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SKF AB (SKF.B.SE)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: My name is Alex, and I'll be coordinating the call today. [Operator Instructions] I'll now hand you over to your host, Patrik Stenberg, to begin. Please go ahead.

Patrik Stenberg

Director-SKF Group Investor Relations and Mergers & Acquisitions, SKF AB

Thank you and good morning, everyone, and welcome to this presentation of the SKF's Q2 results. As usual, we will start with a presentation by Rickard, our CEO; and followed by the numbers from Niclas, our CFO.

The presentation part of this event will last some 20, 25 minutes and after that we will move into Q&A, where you can post your questions either by following the operator's instructions on the chat or by using the call function of the voice. We have a sharp stop at 9:00. Many of you are waiting for other companies as well. So, we'll try to stick to that.

And, with that brief intro, I leave the word to Rickard. Please.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

Thanks very much and good morning, everyone, and warm welcome to this quarterly report presentation. In 2022 and as, I guess, most of you recall, we initiated our profitable growth journey based on an intelligent and a clean strategic framework to become an even more fast-moving, innovative and customer-centric company.

As a starting point, we put in place a strong foundation. We launched a new operating model with six separate business areas, all with full P&L responsibility and balance sheet responsibility. We strengthened the management team and we enhanced our emphasis on portfolio management.

The new model is becoming more and more embedded in the organization, and our execution capacity is building momentum. This is clearly visible in our Q2 results. And I guess I have this sound issue.

All right. Hopefully you can hear me now. Well, in today's presentations, besides sharing insights on the quarterly numbers, I will also provide you with some examples on how we progress the strategic execution in specific areas. But let's start by taking a look at the quarterly numbers.

As I mentioned, our strategy execution is gaining momentum, and I'm really pleased to report a record quarter in several dimensions. We saw strong organic sales growth of 8% fully in line with our Q2 guidance. This actually representing the ninth consecutive quarter of an organic growth rate above 5%. In absolute terms, we had record sales north of SEK 27 billion, record adjusted operating profit of SEK 3.6 billion, and a net cash flow from operations at SEK 3.7 billion. Our operating margin came in at 13.3%, significantly up versus 10.5% the same quarter last year. And this is clearly another step towards our 14% margin target.

But let me now turn to the performance in our of business segments, Industrial and Automotive, where I will also share more insights on the regional growth development.

Starting with the Industrial business, representing some 70% of sales and 85% of operating profits. Here, we saw a solid organic growth just shy of 6% and primarily driven by price, mix. If you break it up by region, we saw a limited growth in Americas of roughly 1.6% due to OEM destocking in some industries. Agriculture being one example.

But with that said, there are also industries in Americas that remain on a double-digit growth rate like railway being a prime example. Organic growth in EMEA was resilient and was up 7% with very strong growth in aerospace and railway. Organic growth in China and Northeast Asia came in at a moderate 6.4%. Clearly, a weaker market rebound in China than we hoped for when entering the year. Still solid growth in China, but maybe not as significant as we were hoping when we started the year.

We saw good growth in industries [ph] relying on (00:05:09) domestic demand, like wind and industrial distribution, while export-related businesses were a bit slower. And finally, we saw continued strong momentum in India and Southeast Asia with an organic growth of just above 11%, mainly from off-highway, material handling, and automation.

We continue to drive efficiency and cost competitiveness in our industrial manufacturing footprint. And one example of this is the recent announced intention of ours to consolidate our spherical roller bearing manufacturing in Europe by moving our current production facilities in Luton – capabilities in Luton, the UK, to Poznan in Poland.

All our Industrial business areas continue to drive price, execute cost initiatives and ensure rigorous portfolio management. As a result, we report an improved adjusted operating profit of some SEK 3 billion, a significant uplift versus the same quarter last year that ended at SEK 2.4 billion. This corresponding to an adjusted operating margin at almost 16%.

And then turning to Automotive. Automotive saw very strong growth of 14% and an adjusted operating margin just above 7%. This is equivalent to an adjusted operating profit of almost SEK 600 million compared to SEK 100 million the same quarter last year. For the good order, the automotive growth rate should be viewed in the light of a rather weak comparison period last year. But nevertheless, the improvement of the Automotive profitability is significant achievement by the team and a clear step up towards our 2025 annual margin target of 8%. We are pleased to note that the continued strong growth in EVs, vehicle aftermarket and commercial vehicles is fully aligned with our ongoing repositioning in our Automotive portfolio.

