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G1AG.DE - Full Year 2025 GEA Group AG Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the GEA Group AG full year 2025 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 Investor Relations. Please go ahead.

Oliver Luckenbach - *GEA Group AG - Head of Investor Relations*

Thank you very much, Heidi, and good afternoon, ladies and gentlemen, and thank you for joining us today for our fourth quarter and full year 2025 earnings conference call. With me on the call are Stefan Klebert, our CEO; and Alexander Kocherscheidt, our CFO.

Stefan will begin today's call with the highlights of our successful financial year 2025 and Alexander will then cover the business and financial review of the fourth quarter before Stefan takes over again for the outlook 2026. 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 AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you, Oliver, and good afternoon, everybody. It's my pleasure to welcome you again to our conference call today for our 25 years final numbers. 2025 was a big year for GEA. It was a year full of successes. We were able to raise our outlook for fiscal year '25 already in summer after a strong development in the first 6 months, and we achieved all our raised targets.

In some cases, we even exceeded them. In July, we signed one of the largest single orders to date together with Baladna, we will build the world's largest integrated dairy farm and milk powder facility in Algeria. This project will strengthen the food security of an entire region in the long term and contribute to its economic development.

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The biggest highlight of the year was clearly the DAX entry on the 22nd of September via the demanding fast entry procedure. Since September, we are officially belonging to the 40 largest and most valuable stock listed companies in Germany. This marks a significant milestone in our company's history spanning nearly 145 years.

We have also achieved great results when it comes to sustainability. Our direct emissions Scope 1 and 2 got further reduced during the year, leading to a reduction of 62% from our emissions in 2019. This is ahead of our short-term target of a 60% reduction in '26. We hit the target a year earlier than planned. That's a fantastic achievement for all the teams around the world working on the decarbonization of our own operations.

Also with regard to the reduction of our Scope 3 emissions, we have made further progress. We reported a 38% reduction, which proves that we are very well on track to reach our -- or even outperform our midterm target set for 2030.

Inpendent assessments also confirm that we are leading the way in sustainability. In TIMES ranking of the World's Most Sustainable Company, we moved up from 33rd in '24 to 12th place in '25 and to 2nd place in Germany. This shows that a company cannot only improve financials we can also improve at the same time our efforts for sustainability.

Let me give you some background information on our strong financial performance in '25. The overall order environment for GEA has been very dynamic in the second half of the year like expected, so that we achieved an organic order intake growth rate of 9.1% for the full year after 4.2% in the first half year. All divisions contributed to this strong performance. Sales rose by 1.4% to EUR5.5 billion. Organic sales growth amounted to 3.7% at the upper end of the guidance of [2% to 4%].(corrected by the company after the call)

The profitable service business continued its dynamic development leading to a service sales share of 40%, up from 38.9% in '24. EBITDA before restructuring expenses increased by 8.4% year-over-year to EUR907 million. This reflects the higher gross profit and is based on the further expansion of the service business as well as higher profitability in the new machine business.

The corresponding EBITDA margin improved from 15.4% in '24 to 16.5% in '25 exceeding the guidance range of 16.2% to 16.4%, which was raised in July. We are at the highest profitability level ever. Return on capital employed rose on a high level further to 36.2%, well in the guided range of 34% to 38%. In short, we delivered again in all aspects.

Our shareholders should not only benefit from our good share price performance, we would also like to share our success with them through a higher dividend. We propose an increase of EUR0.15 to EUR1.30. 2025 for the first year of our Mission 30 after we achieved our Mission 26 targets two years earlier. I would like to use the next few minutes to give you a brief update on our growth drivers.

As a reminder, we target an organic sales CAGR of more than 5% until 2030, which is based on six drivers. First, sustainable solutions sales with a target sales share of more than 60% by 2030. After [41.6%] (corrected by the company after the call) in '24, the ratio expanded further to 45.7% in '25 thereof. And I think that is a really impressive number and worth to highlight it 42.3% is EU taxonomy aligned sales.

Our Add Better products are also part of our sustainable solutions. We were able to increase the share of the ad better sales to more than 9%, which is remarkable considering that we have this Ecolabel in place for only two and a half years now.

Second, service sales is expected to increase to EUR2.9 billion sales in 2030. In '25, this number stood already at EUR2.2 billion as service remained on its growth trajectory with a year-over-year organic sales growth of 6.8%.

Our development in the service business is a real success story. We have raised the service share from 32% in 2019 to 40% in '25 with an average organic growth rate of 8%, and we expect the service business to continue with a strong growth rate until 2030.

Third, we aim for an order intake of more than EUR400 million in new food in 2030. The development in this business is lower than what we had expected. But we still think that this will become a relevant market in the future. If we want to feed the growing world population, we need alternative proteins.

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After a weak performance in '24, the order intake almost doubled to roughly EUR70 million in '25. As we highlighted during '25, we see first improvement in this customer industry and discussions with customers are picking up again. We are optimistic that this development continues and that we can make further progress in '26.

