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Capital Goods | Europe

Industrials CEOs Unplugged Conference – All roads lead back to data centers

We hosted our annual CEOs Unplugged Conference, with over 50 corporates and c.400 investors. Companies remained constructive, particularly in data center for 2H26 and 2027. There is more upside than downside for sector margins into 2027. Rexel and Atlas stood out as confident in fireside chats.

***We published two 'back to school' reports in the last two weeks**: Part 1 and Part 2. In terms of recent new views on stocks, we made Legrand our Top Pick (More ways to win...), and upgraded Kion to OW. We also reiterated our positive view on Mining Equipment (Copper: Something's gotta give), with Epiroc our preferred OW. We also stay Overweight Siemens Energy (Link) and Underweight Wartsila (Link). Our other Underweight ratings remain Signify and Kone.*

Our main takeaway from the 2026 Industrials CEO Unplugged Conference (full notes on request) was that data center demand continues to run ahead of expectations, while Electricals are maintaining discipline around order intake / delivery schedules. We found data center optimism across a number of aspects. For example, Electrification companies see no change to customer ordering patterns after a strong 1H26, and they also push back on concerns around double ordering. In addition, 2H26 sales growth in data center appears to be running ahead of initial expectations, and there is strong visibility into 2027, with no indications yet of any negative impacts from delays to data center build-out plans. From an 'Industrial' end market standpoint, we felt comments on US capex were constructive (eg gas infrastructure, auto), while any optimism on Europe was more idiosyncratic around Electrification (either grid or spend linked to thematic areas like heat pumps or HVAC). More broadly, construction commentary remained relatively subdued, though we did not hear companies pointing to incremental weakness so far in 3Q26.

On EBIT margins, we think investors should not be concerned about any peaking in 2026. Cap Goods companies continue to get good traction on price rises, while ongoing productivity actions should continue to yield benefits in 2027. For project businesses, lessons have been learned from the last inflation spike in 2021-22, with companies now utilizing more wide-ranging hedging / inflation escalation clauses in contract terms and conditions.

In terms of stocks, we felt that Rexel and Atlas Copco stood out as relatively confident from their presentations. We were also encouraged by Schneider management continuing to highlight the internal focus on pricing excellence and productivity, while we continue to think risks on 2027 organic growth are skewed to the upside. On Siemens Energy, we felt the company was confident on the order

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Industry View	**In-Line**

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pipeline, though this message was consistent with recent company comments. Ultimately, nothing has changed in our view that the Siemens Energy share price should grind higher as the 2028 multiple (11x EV/EBIT) rolls forward onto the higher 2029 EBIT numbers (+23% 2029 EBIT growth).

Five themes from the conference, where we had a range of companies presenting and meeting investors – across Gas turbines, Electrification, Cables, Mining Equipment, Elevators, and others:

1) Data centers. In the short term, we were encouraged to hear Rexel's comments that data center demand was running ahead of expectations in 2H26. We see this as a positive read-across for white space data center exposed names in our coverage (eg Legrand), where organic growth could potentially accelerate into 2H26. We also noted that companies like ABB and Schneider pushed back on the idea of any double ordering. Specifically, Schneider laid out that their data center orders are backed by relatively high pre-payment levels, and they have specific roadmaps on volumes and architectures, with their top-20 data center customers looking three years out. On 800v DC, we heard a range of views on share of 2030 installations, with companies suggesting 10-20%, and ~25%. Ultimately, companies like Schneider and ABB saw their $ per MW opportunity as relatively stable in this technology transition.

2) US Activity - broad based strength across capex markets. In recent weeks, the softer August ISM new orders raised some questions on the industrial demand picture in the US. We found that companies highlighted relatively broad-based strength in US markets. This was clear from Atlas Copco's compressor commentary, where they highlighted benefitting from investments in gas infrastructure, solar panel investment, exposure to gas turbines, and US auto. Similarly, Siemens continued to highlight US as their strongest region for Digital Industries, noting that demand for the production of products going into data center was indirectly boosting demand for machine tools and therefore PLCs that were attached to machine tools.