So now let's leave the numbers, let me turn the focus on back to the strategic framework and our execution of it. We continue to embed and execute on all dimension of our intelligent and clean framework. In today's presentation, I will share progress in high growth segments, portfolio management, technology development and the area that is actually underpinning the entire framework, namely, sustainability.

Starting with the high growth segments. And, again, I am happy to report [ph] tangible (00:08:06) progress amongst most of them. As you can see on this chart, growth was particularly strong for electrical vehicles, up 26% in the quarter. And here we have the exceptionally strong growth in Europe among both pure EVs as well as traditional OEM customers.

In high-speed machinery, the slowdown is in line with our expectations, as last year was exceptionally strong due to high incentives in the market. And within agriculture, food and beverage, we have noticed some destocking among OEM customers, primarily in North America, as I mentioned before. But the world's transition towards a more sustainable future is naturally a driving force behind the EV growth, but also for other sectors and industries such as renewable energy and railway.

And speaking about railway, a truly global industry where our know-how and technical solutions are in high demand. In one example, we won some sizable contracts in Egypt during the second quarter. And Egypt is currently investing in its rail infrastructure both for passenger and freight operations. And we have secured orders from three large OEMs for various train platforms where we will provide a broad set of products such as wheelset bearings, axle boxes, gearbox bearings and sensors.

Moving on to our work within portfolio management. As I mentioned during this presentation, all business areas are active driving a broad set to portfolio management activities. Today, I would like to give you some example of this; one from our Industrial business and one from our Automotive business.

Starting with Industrial and industrial lubrication, where we have decided to focus our core lubrication business, such as automatic lubrication systems, lubricants and lubrication tools. As a consequence, we have announced the divestments of our business named Spandau Pumpen, our coolant pump manufacturing unit based in Berlin, Germany.

In Automotive, we have now completed the previously communicated target to part from roughly SEK 1.2 billion on unprofitable contracts. In half of these, we have concluded to step out of the business while in the other half of the contracts, they have been renegotiated at favorable terms.

Technology innovation is also an important component in our strategic framework. And today, I would like to share some details related to ceramic bearings. Generally speaking, we noticed an increasing demand for our ceramic bearings and there are several benefits with ceramic solutions, such as electrical insulation, higher speed capacity, higher wear resistance and lower weight.

And due to these superior qualities versus traditional bearings, we see a growing ceramic demand in many industries like industrial e-motors and, of course, electrical vehicles. And this, despite rather significant cost differentiator, approximately 4 to 5 times traditional bearings. And in order to meet the growing demand, we are investing in our industrialization and localization of our ceramic supply chain. We have increased our own powder capacity. Many of you may not know that but since many years, SKF own a world-leading ceramic powder producer. The company is named Vesta and it's located in a place called Ljungaverk in Sweden.

We also recently announced a joint venture with Sinoma Nitride in China to ensure regional supply of high-quality ceramic rolling elements. And SKF is in fact, through the company Vesta that I mentioned already, today an established key supplier of silicon powder to Sinoma. But we're also seeing signs of an increasing demand for ceramic solutions in more demanding applications such as clean tech, hydrogen and green energy. And this brings me on to the sustainability transformation that is ongoing within SKF.

As you can see on this chart, our clean tech solutions are in high demand and revenues are growing rapidly. We also note that our customers increasingly request bearing product sustainability data. To satisfy our customers' request for reliable, transparent and comparable sustainability product data, SKF initiated and led the development of product category rules, PCR, a new global standard for the bearing industry. Through PCR, we will enable customers to make more informed choices, promote greater transparency and accountability in our customers supply chain and allow for industry-wide lifecycle assessments based on common standard. And this is actually something that is already in high demand in certain industries, such like rail and electrical vehicles.