To shed a bit more light into recent developments in new food sector, let me share some insights into one of our customers, Solar Foods. At our Capital Markets Day in October '24, we presented to you the pilot plant, which was equipped with our processing equipment to produce proteins out of CO2.

This plant started operations in '24 and produces 160 tons of Solein annually, which is then used in protein drinks, shakes and snacks. Due to its success, the customer is currently designing his first real industrial scale production facility, which will increase the annual production capacity to 6,400 tons. We have entered into an exclusive agreement with them to negotiate the supply, design, construction and delivery of the process equipment for this factory.

Fourth, our above-average growing verticals. In our Capital Markets Day in October '24, we presented to you a list of verticals which we expected to grow much faster than the overall 5%. 2025 clearly demonstrated this outperformance, while the overall order intake at GEA growth grew close to 7%, the growth verticals reported an outstanding growth rate of more than 30%. Our automated making systems as well as our engineering solutions to decarbonize the food and beverage industries were the main growth contributors.

Fifth, we expect digital sales to grow to more than EUR200 million by 2030. In '25, the sales volume stood roughly EUR80 million, up from more than EUR70 million in '24. We also made further progress in connecting our machines.

In the meantime, 11,000 machines are connected to the GEA cloud. By 2030, 80% of the machines installed at customer sites and suitable for digital applications will be connected. This would correspond to more than 35,000 machines. And finally, our target for the vitality index. The share of sales from products that are less than five years old is to increase to 30% by 2030.

We started with 10% in '21, improved it to 16.4% in '24 and raised it to further 19.2% in '25. Thus, we almost doubled the sales share within four years. This nicely demonstrates our innovation strength and the push for new products. Our commitment to this KPI is also reflected in the long-term incentive scheme of the Executive Board.

To sum it up, we have made good progress in each of the six levers by improving the corresponding KPIs that shows you that we are well on track towards our Mission 30 growth targets. But 2025 wasn't the only successful year for GEA. Over the past years, we have consistently delivered on average annual organic growth in order intake and sales across all time periods despite a very challenging external environment marked by COVID, the war in Ukraine, supply chain disruptions and further geopolitic tensions.

When you put this into context of the development in the broader mechanical engineering sector, the performance is even more impressive. According to the German Engineering Federation, orders in the German mechanical and plant engineering sector have fallen by 6% on average per year during the last 4 years, while we have grown our order intake on average by 5.5% per year organically or 3.3% per year in reported terms in the same period. This outperformance clearly underlines the resilience of our business mode and the competitiveness and strength of our organization.

Since January 1, '26, we are live with our new organizational structure and the new Executive Board. The 14 member Global Executive Committee has been dissolved and replaced by a new seven-member Executive Board. The regional matrix organization has been eliminated. The COO organization will be dissolved within the first half of '26. Therefore, we are in the progress to integrate the functions into other areas of responsibility. Johannes will remain on Board, if necessary, until summer to ensure a smooth transition. After that, we will be six people in the Executive Board.

The strategically important countries, China and India report now directly to me. This new setup means faster decision-making, being closer to the customers and markets, decreasing costs and finally, enabling us to achieve our mission 30 targets even better. I am very much looking forward to working with my new executive team.

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We have known and worked with each other for many years now and everyone has made a significant contribution to the success over the past years. And now I hand over to Alexander, who will give you more insights into the fourth quarter.

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Thank you very much, Stefan, and a warm welcome from me, ladies and gentlemen. You've just heard from Stefan, the highlights of 2025. I will now provide you with an overview of our business and financial performance in the fourth quarter.

After successful first nine months of '25, we even accelerated its positive development in the fourth quarter. We achieved a record order intake, strong sales growth and another strong EBITDA margin increase.

Let's have a look at the details. Starting with order intake. Order intake rose by 14.4% year-over-year to a record level of EUR1.8 billion. In organic terms, the growth rate was even higher at 17.9%. This strong performance was supported by nine large orders. So orders above EUR15 million with a total value of EUR414 million versus seven large orders totaling EUR230 million in the prior year quarter.

As already shared with you in October, we were able to book the large order from Baladna in the fourth quarter, so that's accounting for two out of the nine large orders as the order has been split into a large order for Liquid and Powder Technologies and a large order for Farm Technologies.

In addition, we were able to secure further large orders from the dairy processing, beverage, food, pharma and new food industry. All order size brackets delivered strong growth, except for order sizes below EUR1 million. This underscores the broad-based strength of the order intake.

From a customer industry perspective, dairy processing, beverage, dairy farming and new food were the main growth contributors in the quarter. Sales grew organically by 7.2%, driven by both new machine and service sales.

