Transcript for "Interim Review for January-September 2024"

00:00:01 - 00:00:35
Mr. Pekka Rouhiainen: Good afternoon, ladies and gentlemen, and welcome to Valmets's third-quarter 2024 results, publication, and webcast. Valmat's third quarter was characterized by the fact that the comparable EBITDA margin was the highest for a third-quarter ever, at 12 percent per tender. The market activity was slower than expected. My name is Pekka Rouhiainen. I'm the head of IR here at Valmet and in this conference call, we have a new representative, Valmet's new president and CEO, Thomas Hinnerskov, who started in mid-August. Welcome, Thomas.

00:00:35 - 00:00:36
Mr. Thomas Hinnerskov: Thank you.

00:00:37 - 00:01:12
Mr. Pekka Rouhiainen: Then, of course, CFO Katri Hokkanen. The agenda today will be that Thomas will first go through the third quarter results and briefly discuss the development of the segments, the guidance, short-term market outlook. Katri will then later present the financial development in more detail. After that, we will be opening the phone lines for Q&A. This time, there is also the possibility to ask questions through the online platform, so please also utilize that opportunity. With that, I hand over to you, Thomas.

00:01:12 - 00:02:15
Mr. Thomas Hinnerskov: Thank you very much, Pekka. Despite having lived in eight countries across three continents, it really feels like coming back home to this strong Finnish engineering company which I've worked for earlier as well. It's not the same one, but also a strong Finnish engineering company, so I'm very happy to be here. It feels very good. Let's look at Q3 just in overall terms before Katri goes into the details of what happens during Q3. Overall, orders received amount to €1 billion. Market activity was a bit slower than we actually anticipated, a quarter early or end of June in particular. We did see a stable business [inaudible 00:01:56-00:01:57] increase. It's still a little bit short of what early expectations, in particular in the service business. The process technology business orders did decrease and were also behind on early expectations as well.

00:02:16 - 00:03:12
Mr. Thomas Hinnerskov: However, we did have one big highlight during the month which was the ARAUCO order, which is not part of the Q3 orders and will be booked in Q4. As you probably noticed, we did sign the contract yesterday, so now it's sort of the final orders there, and it will be starting. There will be prepayments and bookings during Q3. On the positive side, I think the order backlog of 3.5 billion is quite a sizable amount. What I really also like about it is that roughly half or 50 percent of the backlog is in our stable business. That's actually a good profit pool that we have in the backlog there. The net sales are exactly the same as last year. Comparable EBITDA, just like Pekka said, is 12 percent, the best-ever Q3 margin. It was already sort of supported by a mixed sales mix that actually supported a higher margin.

00:03:14 - 00:04:20
Mr. Thomas Hinnerskov: Overall, it came in quite positively. Also cash flow, it's quite nice to see that the operating activities and the operating cash flow amount to 110 million. Looking more into the numbers for Q3 orders received, net sales are very evenly split in a sort of three quarters or three-thirds. Then, of course, our higher margin stable business is amounting to most parts of the whole EBITDA or comparable EBITDA. It's still continuing the same way as we've seen in previous quarters. On the comparable EBITDA development, it is really nice to see that we have a good track record of growing the margin over the past ten years. The last 12 months was another record of 11.3 percent, slightly higher than last year, again, also supported by sales mix, which you can also see on the color split on the Q3 '24 LTM.

00:04:22 - 00:05:16
Mr. Thomas Hinnerskov: We are still aiming to achieve the 12 to 14 percent margin over time, and that is definitely an ambition of ours. Orders received €1 billion and flattening out the last 12 months, the last couple of quarters have been more roughly on the same level 4.5 billion. It does and will increase. We expect to increase in Q4 due to the ARAUCO order that will be booked there. The geographical mix right now, North America and Europe, the biggest part of the pie, of course, with ARAUCO, South America will expand and be a significant part of some of that order to see for 2024. It may also be worthwhile noting that China is or has decreased since it peaked in 2022. [silence 00:05:10-00:05:16] Let's just see.

00:05:16 - 00:06:14

Mr. Thomas Hinnerskov: There it is. [silence 00:05:16-00:05:19] Overall, when we're looking then at taking a double click on the orders received, just looking at the stable business currently it's €3.2 billion in last 12 months. It is, of course, very positive to see still, even though it was not as fast and as much growth as we expected some months earlier. It was nice to see that this provides sort of a very stable foundation and resilience to whatever cycle we will come through. It also has good profitability and therefore a good profit pool for our future quarters to come. Organic growth has a little over 5 percent CAGR over the last ten years. What I would also highlight is that within the last 12 months, 70 percent of Valmet's orders received are coming from this stable business, whereas if you look back to 15, it was less than half of the orders received.

00:06:15 - 00:07:25
Mr. Thomas Hinnerskov: The development of expanding the stable business has been clear. That is also when we look at the order backlog overall decreasing, but that's because the capital part is decreasing whereas the stale business is actually increasing, so it's also there. Now it's 50 percent roughly of the overall backlog, whereas going back to 25 or 15, it was 25 percent. One of the things that will also help us into Q4 on the bottom line side is that we do expect 70 million more sales to come out of the backlog in Q4 versus what happened actually a year ago. That will support our Q4 results. Let's take a quick look at the different segments. Process technology has been trending down since sort of the peak end of '21. Naturally, for the full year of 2024, we do expect to see a strong process technology order due to the ARAUCO order that will be booked.

