For Siemens Gamesa, our priorities remain the same. The focus in Onshore remains on execution and a cautious rollout of the new products. In Offshore, we continue to invest in capacity and productivity to deliver the existing backlog, while Service focusses on profitable operations after negative impacts from the years before due to the fixing and mitigation of quality issues in the installed 4.x and 5.x fleet.
- Our key message remains unchanged. We expect profitability to improve over the course of the year, with a negative first half, a positive second half, and a breakeven result for the full year.
- Cash flow, however, is expected to remain negative, turning positive in fiscal year 2028 as mentioned previously.

Let me briefly comment on Transformation of Industry.

- The business has shown a strong operational turnaround and continues to deliver solid margins and stable growth. However, in the context of our overall portfolio, it remains less central to our electrification strategy compared to our other businesses.

- Let me briefly comment on the article published on Transformation of Industry a couple of weeks ago.
- Siemens Energy routinely reviews its portfolio to ensure every business has the best strategic and financial conditions to compete, invest, and grow over the long term. As part of this ongoing work, we are assessing the best long-term setup to accelerate the growth journey for our Transformation of Industry Business Area - always guided by what best serves our customers, employees, and shareholders. No decisions have been made.
- We therefore continue to focus on operational excellence and active portfolio management in this segment.

Let me now briefly address seasonality.

- In Gas Services, the historical pattern slightly changed over the past quarters, mainly driven due to a higher ratio of new unit business, which was visible in the second quarter. At the same time the new units running through the P&L are coming with better margin profile uplifting also the margins in the quarter, where less transactional services are conducted. Therefore, the lower margins in the second half of the year are expected to be less pronounced than in prior years.
- We continue to expect Gas Services orders in Q4 to be below the strong levels of the first three quarters, reflecting normal project phasing as we saw in the previous fiscal year. However, we anticipate a strong start to fiscal year 2027. Q3 remains a very robust quarter, as previously highlighted.
- For Grid Technologies, revenues are expected to increase in the second half of the fiscal year, driven by brownfield expansions that add capacity to existing assets and support a corresponding improvement in margins.
- Capex for FY26 remains at around €2.2 billion. Given that we spent only around €700 million in the first half year, capex will increase significantly in the second half of the year.
- As indicated at the beginning of the year, we expect the reconsolidation line at Proft before Special Items to be around negative 400 million Euro. We see it more pronounced in Q3 but still peaking towards the end of the fiscal year, as in previous years.

Let me briefly touch on cash flow and capital allocation.

- Our key message remains unchanged. Cash generation is structural and supported by strong profitability, advance payments, and a growing backlog.
- We expect cash conversion to remain strong for the full year. Even after dividends, share buybacks, and ongoing investments, we expect the business to remain in a solid net cash position.
- After we finished our first €2bn share buyback tranche shortly after our Q2 results, we already started the accelerated €1bn share buyback early June. After we will finish this share buyback tranche, shareholder returns in Fiscal Year 2026 will be at €3.6bn.

- We have upgraded our free cash flow guidance to around €8bn from €4-5bn before. We continue to review our capital allocation framework and will provide a more detailed update at our extended Q4 analyst call later this year.

Finally, a few additional remarks.

- In the United States, we continue to see a very busy market environment, with strong demand but also capacity constraints on the EPC side and typical permitting delays. Importantly, we have not seen any cancellations or any delays on our side, and our contractual structures provide a high degree of protection.
- In Germany and Europe more broadly, demand remains robust despite ongoing discussions around energy policy. We continue to expect meaningful order intake, including several gigawatts of gas turbine orders in Germany over the course of the calendar year.
- Overall, we continue to operate with a strong focus on selectivity, pricing discipline, and close customer engagement across all regions.
- Finally, a brief comment on foreign exchange. As we guide on comparable revenue growth - excluding currency translation and portfolio effects - we continue to see higher comparable growth than nominal growth. For the third quarter we expect comparable revenue growth to be around two hundred basis points higher than nominal growth at Group level, compared with five hundred and sixty basis points in Q2.