Organic growth in the new machine business accelerated from 2.7% in Q3 to a year-over-year growth rate of 8.4% in the fourth quarter. The service business once again reported a strong organic growth rate of 5.3%, continuing its growth trajectory over the last 21 quarters.

On the back of the stronger growth, in the new machine business, the service sales share declined marginally by 0.8 percentage points to 38.4%. EBITDA before restructuring expenses rose by EUR22 million to EUR261 million, resulting in a corresponding year-over-year margin expansion of 0.9 percentage points to 16.7%. Higher volume, slightly better gross margin and stable operating costs were the drivers of the strong profitability increase.

Let's have a closer look at the performance of the divisions. Please keep in mind that it is the last time that we will report our numbers in this divisional setup. As of Q1 '26, we will report and publish our figures in the new organizational setup with four divisions: Pure Flow Processing, Nutrition Plant Engineering, Pharma & Food Applications and Farm Technologies.

Now I will start with the figures for the Separation & Flow Technologies division, which reported strong organic new machine sales and kept the EBITDA margin at a very high level, above 28%. On the back of a very strong order intake in the prior year quarter, the order intake declined by 2.7% to EUR431 million.

When adjusting for the translational FX effect of minus EUR17 million, the order intake grew slightly by 1.1% year-over-year. This organic growth has been driven by the customer industries dairy processing, oil and gas, marine as well as environmental applications. Organic sales grew by 4.4% year-over-year, driven by very strong new machine sales growth of 12%. Service sales declined organically by 2.9%.

As a result of this development, the service sales share decreased on a high level from 51% in Q4 last year to 47.4% in this quarter. To put this development into perspective, on a full year basis, the service sales share increased by 0.3 percentage points to 49.3%.

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Despite slightly lower sales volume, gross profit rose due to higher gross margin. EBITDA remained at prior year's level with a corresponding EBITDA margin of 28.1%. Thus, the EBITDA margin remained on an excellent level of above 28%. When looking at the full year '25, the EBITDA margin expanded strongly by 1 percentage point to 28.5%.

Let's move on to Liquid & Powder Technologies, a stellar performer this quarter. This division not only improved all KPIs, but it also achieved new record levels in order intake and EBITDA margin. Order intake rose significantly by 29.3% in organic terms, even by 32.8% year-over-year to a new record level of EUR752 million.

As stated earlier, we were very successful in securing several large orders this quarter. The large orders with a total volume of EUR346 million were spread across our customer industry universe, three from dairy processing, two in beverage and one each from food and new food. Even when adjusting for the Baladna order, the order intake would still be comfortably up by almost 10% year-over-year. This underlines the strength of the underlying business.

When looking at the customer industries, the main growth contributors were dairy processing, which is probably not surprising to hear after having mentioned the number of large orders coming from this industry, beverage and new food.

Sales rose by 7.4% year-over-year on an organic basis which was driven by both new machine and service business. While the service business remained on its growth trajectory since Q4 2021, new machine sales continued its rebound. After reporting a decline in the first half of 2025, Q3 already showed the first improvement and Q4 delivered now another quarter of 4.4% organic growth. The reason for this pickup in the new machine sales is the conversion of large orders, which we received in the last quarter of '24 into sales.

EBITDA before restructuring expenses increased from EUR59 million in the prior year quarter to EUR72 million in the fourth quarter of 2025 significantly lower operating costs were driving this performance. The corresponding EBITDA margin rose by 2 percentage points to 14.3%, which marks a record level.

Moving on to Food & Healthcare Technologies, which reported a strong set of numbers again. This is the fourth quarter in a row with strong improvements in all major KPIs, strong organic top line growth, coupled with continuous margin improvement, leading to a record quarterly EBITDA margin, a very strong finish to the year.

Organic order intake increased by 5.4% year-over-year, mainly driven by the customer industry Pharma. The division secured one large order of EUR28 million in pharma for our continuous tablet pressing line. As you might remember, we presented this technology as a growth vertical at our Capital Markets Day in '24.

While we saw first customers ordering our innovation for continuous tablet production in '24, we saw follow-up orders in '25. That's a fantastic example of a successful innovation offering, new growth opportunities.

Sales grew significantly by 10.7% year-over-year in organic terms with strong contributions from both new machine and service business. New machine sales showed an excellent organic growth rate of 12.2% while service sales grew strongly by 8% organically.

As a result of the stronger performance in the new machine business, the service sales share decreased from 35.4% in the prior year quarter to 34.6% in the fourth quarter of '25. The EBITDA margin continued its quarter-on-quarter improvement since its low point of 6.1% in Q2 '23. This marks the tenth quarter of sequential EBITDA margin expansion, an impressive development.

EBITDA before restructuring expenses reached EUR41 million with a corresponding margin of 14.1% in the quarter. This is not only significantly up from 11.3% in the prior year quarter but also resulted in a new record, main driver behind this profitability expansion is a significantly better gross margin.