00:07:26 - 00:08:41
Mr. Thomas Hinnerskov: We also see sales in the last 12 months, of course, with the decreasing process. Technology orders since 21 will be less. The order book is also declining. Therefore, also fewer sales, roughly 300 million less than what we see in the last 12 months. That's also led to what you might also have picked up in our announcement that we're restructuring the business, the paper business line. We have taken 112 people out or are taking them out as we speak in order to counter that order book that is also declining in this business line. Last 12-month profitability is slightly down in the process technology, but I would take note that the Q3 margin was better than the Q2 margin. We had 4.4 percent in Q3, whereas it was three percent in Q2. It was also impacted by some settlements on prior projects, but anyway, I think it's good to see that it's coming up all right on a too-low level. Then the ARAUCO project.

00:08:42 - 00:09:38
Mr. Thomas Hinnerskov: I have to say it was great to be in Chile together with the team when we closed this deal and partnered up with ARAUCO to deliver the most amazing single-face pulp mill in the world, the largest one. We really worked on how could we oaptimize the outcome of the output of this mill together with the customers. That was basically what I would say was the key to winning this order. I'm very proud of the team and how they on the spot in Santiago de Chile worked in war rooms and created the right solution for the customers. Then they delivered this complete full-scope Valmet mill that basically has everything that we can do in terms of full automation, flow control, and mill-wide optimization. It was just a very, very nice solution and still based on proven technology.

00:09:38 - 00:10:44
Mr. Thomas Hinnerskov: I think it's also important to say from managing or mitigating the risk perspective when we have to deliver this important project and all the elements of sustainable technologies in one go. It's a really nice project. Of course, it also proves some or delivers some future service and automation potential after its startup in '27. Services are probably something we're going to talk a bit more about also later today, but orders did grow, which was nice to see, for the last 12 months which was actually a record high of 1.8. It's still not quite what we thought some months ago. The activity has been a bit lower than expected, but it is on a growing path, which is nice to see. The net sales also increased with that to 1.3 billion. The margin is a little bit down on this compared to previous years, but comparable EBITDA is therefore staying flat versus what we saw last year.

00:10:46 - 00:11:50
Mr. Thomas Hinnerskov: Automation remained the last year's level, or it is flat both in automation services and a little bit down in flow control. Net sales went up, and also comparable EBITDA remained at last year's level. We're integrating the API, as we speak. I was actually in Singapore a few weeks ago visiting our new team members there, one of their important sites for API. It's really great to meet the team and the passion and knowledge of technology we have. It's a very exciting acquisition that we've made, and I think we will see more of that in the future. It's good to see, and we very much appreciate the new Valmet materials that are joining us. I should also note that already now we're sort of two-thirds of the automation orders are actually coming from outside the pulp and paper industry. That's important to note. You can see that orders are basically flat.

00:11:51 - 00:12:55
Mr. Thomas Hinnerskov: However, I think it's important to note that the problem paper industry orders in this segment are slightly down, but actually, other industries are up and mitigating or countering that. That shows that I think we have a strong value proposition and things to offer outside the pulp and paper industry, and I think that is super important. That's something we're going to build more on in the future. Then, guidance short-term market outlook. It's probably not a big surprise to everyone that we are changing the short-term guidance or outlook in the service business to satisfactory, down from good. It came out of or end of Q2 in June of this year. There was a lot of good momentum, and we felt strongly that we were getting into a sort of even more growth than it happened. Now we've seen more that customers' decisions are taking a bit longer time and that there are utilization rates of the equipment.

00:12:55 - 00:13:49
Mr. Thomas Hinnerskov: Customers' equipment is lower. Therefore, the consumable spend is lower. Some packages and decision-making are also taking longer time. It's a bit slower than expected market activity but still growth. I think it's important to note that. It's just something to keep monitoring and keep driving that growth and taking share where possible. Flow control automation system as I said, pulp and paper, a bit slower but actually good development in other process industries is generally good. Therefore, we're keeping that on a good level. Pulp managing is satisfactory, and we view this as a view without these kinds of mega-rank orders because that becomes then just too much of an anomaly and swing factor, so satisfactory is there.

00:13:49 - 00:14:44
Mr. Thomas Hinnerskov: The board and paper are going down a bit. The market activity is weak. The pipeline is somewhat there, but the discussion just takes a longer time and there is overcapacity in Europe, so that's also impacting the overall business there. That's why we've also restructured that business to take out some capacity in order to adjust that to our actual market situation, but also backlog in that. Tissue, there are no big changes there, both in terms of tissue and tissue converting. I think market activity is satisfactory, and we have good, healthy activity levels with our customers on discussing that. With that, I'll actually hand it over to Katri on the financials, and then we'll see what it means more in detail.