Let me conclude with the key messages.

- Demand across our markets remains structurally strong, global, and diversified. Market momentum continues to be very robust, and the supply-constrained environment supports strong pricing and visibility.
- In Gas Services, demand remains strong with continued service momentum supporting margins. In Grid Technologies, execution continues to drive both growth and profitability, supported by a strong structural market. In Siemens Gamesa, order timing explains current volatility, while the underlying turnaround remains on track.
- Overall, our performance continues to be driven by disciplined execution, translating into improving profitability and strong cash generation.

With that, we will start today's Question & Answer session.

- If you wish to ask a question, please press "*1" on your telephone keypad. If you no longer want to ask a question, please press "*2".
- So the next two people in the line in order to ask a question will be: First, Max Yates from Morgan Stanley and then Alex Jones from Bank of America. Max, please go ahead.

Max R. Yates, Morgan Stanley

- I just wanted to check on the grid orders because it didn't -- it felt like there wasn't maybe a sort of explicit comment there. I guess you benefited from a large order

in last quarter. So is there any framing you would give us in terms of maybe what you would consider an underlying order rate in grid and also whether you've had any large orders and then maybe just a very quick sort of clarification. When you talk about the good order levels from Q2 being sustained in gas, is that a gigawatt comment? Or is that a number in terms of kind of absolute euro value?

Head of IR

- Thanks, Max, for these questions. On the one hand, you're right that in Q2, we had the Bornholm order in Grid Technologies as one of the large HVDC orders. And as you know, these HVDC orders always in the amount of around EUR 1 billion plus also benefiting in that's order intake. This quarter, we announced, let's say, an HVDC order, but if you read the news release very precisely, you will also see that that will be only booked in fiscal year 2027. So therefore, the overall level should be probably on the same level as you would see Q1 or Q2, excluding, let's say, the larger HVDC global order continuing as we saw that in the previous 2 quarters.
- So I think the -- overall, I think we have already mentioned also before that the targets or when we had our order intake from the last year in total, given that we should be at least at the same level. So I think if you take out this large HVDC in Q2, we should be going into the same similar direction.
- Referring to your Gas Service order amount. I mean, in general, as we mentioned, of course, on the one hand, there is a certain relation between gigawatts and let's say, euro order intake. At that point in time, I mean, we rather -- they have certainly our visibility on a euro basis, while the gigawatt number will be something we will be certainly -- we're still not at the quarter's end. So therefore, that is something that we see in the future. So therefore, we are currently talking about, let's say, certain levels that we will be always rather based on a euro basis. Next question goes to Alex Jones from Bank of America.

Alexander Jones, BofA Securities

- Just two clarifications as well. Firstly, on the grid capacity, should we expect that to progressively ramp up over H2, so Q3 a step-up and then Q4 higher than that? Or is there any sort of particular skew to that between the quarters?
- And then just a second clarification, you talked about German orders there on the gas side and several gigawatts. I think you said before the end of the calendar year. Is that already reflected in your commentary about Q4 gas orders being a step down compared to the first 3 quarters?

Head of IR

- Yes. Thanks a lot, Alex. Yes, first of all, I mean, in reference to the, let's say, step up of capacities in Grid Technologies. That will be something where, let's say, the capacities might have been even, say, opened up in Q2 and then you really have the efficiency ramp up moving on so that we should be there at full capacity of these new brownfield additions by Q3, so that should be the -- therefore, you can expect that after a certain ramp-up in Q3, it should be at a similar basis than going forward.

- In reference to the large gas turbine orders we might be expecting from the German infrastructure package in Germany, which we normally communicated somewhere between 4 to 5 gigawatts, that is something which we rather see, let's say, at the end of the calendar year. So therefore, there being nothing we will be currently reflecting in Q4.

Alexander Jones, BofA Securities

- Thank you.