To sum it up, Food & Healthcare Technology has proven its successful turnaround over the last quarters, and there is more time. Continuing with Farm Technologies, whose top line recovery continued this quarter.

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Let me give you some more details here. After an already significant order -- an organic order intake growth of 22.9% in the first nine months of 2025, the fourth quarter reported another extraordinary growth rate of 34.5% year-over-year.

This increase was mainly driven by a large order from Baladna, but even without this order, the order intake would have been strongly up year-over-year. This demonstrates the current favorable market environment with a strong demand for automated and conventional milking systems.

While organic sales declined in the first half, reflecting the low starting order backlog at the beginning of this year, it rebounded in the second half. After an organic growth rate of 6.0% in the third quarter, organic sales growth accelerated to 9.7% year-over-year in the fourth quarter.

New machine sales experienced a substantial organic increase of 13.6%, while service sales grew strongly at 5.8%. As a result, the service sales share declined from a high level of 50.6% to 48% in the quarter. EBITDA before restructuring expenses fell by EUR3 million to EUR29 million, mainly due to the lower service sales share and product mix effects. The corresponding EBITDA margin decreased by 2.1 percentage points to 13.7% in Q4 '25.

Finally, let us turn to Heating & Refrigeration Technologies. This division delivered a very solid set of results with improvements in all KPIs, strong order intake growth, solid sales growth and a record EBITDA margin. Order intake rose significantly by 15.4% organically year-over-year due to strong demand development in midsized orders between EUR1 million and EUR15 million.

In terms of customer industries, distribution and storage as well as beverage were the main growth contributors. Sales rose by 3.9% organically, while organic new machine sales growth slowed down to 0.8% in the quarter, organic service sales growth accelerated markedly from 1.8% in Q3 to 9.6% in the fourth quarter. The service sales share increased by 1.8 percentage points to 37.3% in the quarter.

EBITDA before restructuring expenses rose substantially by EUR5 million to EUR27 million due to an improved gross profit resulting from volume and a significantly higher gross margin. The corresponding EBITDA margin expanded strongly by 2.8 percentage points to 15.6% in the fourth quarter. This is an impressive result as Heating & Refrigeration Technologies crossed the 15% mark for the first time and thus achieved a record margin for a quarter.

Closing the divisional chapter with the overview on the EBITDA growth contribution in the full year and in the fourth quarter of 2025. Liquid & Powder Technologies and Food & Healthcare Technologies have been the biggest EBITDA growth contributors in both time periods. This nicely proves again two things. On the one hand, the successful turnaround of FHT, this division has developed into an important profitability contributor for the company. And on the other hand, it underscores our success in improving margins within our engineering business at LPT. Price discipline, cost control, good risk management, better execution and the expansion of the service business are the key drivers behind this success.

Coming now to another important topic, net working capital. Net working capital declined by EUR291 million from EUR466 million in the third quarter to EUR175 million in the fourth quarter. This remarkable reduction results mainly from a combination of higher trade payables and higher contract liabilities driven by the high large order volume received as well as lower inventories.

In a year-over-year comparison, we have managed to bring the net working capital below the already low level of the prior year quarter. The year-over-year improvement of EUR152 million is driven by a combination of higher trade payables and higher contract liabilities.

This resulted in a net working capital to sales ratio of 3.2% which is a record low level and well below the guided corridor of 7% to 9%. When looking at this ratio on rolling last four quarters instead of spot to smooth out seasonality, this is the dark pink line in the chart. Volatility is visibly lower.

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The last four quarters ratio remained within our guided corridor except for the end of '25 when it even was slightly below. Overall, the development reflects a clear downward trend. Cash generation was incredibly strong in the last quarter of the year. 180% of our EBITDA before restructuring expenses has been converted into free cash flow this quarter.

Let's have a look at the details. Operating cash flow was EUR542 million, which is EUR281 million higher than the EBITDA. The main driver was the significant net working capital inflow, which you have already seen on the slide before. The pickup in CapEx-related outflow of EUR95 million is in line with our full year 2025 guidance of around EUR255 million.

As a result, free cash flow stood at EUR470 million, marking a new quarterly record in recent history, leading to a net cash flow of EUR448 million after deducting lease payments and interest paid. The strong net cash flow turned the net debt position from EUR36 million at the end of the third quarter into a net cash position of EUR379 million at the end of December.

Free cash flow for the full year was at EUR512 million, mainly driven by the strong free cash flow in the fourth quarter, as shown on the previous slide. The corresponding cash conversion ratio which indicates how much of the EBITDA before restructuring expenses has been converted into free cash flow before restructuring expenses landed at 59%. This is already very close to our target of more than 60% cash conversion in 2030.

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

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you very much, Alexander. Please let me first, before we go to the outlook, make an important statement here on the military confrontation in the Middle East, which we hope will end very soon in the interest of all people living in the region and also in the whole world.