But in the quarter we had also made some significant progress in our own net zero journey. In May, we signed a virtual power purchase agreement or VPPA with the energy company Enel. In this agreed VPPA, we will purchase guarantees of origin for a period of 15 years from Enel's upcoming solar plant in Spain. And this will enable us to get access to new renewable energy on a yearly basis, equivalent to one third of electricity consumed in our European operation in 2022. Clearly, this is an important step towards our target of 100% renewable energy in our own operation by 2030.

Another milestone in our net zero journey is the decision to phase out fossil gas, used in our own global operation. This is backed by a SEK 3 billion investment frame over six years. The frame will be exclusively used to fund the decarbonization projects to remove fossil gas used for process and building heat. And we do anticipate that to utilize approximately half a billion or SEK 500 million per year until 2029.

And finally, I would like to mention a customer case where SKF actively supporting the emerging transformation of the aviation industry towards a more sustainable future. We have signed an agreement with the company Lilium developing the first all-electric vertical take-off and landing jet. For this new application SKF will provide and design electrical bearings for the electrical motor.

The emerging electrical aircraft market has great potential to change the way we look at aviation and logistics allowing for a more sustainable way of transporting people and goods. And we'll be truly happy in SKF to be part of this transition. So with these remarks it's time for me now to hand the clicker over to Niclas and ask him to take it through the numbers in more detail.

Niclas Rosenlew

Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

Thanks a lot Rickard. And as you heard we are quite pleased with the progress made in the quarter. But with that let's take a closer look at our financials starting off with sales. So as mentioned, we had strong sales growth with Q2 sales amounting to a record of SEK 27.1 billion which is up from SEK 24 billion a year ago.

Our sales grew both sequentially and compared to last year driven by a broad set or broad-based demand from multiple different industries and across multiple product segments. Our total net sales increased by 14.7% of which organic was 7.9% and the currency effect on sales was a positive 6.8% with as usually the largest effects coming from the dollar and the euro. So all in all a very good sales momentum in Q2.

In the quarter, we continued to manage our portfolio and increased prices in order to further strengthen our business and market position. These efforts actually worked quite well, resulting in another quarter with a growing positive price, mix contribution of SEK 2.1 billion. So with that said, let's take a closer look at our operating profit.

So in Q2 we delivered a record adjusted operating profit of SEK 3.6 billion and an adjusted operating margin of 13.3%. This was driven by continued work on price, mix as well as costs. If we look at this step by step, in the quarter currency and structure only had an immaterial impact on the results. On the other hand, organic growth contributed with SEK 1.9 billion.

As mentioned, we had a price, mix of SEK 2.1 billion and then offsetting that we had a negative effect of approximately SEK 200 million from lower production levels as the teams did a good job reducing finished goods by approximately SEK 1 billion. The impact of cost inflation moderated compared to previous quarters and was negative SEK 800 million. The largest cost increase related to salaries and wages.

And just for you to note, when you look at the reported operating profit, we had a SEK 400 million IAC provision, the majority of which related to the planned closure of the Luton plant that Rickard just mentioned.

Moving on to cash flow, we generated a record net operating cash flow of roughly SEK 3.7 billion in the quarter. We're quite pleased with this and it's a clear step up compared to Q2 last year and also sequentially compared to Q1.

The driver for the improvement was besides, of course, a record operating profit, a reduction in working capital. And during Q2, we continued our work on reducing especially inventories. And here the teams did a good job, in particular as we typically build inventories during Q1 and first half.

Looking at overall net working capital as a percentage of sales, it decreased to 32.7%, which is actually down from 35.7% last year. And as you can see in the bridge, net working capital had a positive impact of about SEK 130 million, mainly due to the good work done on reducing inventories. We continue to work on reducing net working capital with focus on inventories across all of our businesses. As said earlier, there's no quick fixes but we are pleased to show tangible results in Q2. So all in all, a very strong cash flow in the quarter.

What comes to our balance sheet, it continues to be strong and our liquidity to be solid. The net financial debt amounted to approximately SEK 11.8 billion, which was a slight decrease versus Q1 driven by the strong operating cash flow. What comes to return on capital employed, we saw a positive development in the quarter with 12 month rolling return on capital employed improving to 14.1% as our profit increased.

So with that, I hand back to you, Rickard.