Head of IR

- So the next 2 questions go first to Will Mackie from Kepler Cheuvreux then from Kulwinder Rajpal from Alpha. So Will, please go ahead.

William Mackie, Kepler Cheuvreux

- So my first question would be to go back and clarify your commentary about the balance of profitability within Gas Service, H2 versus H1 if you could put some more color around why it would be perhaps less seasonal this year and less of a typical drop-off in profitability as we approach the year-end.

Head of IR

- Yes, sure. Thanks a lot, Will. On the one hand, what we already saw in Q2 and that's what we tried to explain, was that even though, let's say, the ratio of the service business went down from 67% to 57%. You still saw that the, let's say, comparable margin profile between fiscal year '25 and fiscal year '26 for Q2 was on a comparable level, mainly driven by, also, the higher-margin projects we already signed for the new unit business. And therefore, as you see, let's say, a step up in the new units business, that is something where the higher margin profile of these projects running through will certainly also have a certain impact on the margin level. So -- and that will certainly even though you might not have the regular outage season in the second half of the year, improve there, the overall margin profile.
- On the other hand, as you certainly see that, let's say, right now, there is a high interest in having the equipment still running. There might be also some factors, which might be benefiting, for example, service business also in, let's say, not seasonal outage seasons. But I think these are, let's say, maybe 2 factors plus the FX effect we might be seeing, which might be impacting the margins also on the second half of the quarter. So that the seasonal we saw in previous years are not, let's say, always the same anymore.
- So Kulwinder, over to you.

Kulwinder Singh Rajpal, AlphaValue

- Yes. Thank you, Tobias. So I just wanted to understand the comment around the annual market in the gas turbine business. So I think previously, we were pointing towards 90 to 100 gigawatts. And now this is clearly a step-up when you're talking

about 110 at the minimum. So wanted to understand if just Middle East is the main driver? Or there are other drivers across the globe that are playing out and that is something maybe the market has missed.

Head of IR

- I think on the one hand, certainly, the step-up we saw on our interest for projects, for new projects in the Middle East is one factor, but one of the major drivers might be also, especially the data center related topic. As we always mentioned, also already in Q4 2024 that we see a base market of somewhere around 70 to 80 gigawatts and let's say, the -- which is -- which should also include, let's say, the interest you see in the Middle East, for example, from the Vision 2030 due to the oil-to-gas shift, the coal-to-gas shift in other regions.
- And then on top of that, there's certainly the high demand we are currently seeing from data center-related topics where you could also see a big step-up in, let's say, investment decisions taken by some of the hyperscalers or data center-related companies. So that's all the main driver for the step-up will be rather related to AI data center topics.
- The next 2 questions will go to Sean McLoughlin from HSBC and then Chris Leonard from UBS. Sean, please go ahead.

Sean D. McLoughlin, HSBC

- Thank you for the time. Just a question on the slot reservation agreements. I mean you've previously talked about this normalizing and your -- I think you're suggesting effectively, it is. These are structured agreements. Should we expect a lot more -- I mean, how do we compare year-on-year for the overall orders? Should we be looking at growth in the total slot agreements as well as the firm backlog in the quarter? Or is this more about conversion of those slot agreements into firm orders? That's the first question.

Head of IR

- As mentioned during, let's say, the script before, our main focus is really on converting sort reservation agreements as fast as possible into orders. On the other hand, I think we also gave a certain guidance on what we're expecting as total commitment for the whole year of 90 to 100 gigawatts. So therefore, we are certainly still targeting to convert those reservations quite quickly. In reference to the

  90 to 100 gigawatts at that point in time, I cannot provide any additional color on that if that is now stock reservations or direct orders. But in general, as I also mentioned that we did this -- or will do -- have a certain step up in deliveries. You can roughly see how much they will be still open in order to reach 90 gigawatts or 100 gigawatts on a yearly basis to our target.