The events in this region are not expected to have any material direct impact on our business performance I will now share with you some facts on our exposure of the Middle East. Middle East accounted for roughly 3% of our order intake in the full year '25. We have neither production sites, nor important suppliers in the region.

At the end of '25, we had roughly 70 FTEs in the Middle East. As part of the established business continuity management framework, precautionary measures were implemented to ensure the protection of our employees and the continued operations of the business, all our employees are safe.

Therefore, risk from the direct exposure to the Middle East is rather very low and does not have an impact on our guidance range. Indirect effects on supply chains, oil prices, freight costs and shipment delays can currently not be reliably assessed. However, we expect rather limited implications for our business.

Coming to our order backlog now, we finished the year with an order backlog of EUR3.3 billion, which is almost 7% above prior year level. Of this EUR3.3 billion, EUR2.7 billion is expected to be converted into sales in '26, so more than 80%. This lays a good foundation for sales generation in '26 and underpins our confidence for organic sales growth in '26.

This brings me to the next topic, our guidance for '26. We had a very successful financial year '25 and are very well on track with our Mission 30. For '26, we are optimistic to continue with this success story and to make further progress towards our targets. Based on the invoiceable order backlog, the strength of our service business and the good order intake development, we guide for an acceleration in organic sales growth from 3.7% in '25 to a range of 5% to 7% in '26.

As in prior year, we expect organic sales growth below the range in the first quarter with an acceleration during the year given the fact that we have received many large orders in the second half of '25, in particular, in the fourth quarter.

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For EBITDA before restructuring expenses, we expect a further margin improvement to a level between 16.6% to 17.2% after 16.5% in '25. Finally, we expect return on capital employed to be in the range of 34% to 38%.

So what does that all mean for our EBITDA development in '26? Let's have a closer look at the EBITDA margin bridge and its key components. We expect personnel cost increase of around 3% worldwide. As in the past, we intend to offset this cost inflation through to price increases. G&A will contribute positively to profitability due to the expected savings from our new organization.

For COGS, we continue to expect a broadly linear saving progression this year. In line with our Mission 30 targets of an R&D ratio of 3.2% by 2030, we plan to increase our R&D spending slightly in '26. And finally, top line growth and product mix effects are another factor which will determine where we will land in the EBITDA margin guidance range of 16.6% to 17.2% in '26. And as you might have noticed, 17% would be already the low end of our Mission 30 target.

Looking into the year ahead, our key priority is to continue with the acceleration of organic sales growth. Our new organizational structure is already in place, and it will help us to increase efficiency going forward. We will capitalize on the new country strategies for India and China to speed up decision-making and unlock their full growth potential.

Further improvement in our profitability remains high on the agenda. This will be supported by our ongoing COGS reduction as well as the execution of our Transform 360 program. And finally, advancing our climate strategy remains an important priority.

Finally, our road map for '26. The next important date will be in less than two months, our Virtual Annual Shareholder Meeting on April 29. And on May 11, we will be back with our Q1 figures.

This concludes my presentation, and I hand back to Oliver for the Q&A.

Oliver Luckenbach - *GEA Group AG - Head of Investor Relations*

Thank you very much, Stefan and Alexander. And with that, I hand the call back to Heidi for the Q&A session. So please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley & Co Ltd - Analyst*

I have just got two questions. Thank you for the indications on revenue growth for the first quarter. I was just wondering, could you give us a feel for order intake trends in the first half? And I guess what I'm really getting at is, obviously, there was a very strong contribution from large orders in the fourth quarter. Is there any indication you can give us -- should we be thinking about sort of large orders running as they normally do less than EUR100 million a quarter? Can we stay at a EUR400 million level? Just really trying to get a feel of is sort of 1.4% to 1.5% the right order level? Or should we continue to be substantially above that?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Okay. Thanks for this question, Max. And I mean what I can clearly tell you, we will continue to see good order intake situation also in '26. We have a lot of very interesting, also larger orders in the pipeline, but you also know how difficult it is to predict, will it be in Q1 or Q2 or

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maybe even Q3? But what I can give you, we have a lot of confidence that we will see our order intake in '26, which will definitely support our growth expectation to grow with the CAGR more than 5% year-over-year.

Max Yates - *Morgan Stanley & Co Ltd - Analyst*

Okay. And maybe just a quick follow-up. If I look at your -- the guidance that you've given and your backlog for delivery. So your backlog for delivery is up around EUR100 million year-over-year. Your consensus revenues or your guidance implies that we should be doing a EUR250 million revenue increase. So we need more of a contribution for in-for-out orders than we're getting from the backlog.

So I guess what's giving you the confidence when you look at the end market to essentially kind of underwrite what looks like a high single-digit growth rate for your for out orders. Obviously, there's a lot of uncertainty. There's still a lot of inflation, cost pressures for consumer companies, your customers. So I was just really trying to understand what are you looking at that gives you the confidence to underwrite that kind of high single-digit growth for your in-for-out orders?