00:14:44 - 00:15:34
Ms. Katri Hokkanen: Thank you, Thomas, and hello everybody on my behalf as well. I will walk you through the financials, traditionally starting from the key figures. Orders received increased by six percent to 1 billion in the quarter, and as Thomas said earlier, it was lower than what we expected. Order backlog was 3.5 billion and 14 percent lower, but it's good to remember that we have 70 million more in the backlog for Q4 than what we had a year ago. Net sales were flat at 1.3 billion and a comparable EBITDA margin increased to 12 percent, and this was due to more stable business in the sales mix. Items affecting comparability were -17 million for the quarter, and this was mainly related to process technologies as well as services segments.

00:15:34 - 00:16:33
Ms. Katri Hokkanen: On the operating profit side, it decreased 14 percent, and this was due to items affecting comparability and higher amortization. I will come back to the rest of the figures in the following slides. Then some words about the segments starting from process technologies. There, the order intake was 307 million for the quarter, and as Thomas said earlier, so it was lower than what we expected. Tissue converting orders were 28 million for the quarter, and some orders didn't materialize on paper as we expected in the third quarter. Therefore, we are hopeful that Q4 will be a sequentially better quarter for orders in the processed tech. Net sales decreased to 488 million and the comparable EBITDA margin increased from the second quarter point 4.4 percent, but overall, the comparable is impacted by lower net sales. Then next services.

00:16:33 - 00:17:28
Ms. Katri Hokkanen: The orders increased 18 percent to 412 million, and this was less than what we expected as Thomas said earlier. Tissue converting orders were 34 million and currencies had a nine million negative impact on the quarter. It's good to remember that Q3 is typically a seasonally lower quarter in service orders, and we did see some customers postponing the mill improvement projects. Then going into the fourth quarter. Tissue converting will support the orders by one month, and then the comparison quarter was not so strong last year. On the net sales side, we were five percent higher at 453 million, and comparable EBITDA was exactly flat at 79 million, and the organic net sales decrease had a negative impact on the margin in the services segment. Then next, automation.

00:17:28 - 00:18:28

Ms. Katri Hokkanen: The orders received increased to 322 million, and that was supported by the acquisition of Analyzer Products, and Integration and effects had a negative impact on the orders. Net sales increased 14 percent to 354 million, and this was also supported by API, and here the effects were also negative. Comparable EBITDA increased to 65 million, even though the API business was at a break-even level here. The increase in the comparable EBITDA was driven by the changes in the sales mix and the margin decreased due to integration of API. Here's the summary of the segments. We've already covered most of the numbers except the other ones where the expenses have decreased. The comparable EBITDA in the other was -10 million for the quarter and year to date we were at 32 million, which is in line with our expectations. [silence 00:18:24-00:18:27]

00:18:28 - 00:19:20
Ms. Katri Hokkanen: Then regarding comparable gross profits for the last 12 months, actually, the margin increased to a record level of 27.8 percent. In Q3, the comparable gross profit margin increased clearly, and this was mainly due to a higher portion of stable business. Comparable SG&A costs increased in the third quarter, and this was mainly due to acquisitions. When we look at the SG&A cost as a percentage of sales, they have increased this year, and it has been impacted by organic net sales decrease. Of course, we are constantly evaluating our cost base and take action if needed. Then on the cash flow, we are very pleased that the operating cash flow has improved to 500 million for the last 12 months. The increase there is mainly due to the change in the net working capital.

00:19:21 - 00:20:17
Ms. Katri Hokkanen: A net working capital was three percent of the last 12 months orders, or 155 million and acquisitions have added 100 million to net working capital, if we compare it to Q3 last year. As said many times, our net working capital profile has changed during the last year, so we have a more stable business, and we don't expect to go below zero in the short term here. Net debt remained at the previous quarter's level, around 1 billion, and it has increased in recent years due to mergers and acquisitions. Gearing was 43 percent and the net debt to EBITDA ratio was 1.59. Of course, these are higher levels than before, but it's good to remember that we have a more stable business now involved. The interest rate was 4.4 percent and net financial expenses were 49 million.

00:20:19 - 00:20:47
Ms. Katri Hokkanen: Return on capital employed has decreased to 13 percent, and capital employed has increased due to acquisitions, which then has led to lower ROCE. The last 12 months adjusted earnings per share decreased to €1.98 compared with 2023, and this is mainly due to lower EBITDA and higher financial expenses. Now I will give the floor back to Pekka. Thank you.

00:20:48 - 00:21:20
Mr. Pekka Rouhiainen: Thank you, Thomas and Katri. We go to the Q&A session next. As a reminder for everybody, you can now post your questions, and ask them through the telephone conference lines, which we will open shortly, and then also on the digital platform. If we start with the questions that we have here on the platform, firstly about the profit warning. There was a profit warning, a guidance change in June, and then another one in October, so if you could elaborate a bit on the background of those.

00:21:21 - 00:22:31
Mr. Thomas Hinnerskov: Yes. Overall, of course, it's unfortunate that we had a negative profit warning here in October. We came out of it in June in Q2. We saw quite positive development, particularly in the service business and the stables, but particularly in the service business. Maybe we got a bit too optimistic about the future and then issued the positive profit warning, thinking that this kind of activity level in terms of that increase would continue into Q3 and Q4. Now we are a bit wiser on that. We've seen that in Q3, yes, we are growing, and it is positive, but it's not as positive as we actually thought it would be. Therefore, we're taking the guide, and we've taken the guidance down, but yes. It's regrettable, but yes. That's the market. We've just seen that customers are taking a longer time for a decision, maybe sweating the acid a bit more, but also that it's not running at the same capacity levels as we thought it would be and therefore consumables are also impacted by that.