Rickard Gustafson

President, Chief Executive Officer & Director, SKF AB

Excellent. Thank you, Niclas. And before I do the wrap up, I just want to comment on the background picture. You may wonder why we have a youth playing football. Well, this week, the world's largest youth football tournament is taking place here in Gothenburg. And since many years back, SKF is the main sponsor of this event.

And this picture is actually recently taken, I think it was yesterday. The games are ongoing and I personally had the joy of attending the opening ceremony on Monday evening. And it's astonishing to see some 50,000 youngsters from across the world coming together to celebrate the joy of playing football together and build bridges between countries and cultures. And I think that's something the world actually needs in these times. So an exciting time to visit Gothenburg if you have a chance.

But with that said then let's wrap up this quarter. I'd like to say and stress that it is a strong quarter where all, almost all our financial metrics are increasing or improving significantly versus the same quarter last year.

And as you heard, both me and Niclas mentioned, there are a number of absolute, in absolute terms records in our numbers related to sales, adjusted operating profit and cash flow. And these results, they are not generated by coincidence. They come from our dedicated work and the built up momentum in our strategic transformation.

I hope we're able to explain to you that we continue to grow profitably in our targeted segments. We do see that our activities related to price and portfolio management is paying dividend. We do see progress in our cost efficiency efforts and our regionalization efforts. And I also see internally a stronger commitment in accountability to our numbers from our different business areas. And we're also excited within SKF to see the power of sustainability, not just what we do internally, but how we can support our customers in their journeys towards a more sustainable future and that is the main driver behind our organic growth in areas such as EVs, rail, wind, renewable energy, and so forth. So something really to build for into the future.

But going now into the second half of the year, we expect the normal third quarter seasonality pattern in our results. We also expect a continued volatility and geopolitical uncertainty impacting the market in which we operate. And looking into the third quarter for 2023, we expect a mid-single digit organic sales growth. And for the full year, we maintain our outlook of high-single digit organic sales growth compared to 2022. So with that, I think it's time to wrap up the formal presentation part, hand back to Patrik and [ph] Alex (00:24:56) to help facilitate the Q&A session.

Patrik Stenberg

Director-SKF Group Investor Relations and Mergers & Acquisitions, SKF AB

Thank you, Rickard and Niclas for the presentation. And with that said, we are happy to go into the Q&A session. So, operator, please, can we have the first set of questions?

QUESTION AND ANSWER SECTION

Operator: Thank you. Our first question for today comes from Sebastian Kuenne from RBC Capital Markets. Sebastian, your line is now open. Please go ahead.

Sebastian Kuenne
Analyst, RBC Capital Markets

Q

Yeah. Good morning, gentlemen. I have a few questions. One is on Automotive. So you have the SEK 1.2 billion exit and/or renegotiation of contracts. Was this already in early Q2 so that we already see the full margin impact now because the margin was quite strong? And do you think that this exit is now leading to a structurally higher margin, maybe even at the level that we currently see? That would be my first question.

And secondly, in the BEV business and the BEV powertrain business, you again report 25%, 26% growth. But I wonder, the ceramic bearing content is also increasing there and what is currently the volume change in that business? And maybe you can give us some idea of what you see in BEV for Q3. That's all for now. Thank you very much.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Okay. Good morning, Sebastian. I'll try to address your question, starting with the SEK 1.2 billion of portfolio pruning that we now say that are completed. It's partly reflected in our second quarter numbers. A lot of these negotiations have now been completed. Some of these contracts, it will take some time before they actually [ph] yield out (00:26:52) or – we do have a chance to exit. And a number of those price increases that we have negotiated at favorable terms, they are, of course, already starting to have an impact. So, it's a mix. So, not all the impact from the SEK 1.2 billion is yet visible, but a sizeable chunk is already visible in our numbers.

And your question about what we think about the margins for Automotive going forward, the best answer I can give you is that we have said that by 2025, we aim for an 8% annual margin in Automotive. And I take our Q2 progress as a proof point that that target will be within our reach to establish our Automotive business at a higher level going forward.

On your question on EV growth and the percentage or how much of that is also coming from our ceramics. You're right, ceramic bearings are an important piece to especially the e-powertrain and it's in high demand among many of the pure EV players and also traditional OEMs for their electrical platforms.