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah, Max, let me take this question. So first of all, as you have already said, the part of the invoiceable backlog is going up year-on-year, we've shown this on the slide before. So there's a EUR100 million coming from that.

And then the [info-out], as you call it, if you calculate what we achieved in '25 and what we now need to achieve in '26. You will see that there is, of course, an ambition level in there, but not an ambition level, which is going up. So we feel quite confident and comfortable also with this number, also on the back of a continuously strong service business.

Operator

Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

I got two as well. The first one is on revenue guidance. So you guide organic growth rate of 5% to 7%. And I'm wondering if you can help us with your assumptions right now on how will the new equipment revenue growth might compare to service growth in 2026. And so when we look at lower end and the top end, what sort of service growth and new equipment growth have you baked in, in 5% to 7% guidance range.

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah. Thanks for the question, Akash. So first of all, the overall guidance that we have given also in the Mission 30 is that the service growth rate is slightly higher than in the new machine business. And this is also the assumption in -- for '26. So if you want, the higher end of the range that we are giving is then supposed to come more from the service part.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

So despite strong Q4 orders where you had a lot of new equipment projects, you don't expect any pickup in the mix of like new equipment might be growing faster than services in 2026.

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Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Not necessarily because the orders that we booked are orders which all have a, let's say, a project time line of more than two years. So that's giving us then, let's say, a little bit sales in '26 and also '27 and sometimes even '28. So that's moving it out a bit. So that's the reason why I said it before.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

And my second one is on capital allocation. Maybe if you can talk about how do you see prospects for M&A in 2026? And any comment on buyback as well?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. Akash, I mean it's -- I can only repeat what I always say. We would be very much interested in doing meaningful M&A, but only if the price is right. You know that we don't comment officially on targets, but there is also some rumor in the media around -- and maybe that also proves for you that we don't do any stupid things. And we don't do something when it does not fit.

So yeah, this is what I can say. We would be happy to find the right targets. But on the other hand, we have a strategy program, which works perfect, like you can see, like you can also see again in the year '25. And also in '26, we are growing. We are increasing our profitability. There is no need for us to do anything which might be too risky.

But as I said, we would be interested and open to do acquisitions whenever we find the right targets for the right price and then we will see what comes. If this will, at the end, let's say, not materialize a long time, then of course, we also might start to think again about share buyback. But yeah, let's see how it works out.

Operator

Uma Samlin, Bank of America.

Uma Samlin - *Bank of America - Analyst*

Just one for me, please. Just if I look at your margin -- EBITDA margin guidance for 2026, I guess the lower end is just like a tiny bit over what you had achieved this year. So I just want to understand what makes the difference between lower and higher end? What do you need to get to above 17% margin? Is that a function of revenue delivery? Or is there any particular cost reduction target baked in there?

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah. Thanks for the question, Uma. So if you look at the -- or we can go to the slide again that we showed earlier, Stefan explained, of course, there are ranges. And if you take the ranges and add them all up, then you come also to a guided range. And you can see that we see on the pricing level, we see a bigger range. And we have on -- the COGS reduction program as well in ambition level as on the G&A contribution. So this, in the end, explains how we come to this guided range of 16.6% to 17.2%.

Uma Samlin - *Bank of America - Analyst*

So I guess just following up on that, I guess, you mentioned pricing is a relatively important element of the margin bridge. And if we look at your pricing chart there, so how should we think about the strategy, especially in the wake of higher energy prices you might see a bit more cost inflation going forward than you had anticipated. How confident are you to compensate all that in your pricing plans?

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Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. I mean for us in our own operations, oil is not really playing an important role because we mainly source electric energy and some natural gas. That's the same, by the way, for our customers. We don't have any product to my knowledge which needs oil or petrol to run. So the impact is -- direct impact here is extremely limited.

And also the total number of energy costs for us, it's really, really very, very low. And if there might be any impact which we cannot avoid then I'm very optimistic that we had good reasons to explain that to our customers and that we can pass it through.

Operator

Sven Weier, UBS.

Sven Weier - *UBS AG - Analyst*

First one, coming back to the order pipeline, Stefan, obviously, which remains super active. I was just wondering on the dairy side of the business, how important high protein in general is a driver for the activity in the pipeline?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Okay. Good question, Sven. That -- I have no knowledge that this is really driving one of our larger projects. It's very -- of course, you know that we are very active in dairy, that we are very strong in dairy and especially, when it comes to infant formula and all these things or ultra-high temperature treatment. But I have to say, I did not -- I cannot tell you that if this is now really a big driver, and I did not hear it so far that this would be a driver. Even if I know that, of course, many, many nutritions are more and more focusing on that, but it is mainly a question of probably how to use our equipment, yeah.