00:22:31 - 00:22:33
Mr. Pekka Rouhiainen: Thanks, Thomas. Katri, anything to add to that? [crosstalk 00:22:32-00:22:33]

00:22:33 - 00:22:45
Ms. Katri Hokkanen: Maybe to add to that, the Q3 orders were lower than what we expected, so we didn't get the book and bill supporting the result-making. That was kind of resulting from what you said earlier.

00:22:45 - 00:22:46
Mr. Thomas Hinnerskov: Yes, good point.

00:22:46 - 00:23:09
Mr. Pekka Rouhiainen: Yes, and the guidance system. As a reminder, the net sales have remained the same, so for the flat net sales and then the comparability with the guidance, what was changed? Then another one was also a recent topic, a bit after the quarter ended. There was a press release or stock exchange release about the arbitration case with Metsä. Any thoughts on that?

00:23:11 - 00:24:02
Mr. Thomas Hinnerskov: Yes. It's unfortunate that it comes to this sort of point where Metsä has pulled us into arbitration. I think three things, maybe on that one. We have counterclaims on that. I think we've got our documentation well in order. It's also worthwhile noting that we are not the only one who's been pulled into arbitration during this. Then finally, I also want to emphasize that the mill actually did start on time on the 20th of September last year, and the bail did come out. In that sense, I think we met the deadline, and it was produced. We're going to dispute it, and then we'll see what's going to happen, but it'll take time. [silence 00:23:59-00:24:02]

00:24:02 - 00:24:33
Mr. Pekka Rouhiainen: All right. Thank you. We will now move to the conference call next, but please remember to be active, also on the platform. We will also take those questions. I would kindly wish that you limit your calls to one call, one phone call to conference call per person, so if that's okay for everybody. With that, operator, I hand over to you. [silence 00:24:29-00:24:33]

00:24:33 - 00:25:00
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. [silence 00:24:47-00:24:52] The next question comes from Sven Weier from UBS. Please go ahead. [silence 00:24:57-00:25:00]

00:25:00 - 00:25:53
Mr. Sven Weier: Yes. Good afternoon from my side. Thanks for taking my questions and nice to meet you, Thomas. The first one is on your initial findings on the things you might do differently than it was done before, and I especially think about the service business. Obviously, you've previously been with a company with a big service franchise and business. Are there any learnings? I think you mentioned in your prepared remarks it's what's supposed to be a stable business, but I think the last one and a half, two years have shown that maybe service is not so stable. Do you think there's anything you can do to make it more steadily growing, like striking agreements or anything you have in mind? That's the first one. Thank you. [silence 00:25:50-00:25:53]

00:25:53 - 00:26:01
Mr. Thomas Hinnerskov: Yes. Thanks, Sven. Sorry for the chat, but I think we need to work on the pronunciation, especially on your surname, but hopefully--

00:26:02 - 00:26:03
Mr. Sven Weier: That's okay.

00:26:05 - 00:27:12
Mr. Thomas Hinnerskov: If you think about sort of initial findings, I've really been here, what is it now, ten weeks? I really spent a lot of time, having a lot of overseas travels and of course also in Finland where we have 6000 employees, but also being in China, in Asia, obviously in Latin America, closing the ARAUCO. I've been in the US. Overall, it's a great company, with a lot of knowledge, a lot of passionate people, good technology foundation, which I think is really strong. Of course, you can say that parts of our market which are related to pulp and paper, there are some challenges in that market. Some pockets are more challenging than others, and some are actually pretty positive as well. I think we have many opportunities to also, how can I put it, utilize this strong foundation that we have, and actually get more out of the business that we already have.

00:27:13 - 00:28:14
Mr. Thomas Hinnerskov: Then, of course, we can still and are still going to look at M&A and use that as a strategic tool to expand our business. I think overall, I'll say we have an opportunity to get more out of what we have. Maybe I should also comment, or maybe it's a good time, I don't know, we are planning to have a CMD in

June next year. The exact date is not quite known yet. We haven't settled on that and neither on the location, but we will have sort of a CMD in June. That's where we're going to sort of deep dive into how I actually see the company going forward, but also the opportunities that are there. I do think we have an opportunity to get more out of what we have and also maybe simplify the business and therefore be able to react and speed up how we are acting in the market as well. You had a second question. Was that related to the service?

00:28:14 - 00:28:14
Ms. Katri Hokkanen: Yes.

00:28:16 - 00:28:16
Mr. Thomas Hinnerskov: Yes.

00:28:16 - 00:28:19
Mr. Sven Weier: Yes, because obviously, you're coming from Kone before.

00:28:25 - 00:29:20
Mr. Thomas Hinnerskov: There are basically three parts to services. If you see some of the other places that I've been, there's a performance part piece, sort of basically these consumables as well, then inconsumables. There are packages where you operate, or you make small repairs. Then there's the human touch part, where you actually have people on site doing things to optimize or maintain the equipment. Those are characteristics of other industries as well. That's also why I don't necessarily see that... I've heard a lot about being the odd one in terms of being CEO of Valmet because I'm the first non-engineer, most likely. I'm pretty sure. We haven't gone back all the way to 100 years. I'm probably the first non-industry person, and then I'm also probably the first non-Finn.