Not all bearings in an e-powertrain needs to have a ceramic solution but there are some critical positions where they are superior and that's also where we see the growth. And to give an exact number and the percentage is not something that we do disclose and we anticipate that our strong position in the EV market is a rather sustained one and that will continue also as we move into the coming quarters.

Sebastian Kuenne
Analyst, RBC Capital Markets

Q

Yeah. Maybe just a follow-up on this. So if you run the numbers, assuming you had a 5% ceramic bearing content for the powertrain so far, if this moves to 10%, right, at a much higher price point, it would explain the entire 26% year-on-year growth. So was just wondering if there's any volume growth for the powertrain business at the moment, or whether the 26% is simply reflecting higher ceramic content. Maybe that was a bit more [ph] precise for the question (00:29:20).

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

There is – Sebastian, there is volume as well.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Yes.

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

We just don't split it out but there's clearly volume growth.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

But also I think it's important to remember then speaking about the 14% growth rate, as I mentioned, we also need to put that in perspective. It was a – for automotive industry, in general, Q2 last year was a weak quarter, with China experiencing a close-down in April and May, and many OEMs globally were struggling with their supply chains impacting their production levels. So the comparison period is rather weak.

Sebastian Kuenne
Analyst, RBC Capital Markets

Q

Yeah. Understood. Thank you very much.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Thank you.

Operator: Thank you. Our next question comes from Klas Bergelind from Citi. Your line is now open. Please go ahead.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Thank you. Hi, Rickard and Niclas, Klas at Citi. So my first one is on the guidance into the third quarter, the mid-single digit growth. It feels like this is largely price/mix again. But [ph] if (00:30:33) on the volume side, do you expect, Rickard, volumes to be down a bit year-over-year? You have a tougher comp in China and the destocking you see there in North America is pretty early days I would have thought. I'm wondering if you think that that is expected to continue here into the third quarter.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Well, to answer your question, I'd like to start by putting in perspective. When we entered into this year, we did anticipate the first half for 2023 to be stronger from a organic growth point of view versus the second half. And it seems that that kind of prognosis were correct. And that's also what we see and that's how we continue to guide.

So our guidance has not really changed. But you're right in the sense that a large portion of the organic growth that we have delivered so far comes from price, mix. And I'm absolutely convinced that that's going to be the backbone of the growth also in Q3, where in certain geographies, yes, there will be probably negative volumes while in other geographies there will still be volume growth as well.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Yes. No, it's clear. I guess, the de-stocking element in North America, Rickard, whether it's sort of – yeah, I mean what are the signs right now on the Industrial side? Do you expect that to get worse in the third quarter, what you can see right now or is it too early days to comment on that?

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

It's hard to give an answer to that one. What I can say, though, is that still our Industrial or distribution business in North America is holding up well. So the destocking is primarily noticed in among certain OEMs in some industries. So that is clear – a clear trend and that is something that we see now for a couple of quarters, to be honest.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Thank you. My second one is on price cost and solid development price versus cost this quarter. I mean, cost inflation outside wages is now rapidly softening year-over-year. You still have carryover from pricing but are you noticing any increased pushback from customers, if you try and push through further price increases while wages are still increasing, I mean, it could happen, obviously, as energy, raw mat, logistics are now less of a headwind.

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Yeah, you're right. I mean, as discussed in connection with the bridge, the inflation component has clearly gone down compared to previous quarters and is now primarily coming from wages and salaries. While then the other components, logistics, energy components and so on are at last year's level or even below.

But on the push back, I mean, again, we – as said, we continue to work with pricing in Q2, and we intend to continue to work with pricing in Q3 as well. And, of course, it's never easy, but don't see a major change there going forward. I mean, our path is pretty clear. We'll continue to work on pricing.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Okay. Thank you. My quick very final one is on China. It seems like it's only food and beverage, agri, off-highway that is a bit softer. Can we talk about what happened, Rickard, through the quarter? Because our understanding was that it was strong start but it softened through the quarter. If you could just comment on that, that would be really helpful.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB
A

Yeah. Let's – so if I isolate China for a second, it's still a strong growth in China. We're talking in close to 10% organic growth in China. A lot of that driven by volume still, not just price, mix. So it's still growth. But if I compare that number with what I was hoping for maybe starting in this year, it's somewhat shy of my or our expectations.