Sven Weier - *UBS AG - Analyst*

Would it be fair to say that the strength that you've seen in the orders is a bit more broad-based and you can't really single out kind of individual short-term trends?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah, absolutely. And also, the quite optimistic statement about the order intake we might also see in '26 is not based on dairy only. There are many other interesting areas in field, including new food, by the way, where we feel that we could generate interesting business.

Sven Weier - *UBS AG - Analyst*

And what you said on orders in general, I mean, I guess, should we take that as that book-to-bill will be again above one based on what you see, obviously?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

I hope so, yeah. That's (multiple speakers)

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Sven Weier - *UBS AG - Analyst*

Good. And then just a follow-up on the M&A side. So it was interesting what you said regarding market concerns that you would overpay or something. I mean should we take that as a sign that you have walked away from a big deal that was speculated or should we not take that as a (multiple speakers)

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Well, we know that it is difficult for me to comment. But I have -- I can say that I read something in the newspaper that this is the case. There was a small article in the small newspaper, but this is what I personally read in the newspaper.

Sven Weier - *UBS AG - Analyst*

And just in terms -- because I think the other concern the market had and when you do a bigger deal that it would need a capital increase? I mean would you say that with your financial firepower, you can almost rule that out that, that you would [need] the capital increase to do it?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Well, I think there are only a very, very few ideas where this could be realistic that we would need a capital increase because we have a firepower, which is easily going beyond EUR2 billion. And only that is not sufficient, then we could think about new shares and capital increase, yeah. But we also know that this -- if we would spend EUR2 billion or more, then it really should be a significant huge-large profitable target which we -- which is difficult to find at the moment.

Sven Weier - *UBS AG - Analyst*

And is it also fair to say that in such an event, you also reserve the right to do a strategic review? Just in terms of how the--?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. Could also be. Could also be. Could also be the fact, yeah.

Operator

Sebastian Kuenne, RBC Capital.

Sebastian Kuenne - *RBC Capital Markets Inc - Analyst*

First of all, I would like to get a better understanding of the one-off charges or projects that you are seeing for 2026, '27, so including ERP, IT investments, organizational simplification to the bigger projects and what the impact might be on the P&L. That would be first.

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

So we expect for this year and just let me also remind you that '26 will be the last year where we record restructuring expenses or report an EBITDA before restructuring. So we expect, if you compare the number to the one that we had in '25, we expect this number to go down.

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Sebastian Kuenne - *RBC Capital Markets Inc - Analyst*

Then also 2027, so you don't have bigger projects that will last a couple of years and where you have bigger costs expected and is that correct?

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah. That's what we said. So we will not have any -- we will not record any restructuring expenses or report them anymore, and you could deduct from that that there are no bigger projects going on, correct.

Sebastian Kuenne - *RBC Capital Markets Inc - Analyst*

Then on tax, I mean, Q4 was a bit steep at 40%. We know that the [tax of tariff forwards] in the US are running lower and you now guide for 28% to 30% tax rate. I assume this is a cash tax. And is this also the level you see then in future years? Is that then a normalized level, 28% to 30%?

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah. First of all, the 28% to 30% is not the cash tax. It's the P&L tax effect. So that's important to see. And yeah, the expectation is that this will be -- I mean, we are giving a range because it's not that easy to really pinpoint it down to 1 percentage point. So that's the range we want to be in. That would be then a reduction to the effective tax rate that we had in 25% or 31%.

Sebastian Kuenne - *RBC Capital Markets Inc - Analyst*

Okay. Then one more thing. SFT separation business, one could argue that the demand level was a bit softer or certainly softer than what we saw in other divisions. And also, the margin was pretty flat now. Would you now say that this business has reached kind of the margin ceiling that you can achieve with the type of products and the mix that you have? Or is there something coming up where I think this is -- there's more that could be 100, 150 bps more margin further down the line. So kind of a trajectory that you see internally where you say there's much more potential here.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

I think we would never say and accept that the margin is not possible to improve. That's -- I think we always see the opportunities to do something better. But if you look at the margin level of SFT, it is really very, very high already. And of course, the incremental improvement might be lower than in other divisions.

But nevertheless, we don't see it as a peak or so. We feel that we have still room for improvement in some areas. I also have a lot of activities in my mind, which we led to improve further the productivity to bring down COGS and one that is also what we do in the SFT business.

And therefore, I'm also quite optimistic that we will see here also, and we have the headroom for improvement even if, of course, it is -- the air becomes thinner. That's very clear. But we are not yet on the top.

Operator

Adrian Pehl, ODDO BHF.

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Adrian Pehl - *Oddo BHF SCA - Analyst*

Congrats, a strong year actually. Two questions from my side. First of all, I'm phrasing the energy question a little bit differently. I'm just curious to hear how in the phase of rising energy costs in the past, your lead generation has been -- I mean, obviously, this might help you even in selling equipment to your clients that are looking at total cost of ownership and they might potentially anticipate some of their purchases or the life cycle by whatever a year or so, I don't know. Any thoughts would be helpful on this.