3) A strong picture for sector EBITA margins into 2027. In the last two years, we have seen analysts / investors try to call the top in Electrification / sector margins, after an extremely strong run of margin expansion since 2019. In listening to Electrification companies, we continue to be struck by the multiple levers possible for pushing margins higher. Incremental price in July in Electrification (eg Schneider) is being put through, and companies like ABB (EL North America), Schneider (productivity) and Rexel (AI, EU restructuring) all have idiosyncratic margin drivers. Based on upbeat commentary at the conference, our take would be that Electricals are more likely to surprise positively on margins into 2027 than to disappoint. The potentially more conservative message on margins was from Atlas Copco, particularly in Compressors, where the focus was growth (rather than margin expansion), given the ROCE of the business. That said, the company saw opportunities in both Compressors and Vacuum to increase market share, given their innovation in compressors and ability to ramp capacity in Vacuum.

4) Inflation spikes in raw materials and gas / electricity. We found that companies were quicker to highlight the 'indirect risks' from gas / oil price rises, as opposed to

risks with their own earnings. Companies with backlogs (eg Kion IAS, NKT, ENR) highlighted improved inflation clauses in contracts compared to 2021-22. In addition, for Electrification names, the message was that we should expect price cost (ie gross margin) dynamics to improve into 2H26 as prices rises put through in 1H26 continued to catch up with cost inflation. Kion also saw similar dynamics supporting their 2H26 ITS margins. That said, we think some concerns linger for companies such as Signify, where the phasing of profitability is already back-end loaded and end market dynamics across Construction and online retail remain somewhat challenging.

5) European demand was more about thematics than any broader industrial recovery coming through. Thematic growth drivers include HVAC / heat pump demand, grid investment and physical AI. We heard very limited reference to bright spots on the broader European Industrial cycle, with the exception of Knorr Bremse noting European Truck customers were surprisingly seeing somewhat better demand than expected. In reality, the more positive messages on Europe were heavily linked to thematics. This included Rexel highlighting that 'Electrification' growth (HVAC, heat pumps, solar, EV charging) remained strong into 3Q26, given the continued focus in Europe to try to reduce energy consumption against a backdrop of rising gas and oil prices. In addition, Alfa Laval also highlighted their orders into heat pump OEMs were progressing well, but current order levels still remained well below peak. Finally, Siemens noted the rapid adoption of their AI agents (PLC coding), and Kion sounded confident in their partnership with Nvidia / Siemens, both of which point to a continued focus on efficiency. In both cases, the key moat and barrier to entry that both companies highlighted was domain knowledge and access to data. *(Nvidia is covered by Joseph Moore.)*

MS one line takeaways from Fireside chats

Exhibit 1: We were delighted to host 6 Fireside chats in Capital Goods across two days and summarize our key one-line takeaways below.

Company	MS takeaway from company firesides
Atlas Copco	Broad-based, global company order demand with the US as the standout region, good demand in China and Asia, and positive, relatively noted demand in Europe. Limited sighs of any Vacuum pre-ordering in 2Q, with a confident message on potential for market share gain, given Atlas' ability to ramp capacity in Vacuum relative to peers.
Rexel	Strong underpinning for growth from US data center and European electrification (HVAC). Ongoing confidence on the >7% target, which should be achieved in the 2027-29 period. AI adoption gaining pace and linked to management incentive structure
Schneider Electric	Pricing excellence and productivity remain a high priority to management. Good visibility on the DC business from order backlog and 3-year planning windows with top-20 large customers. Confirmed capital allocation priorities, but we felt there was ongoing interest from Schneider in potential M&A that connects the physical and digital world.
Siemens Energy	Confident message on LH 27 order pipeline and gas turbine pricing on SRAs still ahead of orders. Scope for further buyback announcement at full year result. TOI business separation started, with full details to be provided in mid 2027. There also continues to be a further leg to grid order demand from North America (grid build out linked to DC's) and the Middle East.
Siemens	Highlighted strong adoption of embedded AI agents. Confident in the moat (data) vs software competition. No material update on Digital Industries demand trends. On M&A, we felt Siemens' focus was more on bolt-on software and expanding areas of DC.
Halma	Confident message on future M&A opportunities, underpinned by pipeline of 600-700 companies. Photonics guidance reiterated, growing revenues +30% organically in FY26/27. Opportunity to increase Healthcare margin.

Source: Morgan Stanley Research