00:29:21 - 00:29:49
Mr. Thomas Hinnerskov: Of course, it gives a bit of a different perspective, a different eye, seeing something in other service businesses and how you can optimize those. It's about having a stronger value proposition and getting more to where you also sell an outcome to the customer rather than a piece or a spare part or something. We will come back to that, and I do think that we have a good foundation to work on.

00:29:51 - 00:30:40
Mr. Sven Weier: Sounds fair. I also have another, maybe more strategic question because you talked about the ARAUCO project. It sounds to me that you're fully endorsing the pulp greenfield strategy to go after these big projects. The track record in the past has been a bit mixed, and now we have the Metsä situation, which I'm still not 100 percent sure what has caused, is it a tech problem, or what is it? I guess it exemplifies that with these big projects, things tend to go wrong. I was just wondering if you still be willing because I think Valmet has the capacity to do it, to take another big project on in the next 12 months because obviously there are still a few pending.

00:30:41 - 00:31:37
Mr. Thomas Hinnerskov: Yes. You're pointing out some valid points. Of course, being in Chile, what was it, only a few weeks into the role. There were a lot of questions that needed to be answered, and asked the team, sort of are we really ready for the different things and delivering such a large project. We do have a very good track record, I would say, in South America. There's actually a really good track record. That is nice to see. We've got a strong team down there, made by a lot of the people down there. It's particularly important to get who's going to project manage the project. That's one of the sort of the key things in terms of actually having success on these large projects. Also, proven technology, so not sort of novel things. We need to invent as we go along.

00:31:37 - 00:32:28
Mr. Thomas Hinnerskov: We've got a long time that we've actually done the pre-engineering and design of the solution so that also comforts me. We have very good partners locally in Brazil who are going to help us do some of that work that we don't do ourselves, and they are basically also signed up. There's also backing from that perspective as well. Demuth acquisition also helped. That became a sort of important last piece of the puzzle of being able to deliver that competitive overall solution for ARAUCO so that we can deliver the best pulp mill in the world to them. Overall, I'm quite confident that we are there, and we're ready to do it and we have time. You also need to be careful that there's not a compressed schedule.

00:32:28 - 00:33:09

Mr. Thomas Hinnerskov: I think we've sort of designed the right schedule together with the customer that will enable this to be a successful project from an execution and outcome perspective as well, so that's it. Of course, if you want to be in this pulp business in Latin America, you need to be good at these things as well. If you want to play, make sure you get good at it, and that's what we try to do. We're setting up ourselves for being for success and making sure that we mitigate the things we know at the current stage. [silence 00:33:06-00:33:09]

00:33:09 - 00:33:14
Mr. Sven Weier: Is that also "Yes," to taking on another project in the next 12 months?

00:33:16 - 00:33:42
Mr. Thomas Hinnerskov: Yes, that's a good question. Thanks for the follow-up. Sorry, it was not intentional. I left it out. Yes. Overall, I think we do have the capacity to do more. Of course, it's good to get the next couple of months sort of under our belt and get all the planning done and all the structuring done. Once we get there, then we will be ready to discuss the next project with any potential customer.

00:33:44 - 00:33:45
Mr. Sven Weier: Very clear. Thank you, Thomas.

00:33:46 - 00:33:51
Mr. Thomas Hinnerskov: Thanks, Sven. [silence 00:33:47-00:33:51]

00:33:51 - 00:34:03
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead. [silence 00:33:57-00:34:03]

00:34:03 - 00:34:46
Mr. Antti Kansanen: Hi, guys, and thank you for taking my question. It's actually on board and paper. You flagged this on the guidance downgrade and also kind of took down the market outlook. I was just thinking about now that we are maybe entering '25 with a bit of a slower momentum and a weaker backlog. How should we think about kind of your cost levels in the organization and the workload situation? Then maybe also if you could comment a bit on the potential order pipeline. I know that the timing of client decisions is difficult to estimate, but what kind of pipeline would help you in '25 regarding workload and revenues? Thank you.

00:34:46 - 00:35:55
Mr. Thomas Hinnerskov: Yes. Thanks, Antti. This is important just on the board and paper. I think it's important to say that actually there are three pieces to it. There's board, paper, and tissue, and we've had tissue converting as well. Looking at the board and paper, yes, that is a weak, challenging marker and that's also what we see. Tissue and tissue converting on the other hand is actually going quite okay. We've got some good activities there. We also have a decent backlog and pipeline on that. That's sort of more on the positive side. Obviously, we wouldn't have taken 112 people out of the business if there had been work for them. That is, of course, how we are adjusting the capacity to the level of order book that we see and the sales pipeline short term. I do think that we have some positive dialogues going on that could prove to also come out in Q4 and actually help us into the beginning of next year.