And secondly, on the strong net working capital development that you obviously showed and given that your last 12 months run rate is now below the previous guidance corridor. What does it take actually for you to become even more optimistic on the net working capital ratio, given that you see a strong pipeline also on larger orders, which means probably prepayments coming in.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Okay. Thanks, Adrian. I'll take the first question. My personal view would be, I think we all hope that the conflict in the Middle East will come to an end in a reasonable time and maybe then also, we will come back to times where the oil price is going down again.

And only if that is not the case, I think you might be right that customers would be more willing to spend more money for more sustainable solutions and even if I -- like I said, we have no equipment which runs with oil or petrol. So -- but there's always a correlation of the energy prices, of course, somehow -- so I would say, at the moment, we don't see any impact here or any acceleration of order intake for that reason.

My personal view would be if it -- if the conflict continues for a longer time and oil prices remain high for a longer time, then you might be right that this would rather help us to see more investments in more sustainable solutions and upgrades for our customers.

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah, then perhaps I'll chip in to take the second question, the net working capital ratio. I think we -- as I said earlier, we are -- at the moment, we are still very comfortable with the range, 7% to 9%. We see a downward trend on the last four quarter ratio, yeah, and we ended the year even slightly below this. I would say it's a bit too early now to discuss a lower ratio. I think this will -- corridor, this will depend on, let's say, the future development also on the inventory side, I would say, and on the project side.

Yes, you are right with the high down payments coming from larger orders coming in, this would be an indicator. But on the other hand, we also have to keep in mind on the payable side, what -- let's say, what levels we can agree there.

So that's something that we are closely monitoring. You know that since years, we have been really focusing on net working capital management, and we lowered the range already once. I think I don't know how many years ago, it was 8% to 10%, now it's 7% to 9%. And if we continue this trend, I think we can revisit this again. But for the time being, we are quite happy with the range.

Operator

Lars Vom-Cleff, Deutsche Bank.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Three quick follow-up questions, if I may. The first one is regarding your G&A costs. These were 12.7% of last year's revenue. I guess given that this is a cost category that is strongly in your focus, would it be fair to assume that we could see it go down to around 12% again this year? Or would that be too optimistic at this stage?

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Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

Yeah. First of all, I think it's important to understand that the G&A ratio was also influenced in '25 by some of the expenses that were generated by the reorganization and which is not going to continue into '26. Also, the ratio or the development of G&A cost or the impact of G&A cost on the overall EBITDA margin. We indicated that we expect a slight reduction so I cannot give you now the exact percentage, but it will definitely -- and that's the aim also throughout the next year to reduce the G&A ratio.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Okay. And then the net working capital coming down, so massively, you're stressing that is mainly driven by advanced payments. I guess it's a special or yeah, it's one advanced payment that really is moving the needle, right? Several large orders but there's one large order is playing an enormous role I would assume.

Alexander Kocherscheidt - *GEA Group AG - Chief Financial Officer, Member of the Executive Board*

I would not phrase it like that. I think as we showed earlier, we -- and it's also publicized, there were two large orders above the EUR100 million mark and also several other large orders. And I would not say that one plate now or move the needle, as you said it. I think it's really the combination of the number of large orders and also milestone payments in other projects. So it's a multiple -- there are multiple reasons for that.

Lars Vom-Cleff - *Deutsche Bank AG - Analyst*

Okay. Understood. And then lastly, a new food alternative proteins. I admit you're on a good way. We're seeing promising growth rates. But if I remember correctly, many start-ups you are working with are also based in Israel, could the current geopolitical situation slow down the envisaged growth for this segment this year?

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

I would not say that this is depending on the situation in Israel. Yeah, you are right. There are some of the start-ups, but we also have significant start-ups in the US, in Finland, in other regions. So I would not say that this is a big impact. And by the way, people initially, they are working. They are -- they somehow cope with the situation, I feel. So it's not that based off everything.

Operator

This concludes today's question-and-answer session. I'll now hand the call back to Stefan Klebert for closing remarks.

Stefan Klebert - *GEA Group AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you very much. So thanks for your participation in that call and for your continuing interest in GEA. I think you could see that '25 was an outstanding year again in all our financial KPIs and also in sustainability KPIs.

And therefore, I think we are also a very good testimonial to show that financial performance can go along with efforts in sustainability and to make an impact to become a better world. What is also important to mention, we are very resilient.

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Now, it's '26, it's now the seventh year in a row where we are continuously growing through oil cycles and oil crisis. And therefore, we are also not worrying about the crisis we see in the Middle East at the moment, which is compared to the other crisis, we had a much smaller one. And we see also the result of our business model.

Yeah. So all in all, we expect another good year '26 after good year '25. And yeajh, stay tuned and see each other again or talk to each other again at the end of Q1. Thank you very much.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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