But looking into the quarter in isolation, to answer your question, we had a rather strong development in April and May and somewhat weaker in June, but that's natural. Again last year, we need to remember what we compare against. Last year, Shanghai was in lockdown in April and May, and then we saw a very strong rebounds in June 2022. So when you compare then for the entire quarter, still strong growth but the month of June in isolation had a very tough comparison period.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.
Q

Thank you.

Operator: Thank you. [Operator Instructions] Please limit yourselves to one question only. Thank you. Our next question for today comes from Max Yates of Morgan Stanley. Max, your line is now open. Please go ahead.

Max Yates
Analyst, Morgan Stanley & Co. International Plc
Q

Thank you. Good morning everyone. Could I just ask on the cost inflation slide that you have in your presentation? If I look at the cumulative cost inflation that you've had since the second quarter of 2021, it's about SEK 3.5 billion. If I look at the sort of cumulative cost inflation for Q3, it was running at about SEK 4 billion. So it looks like kind of we should be starting to see a year-on-year tailwind in your cost line in the EBIT bridge in the second half of somewhere in the region of kind of SEK 500 million, all else being equal.

Would you agree with that, that kind of that price – or that cost inflation number actually turns into a positive in your bridge in the second half? Or how should we best think about kind of that cost line for the second half in the bridge?

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB
A

Yeah. Hi, Max. It's a good question. But as you know, we don't give an exact guidance on cost for the third quarter. But of course, what you say is, directionally, what should be expected. Again, not the number per se, but last year second half we had a steep inflation. So the comparison numbers are quite high and we saw that now in Q2 that the year-on-year inflationary impact moderated a lot. And with these sort of cost levels, one should expect that to continue.

Max Yates
Analyst, Morgan Stanley & Co. International Plc
Q

Okay. Understood. I'll leave it there. Thank you.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB
A

Thanks.

Operator: Thank you. Our next question comes from Daniela Costa of Goldman Sachs. Daniela, your line is now open. Please go ahead.

Daniela Costa
Analyst, Goldman Sachs International

Q

Hi. Good morning. Thanks for taking my question. I will have two – I'll ask two parts on destocking. Obviously, you spoke about destocking, for example in ag. I wonder if you could talk about other end markets, where do you think the risks are bigger and where they are smaller within Industrial? And maybe you can also follow up on your own inventories. Obviously, you did quite well this quarter. Should we – maybe you're still above your target, should we expect, throughout the second half, similar magnitude of your own destocking? And then just maybe an update on the aerospace strategic review and when shall we hear from that? Thank you.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Thank you, Daniela, and good morning to you. I'll try to answer the Automotive – or sorry, aerospace question and also a little bit about the destocking when it comes to our own inventories, and Niclas will take that. I don't dare to speculate where we might see more kind of destocking at the OEM levels besides what we have already presented.

But of course, what we have seen, so far, is a maybe stronger resilience in Europe and European OEMs than anticipated. So, that might be an area to watch out for. I don't have any proof points of that, but at least this is something that we think about internally. But still, again, we do see strong underlying growth in most of our geographies still. And, as I mentioned, our outlook remains intact. We haven't changed our views for 2023 and the full year organic growth target.

When it comes to aerospace, we are progressing it well internally with thorough analysis and discussions on how we see this and where are we going to land with this strategic review. But I'm going to reiterate what I said before, we're not yet ready to reveal or conclude. But you should expect us to be – come back to you sometime during 2023 with a firm conclusion of our strategic review and our recommendation on how to move forward in that space. So I leave it as such and keep that cliffhanger hanging for a while at some time during 2023.

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

And, hey, Daniela, on inventories and...

Daniela Costa
Analyst, Goldman Sachs International

Q

[ph] Hello (00:40:26).

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

...our own work there, it was actually pleasing to see the progress made. And just to give you a flavor, I mean, we work with – inventories is a topic across all of our business areas, all of our business areas work with it. We are still at elevated levels even if we did – the progression in Q2 was great. So we still expect, and that's our aim and target for actually all business areas to reduce inventory levels. But exactly how much and when...