00:35:56 - 00:37:10
Mr. Thomas Hinnerskov: That's actually on the good side. Then of course we are evaluating capacity cost versus what kind of demand is there that we need to produce. We also need to be a bit cognizant and a bit careful that we don't cut ourselves too low so that we can scale up again from a capability perspective. That's just a very fine balance that we are operating under. Then you should maybe also Antti just sort of that there is a bit different where in the world you're looking. Yes, Europe is probably the one area that is most hit in this part. In North America, there is actually some activity there. That's actually sort of quite okay. Asia is a bit down as well compared to the previous, but I think it depends a bit on where we are in the world on this one. Of course, it's something that we are constantly monitoring and looking sort of what's forward-looking order backlog and pipeline we need to produce versus what's the sales pipeline going to bring us and what we expect. [silence 00:37:07-00:37:10]

00:37:10 - 00:37:11
Mr. Antti Kansanen: All right, fair enough. [crosstalk 00:37:11-00:37:12]

00:37:11 - 00:37:48

Mr. Thomas Hinnerskov: Maybe one last comment. The customers are of course also cognizant about this so we do have actually quite a good dialogue, I would say, with our customers locally, also on a mill level. They are making sure that they can get the things when they want them, even if they're sort of postponing it a bit. The actual desist or the decision and the payment, which then comes once the payment, is where you release the orders for shipment and of course, the booking bill. [silence 00:37:45-00:37:48]

00:37:48 - 00:38:13
Mr. Antti Kansanen: All right. Thank you. Then the second one was on the EBITDA margin in general. I think, if I understand correctly, you mentioned that there was still a bit of an impact on prior project settlements. Could you maybe talk about kind of the legacy project backlog? There was some in Q2. There was still a bit in Q3. Is this something that we should still expect going into Q4 and next year?

00:38:13 - 00:38:28
Ms. Katri Hokkanen: Yes. I'll take the question. When looking at the overall process technologies margins, so we were at 3.9 percent. As you know, the second quarter was very low and there we had those settlements, which you mentioned.

00:38:29 - 00:38:29
Mr. Antti Kansanen: Okay.

00:38:29 - 00:39:01
Ms. Katri Hokkanen: The historical projects that we mentioned earlier are kind of coming to an end, so this is impacted more by the lower net sales. That's the [inaudible 00:38:40-00:38:41]. When moving forward, of course, then we tried to improve the profitability with the existing backlog, but going towards next year, I'm not expecting radical improvements on the process technologies margin. The market situation, as Thomas said, is weak or satisfactory, so that's not supporting us with the volume.

00:39:03 - 00:39:05
Mr. Antti Kansanen: All right. That's very helpful.

00:39:05 - 00:39:12
Mr. Thomas Hinnerskov: I guess that's also about that volume also gives leverage to the whole capacity cost. That's why they are [inaudible 00:39:11-00:39:12].

00:39:12 - 00:39:12
Ms. Katri Hokkanen: Yes.

00:39:12 - 00:39:17
Mr. Thomas Hinnerskov: That impacts a bit with the softer market and the lower production volumes.

00:39:17 - 00:39:20
Ms. Katri Hokkanen: Yes. [silence 00:39:17-00:39:20]

00:39:20 - 00:39:54
Mr. Antti Kansanen: All right. Then the last question from me was on the automation side where you kind of mentioned that a large portion is coming outside of pulp and paper, and I guess predominantly on the flow control side. Could you talk a bit about the progress that you have had on the automation systems and the flow side on expanding into these new verticals or growing within kind of existing strong non-pulp and paper industries? What opportunities do you see the most potential for the next couple of years to maybe diversify further out of the core pulp and paper business?

00:39:56 - 00:41:14
Mr. Thomas Hinnerskov: Yes, I think, first of all, it's really good to see that two-thirds to seventy percent of our orders received in these both business lines or the combined business line, both automation systems and flow control are coming from outside pulp and paper industry. I think that's really good. It's also good to see that the service, that the true service part of it, is also continuing to grow. That is a good foundation for recurring revenue. Clearly, the success outside pulp and paper also fuels the team's belief and being that we can win outside. We do have a lot to offer. We do have a strong value proposition. We have a lot of strength in this distributed control system that can be used elsewhere. Having the team now see that and believing strongly in

how they can expand outside is a good starting point for expanding sort of even further into other process industries. I think that's one of my reflections on traveling around.

00:41:14 - 00:41:36
Mr. Thomas Hinnerskov: We are really good at handling large, messy stuff in industrial processes. We don't talk so much about that. We don't, but we are. That's actually one of our strengths, and I think we can do more of that in other industries as well. What they sort of more specifically would be, let's come back to that a bit later, Antti.

00:41:40 - 00:41:42
Mr. Antti Kansanen: All right. Thank you so much. That's all from me.

00:41:42 - 00:41:46
Mr. Thomas Hinnerskov: Yes. Thanks. [silence 00:41:43-00:41:46]

00:41:46 - 00:41:55
Operator: The next question comes from Johan Eliason, from Kepler Cheuvreux. Please go ahead. [silence 00:41:52-00:41:55]

00:41:55 - 00:41:55
Mr. Pekka Rouhiainen: Johan.

00:41:55 - 00:41:55
Mr. Thomas Hinnerskov: From where?

00:41:55 - 00:41:55
Mr. Pekka Rouhiainen: From Kepler.

00:41:55 - 00:41:56
Mr. Thomas Hinnerskov: Okay.