Sean D. McLoughlin, HSBC

- Yes. And on your -- the idea of premium for quick delivery, again, is this just a question of how can I say, fast-tracking RSAs into firm orders? Or how is this conversion happening?

Head of IR

- No, I mean that's really mainly driven by slot availability. So in case you have any short-term slots, and that will be certainly then automatically also drive short-term conversion of slot reservations or direct orders for these slots. That is really driving it. So that means the short-term availability of slots in GT or in GS are the major drivers for these premiums.
- So next one will be Chris Leonard and then the last question afterwards goes to Vivek Midha from Citi.

Christopher Leonard, UBS

- Just a follow-up on the slot question. So previously, you've obviously said order intake or slots can be lumpy, but should we expect a pickup in slots looking into Q3 and probably especially into Q4, if you do expect orders to slightly phase and slow down at the end of the year. Should slots be picking up if you're saying that the overall market demand is heading higher towards 110 gigawatts, 120 gigawatts. Would that be a fair assumption?

Head of IR

- Thanks a lot, Chris. I mean you always have to consider in case, let's say, we are seeing continuing growth or strong demand in this quarter, which would be reflected as Max asked at the beginning. And on the euro basis, you can already see, let's say, what kind of gigawatts might be booked in kind of what range. So therefore, if you then do the math, I mean, right now, we don't really have any additional information on slots or developing exactly. But I think that gives you rough expectation in case, let's say, there's a similar trend as we saw before on a euro basis. Unfortunately, I cannot give you any additional flavor on that.
- So as we have over time, last question will be now going to Vivek, and I have one more person on the call, Richard Dawson. If you have a quick one, that as well. But first Vivek, please go ahead.

Vivek Midha, Citigroup

- Just a quick follow-up on your comments around supply demand, if I may. You obviously gave us an indication around demand staying around 110 to 120 gigawatts. At the CMD, last year, you'd given an indication that maybe industry capacity was around -- tending towards about 85 gigawatts or so. Do you have any updated view on where supply is heading?

Head of IR

- Well, I mean, we are mainly focusing on our own supply. We were certainly seeing that there were some discussions on other supplies. As I also mentioned that, let's say, you have new entrants in the markets. But generally, right now, we're seeing

that all the other players, we are seeing as direct peers are behaving very rational and based on their brownfield expansion should be meeting roughly the market demand so that we at least do not see any path towards old capacities mark, but rather all the capacity additions might still be some higher demand than supply. Maybe, but generally, that is really where we're focusing on that we are using our brownfield expansion is behaving very rational, so that there should be a pretty close demand of supply balance. Excellent. So now the last question goes to Richard Dawson.

Richard George Dawson, Berenberg

- Just clarification on these reservation agreements because I understand that short-term availability of these slots drives a premium in pricing for those gas turbine orders, but what creates a slot availability in the short term? Is this orders so firm orders slipping to the right? Or cancellations just create that slot availability.

Head of IR

- Thanks a lot for the question, Richard. That's a very good question. I mean on the one hand, as we are booked out onto '28 and let's say, '29 and 2030 is filling up very quickly. There's always a question what is short-term slot, so '29 might be already short-term slot where you have a lot of players being very interested in these slots. In case, let's say, project might conceptually shift, and you would have a short-term slot available due to something that might be certainly something where you certainly also get a higher premium on if, for example, something will be available in 2027, theoretically. But now, already now 2029 is something which is seen as short- term availability, especially if you talk about large gas turbines.
- Thank you so much. So with that, we will conclude our pre-close call today. Thank you very much for your participation and for your continued engagement. And for that, now I wish you some -- hopefully, not as hot weeks as we had in the last couple of weeks and a nice summer, and then we talk to each other probably on August 5. And have a wonderful evening or afternoon. Thank you so much.

Operator

- Ladies and gentlemen, this concludes today's call. A recording of this call will be shortly available on the Siemens Energy website. Thank you for joining, and have a pleasant evening. Goodbye.