Daniela Costa
Analyst, Goldman Sachs International

Q

[ph] Sorry (00:41:03).

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

Yeah. Daniela, go ahead.

Daniela Costa
Analyst, Goldman Sachs International

Q

No, I thought you had – you were done, I was just going to ask a follow up on Rickard because I want to make sure I got it right. But I don't know if you're – if you were actually done and I interrupted you.

Niclas Rosenlew
Chief Financial Officer & Senior Vice President, Group Finance, SKF AB

A

No. But just to give you kind of a figure, I mean, the – [ph] on (00:41:24) inventories, I mean, 20%, 22% is what we should get to. We are still above that. And then we have an ambition even beyond that, but all business areas, working on it. So, we expect progress also in the coming quarters.

Daniela Costa
Analyst, Goldman Sachs International

Q

Understand that. I just wanted to follow-up on when Rickard mentioned OEMs. Just want to make sure was this – you were mentioning auto OEMs, because I was wondering more broadly across the industrials. You do mention destocking on agriculture. And I was wondering if you could – if you could sort of give some color on other segments, energy, rail, distribution, etcetera. But I'm not sure if you mentioned OEMs as being just – you were talking about autos or you were talking about just industrial OEMs.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Sorry, that was more kind of a general comment. I can't give you any insights for any other particular industry where we do see or expect a significant destocking besides what we already talked about. So, I don't really have any additional information to share with you there, Daniela.

Daniela Costa
Analyst, Goldman Sachs International

Q

Got it. Okay. Thank you.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Thank you.

Operator: Thank you. Our next question comes from Andreas Koski of BNP Paribas. Andreas, your line is now open. Please go ahead.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Thank you and good morning. Two quick questions. Firstly, on pricing and price, mix, how much of that SEK 2.1 billion that you have in total price, mix sits within Automotive and how much is in Industrial? Just to get an understanding of what sort of the price increases have been in Automotive and Industrials. Thank you.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Yeah. I mean, maybe to give you a rough idea, quite evenly split in relation to sales for both.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Okay. So that means the same kind of growth impact from pricing for both, Industrial and Automotive.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

Yeah. Yeah. Yeah. Roughly speaking.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Yeah. Okay. Yeah. And then the second one, I want to test, Rickard, here on the aerospace comment that you made because reading the report, you are saying that demand was particularly strong in several of our targeted high-growth segments, for example, aerospace. So according to that sentence, you view aerospace as a high-growth segment that you targets and that, in my view, implies that you will keep it. But what's your comment on that?

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

My comment is you have to rest your case until we come out with the formal and the final conclusion. But aerospace is growing nicely...

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Okay.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

A

...with a strong rebound after a couple of very, very difficult years due to COVID. But sorry, you have to rest your case for a while.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)

Q

Okay. But it is a targeted high-growth segment for you.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB
A

It is a growing segment. And once we have concluded the strategic review, I could be more specific.

Andreas Koski
Analyst, Exane BNP Paribas SA (Sweden)
Q

Okay. Thank you very much.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB
A

Thank you.

Patrik Stenberg
Director-SKF Group Investor Relations and Mergers & Acquisitions, SKF AB

Thank you all for posting your questions. We are at our finishing point of this event where we'll hard stop at 9:00 AM. I know there are other events lined up. So high competition for your time this particular day. I also realized that there are some of you that have not been able to post your questions. For those, we are happy to respond after this call. So please contact either us throughout the day.

So with that, perhaps a finish word or two from Rickard.

Rickard Gustafson
President, Chief Executive Officer & Director, SKF AB

Yes. Thank you very much. And thanks for your attention, and thanks for joining us this morning on a very busy day for you as well. But as my kind of closing remarks would be that based on this quarter, we're all aware that we're not done yet. We have a lot of work ahead of us, but we are pleased with the trajectory and the progress we make. And we believe that we are and can see that we are now having some traction towards our 14% operating margin target. So we take this for this quarter with us as a proof point that we are on the right path and but humble to know that still a lot of work ahead of us.

So with that, I thank you, and I wish you all a very, very nice summer. Thank you for joining us.