00:41:57 - 00:42:42
Mr. Johan Eliason: Hello, this is Johan from Kepler Cheuvreux. I have just two minor questions remaining. On services, could you just sort of confirm there were no market share losses in consumables or spare parts, anything like that impacting you suddenly? Then, secondly, on the cap review. You mentioned that network and capital are unlikely to become negative anytime soon. I was wondering about the prepayment model for this mega order you just realized this week. You still have the traditional prepayment model on that one. You haven't sort of backtracked to any degree on the prepayment stair? Thank you.

00:42:43 - 00:43:16
Mr. Thomas Hinnerskov: [crosstalk 00:42:43-00:42:44] Yes. Johan, thanks for calling in. Overall, I think, just to reiterate, the service business and orders received actually did grow. I don't have reason to believe that, on top of that... We did grow, and I don't have any belief that we lost any market share in this quarter either, so I just think that the market in itself did not have that tailwind that we expected early on.

00:43:16 - 00:43:23
Mr. Pekka Rouhiainen: Maybe to add to Thomas's comment that the market activity in North America and our performance in North America and South America were pretty good.

00:43:23 - 00:43:24
Mr. Thomas Hinnerskov: Yes.

00:43:24 - 00:43:43
Mr. Pekka Rouhiainen: The financial health and the situation of the customers from that standpoint were and continue to be rather good. We also had a lower activity in the market in Europe, China, and Asia Pacific, and due to this performance, they are not so good.

00:43:44 - 00:44:00
Mr. Thomas Hinnerskov: Clearly, it's more about a correlation between our customers' utilization rate of their

equipment and also how much money they're making that we see better profitability in a lot of the Americas or at least South America companies.

00:44:02 - 00:44:02
Ms. Katri Hokkanen: Okay.

00:44:04 - 00:44:05
Mr. Thomas Hinnerskov: You can answer that.

00:44:05 - 00:44:27
Ms. Katri Hokkanen: I can take the other question, so thank you, Johan, for the question. You are right. Typically, we have these down payments in the big projects between 10 and 30 percent and case by case then agreed with the customer. In this case, we also have the down payment. It's going to show in the fourth quarter cash flow, but unfortunately, I cannot give you any exact numbers on that.

00:44:29 - 00:44:30
Mr. Johan Eliason: Okay. Thank you very much.

00:44:30 - 00:44:31
Ms. Katri Hokkanen: Thank you.

00:44:31 - 00:44:37
Mr. Thomas Hinnerskov: Of course, we try in all projects to stay cash-positive throughout the duration of the project.

00:44:37 - 00:44:39
Ms. Katri Hokkanen: Yes.

00:44:39 - 00:44:45
Mr. Johan Eliason: Yes. [silence 00:40:39-00:40:45]

00:44:45 - 00:44:56
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead. [silence 00:44:51-00:44:56]

00:44:56 - 00:45:18
Mr. Panu Laitinmäki: Hi. I have two questions, firstly, on the outlook for services, just to understand. What do you mean by a satisfactory outlook? Do you expect orders to grow in Q4 and in the next six months, or how should we interpret this? [silence 00:45:14-00:45:18]

00:45:18 - 00:46:22
Mr. Pekka Rouhiainen: Yes. Well, if I may start with that one. In the services market, as I said, there's some division between the areas. North America and South America are actually doing rather fine, but then the big area of Europe is not so good. As you have seen also from the news of some of our major customers, the capacity utilization rates are not as high. Then as Katri mentioned earlier in the presentation, we are going into Q4, on the other hand, with confidence that the comparison quarter from last year wasn't that strong. That, of course, gives us a kind of positive momentum when you compare this Q4 to the quarter of last year. Overall, the market activity is lower than we saw during the summer, and we wanted to kind of highlight that the momentum of the service is now worse than it was three months ago.

00:46:23 - 00:46:25
Mr. Thomas Hinnerskov: We are expecting growth, I guess.

00:46:25 - 00:46:38
Mr. Pekka Rouhiainen: Yes, but for the Q4 coming to the orders, if you compare Q4 to Q4 last year, there's a rather easy comparison quarter, so the expectation for growth is there. [silence 00:46:35-00:46:38]

00:46:38 - 00:46:41
Mr. Panu Laitinmäki: It's better year-on-year, but sequentially it's softer.

00:46:44 - 00:47:04
Mr. Pekka Rouhiainen: You could say that way. As Thomas explained earlier, the market activity during summer was really good. We came with the profit warning during that time with quite some optimism about the momentum of the service, but we are seeing now that that momentum is not as high as we expected.

00:47:06 - 00:47:21
Mr. Panu Laitinmäki: Okay. Thank you. Then secondly, on the margin in automation, that was pretty good even though your integrated acquisition that I think you mentioned was at breakeven. What is the underlying improvement in the margins?

00:47:22 - 00:47:41
Ms. Katri Hokkanen: I can take it, and you can then add it if you want. As I said during my slide, so it was related to the sales mix. There are some variations. There can be variations between the quarters, and this was now the end result for this. As I said, the API was then diluting the margin. [00:47:38-00:47:41]

00:47:41 - 00:47:46
Mr. Panu Laitinmäki: It's not necessarily the run rate at this level, but it was a good quarter mix-wise.

00:47:47 - 00:47:54
Ms. Katri Hokkanen: We were happy with the quarter. Of course, API was impacting, but it was a good sales mix for this quarter.

00:47:55 - 00:48:04
Mr. Panu Laitinmäki: Okay. Thank you. [silence 00:47:56-00:48:04]

00:48:04 - 00:48:23
Operator: As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. The next question comes from Tomi Railo from DNB. Please go ahead. [silence 00:48:20-00:48:23]

00:48:23 - 00:48:58
Mr. Tomi Railo : Hi, Thomas, Katri and Pekka. It's Tomi from the DNB. A follow-up to what you mentioned the kind of market challenges in the PET environment also a little bit weak or satisfactory service market. Can you describe a little bit the pricing environment? Are there still price increases in the numbers, in orders, and what we see, or our customers are starting to aggressively ask for price decreases, and what is your agenda? Are you trying to raise prices?

00:49:00 - 00:49:33
Ms. Katri Hokkanen: I think that the pricing environment is similar to what it has been, so, of course, it's tough, but we are trying to increase the prices as inflation is especially impacting the salaries. For the project business, it's of course case by case pricing for individual projects. Then we take the forecasted inflation also into the pricing. In a way, it's a normal pricing environment, so we don't get any tailwind from the situation. It's similar to what it has been in earlier months. [silence 00:49:30-00:49:33]

00:49:33 - 00:50:00
Mr. Tomi Railo : All right then. Sorry if I missed this, but as you have a 50/50 sort of split in the market outlook comment, how do you describe that situation in the services? Is it due to market weakness or is it more kind of capacity issue, or where does the downgrade come from? [silence 00:49:56-00:50:00]

00:50:00 - 00:50:57
Ms. Katri Hokkanen: All in all, the market activity... I can start and then you can continue. Overall, the market activity as has been discussed today is slower than what we saw at the end of the second quarter. We have seen some customers postponing, for example, this mill improvement project. I think you also mentioned that earlier. The consumables part of the business is very much linked to the operating rates of our customers, and they have increased, but they are not at the level that they were in 2022. Also, some customers have publicized some market-related downtime. Of course, then that is impacting us as well, but maybe in a way on a positive note, this ARAUCO case will of course bring us a good package order for services as well. That's kind of a positive view towards the end of the year. Anything you want to add guys?

00:50:59 - 00:51:22

Mr. Pekka Rouhiainen: Yes. For the services if you look at the net sales development it's rather positive, so the kind of if you would be only looking at the workload it's probably better than satisfactory at the moment. What I wanted to clearly highlight, like Katri said, is the market situation here. [silence 00:51:19-00:51:22]

00:51:22 - 00:52:23
Mr. Thomas Hinnerskov: I guess maybe it's a bit more a function of that we were too optimistic in June, and now we're coming a bit back to Earth, so to speak. There is still growth there. There are still activities. Yes, the packages are going out the door as fast and as quickly as we would like, but it's still overall okay market that we are operating in at current. Of course, it does that, "Why is that? Why the package is not going to be optimized, the modernization of debris builds, the upgrading not going as fast?" It is a function that the customers' mills are not operating at the same utilization rate as you would think. It's also that they are not making as much money as they would like, and therefore they're trying to sort of say, "Okay, can we time it a little bit?" [silence 00:52:18-00:52:23]

00:52:23 - 00:52:58
Mr. Tomi Railo : Maybe I can throw in a third one if it's possible. Your claim improved year-on-year after it was down after the first half, but you need to see even stronger improvement in the fourth quarter, year-on-year to meet the need, the guidance. I'm just wondering if you can give me any color. Is this expected to come purely from services, or how do you expect the kind of profit improvement to pick up, in automation as well, or API?

00:52:58 - 00:53:53
Ms. Katri Hokkanen: Yes, if I can start. If I answer first, kind of with the Metsä. There we are about 200 million behind, and you know that Q4 is usually a very strong quarter for us both in terms of net sales and comparable EBITDA. Regarding the segments, we actually expect the stable businesses to grow in the fourth quarter in terms of net sales. On the process technology side, it will not be as high as it was last year, but hopefully better than what we have now in the third quarter. Also in terms of the volume, tissue converting API will support inorganically, and then we have 70 million more in the backlog, which was mentioned earlier as well. Then on the EBITDA side, maybe the comment there is that the sales mix there is more on the stable side.

00:53:55 - 00:54:01
Mr. Tomi Railo : Perfect. Thank you very much. [silence 00:53:57-00:54:01]

00:54:01 - 00:54:35
Mr. Pekka Rouhiainen: All right. Thank you. I guess that those were all the questions from the conference call line, but I have quite a few here on the iPad. Hopefully, the presenters still have a bit more energy left in the tank. Let's take at least some from here. Firstly, it's about you Thomas coming in as the new CEO and replacing the old CEO. How the handover has been with the previous CEO, and where do you see Valmet improving in the future?

00:54:36 - 00:55:40
Mr. Thomas Hinnerskov: Yes. I guess it's where we can improve is a big question for everybody around, including the organization as well, of course. I started on the 12th of August. I really had a good introduction so far, traveling around the whole world, in most parts of it, at least. As I started in the beginning, China, Singapore, Indonesia, and several places in Europe, Latin America, US have been good to sort of get all the pieces of the puzzle and put that together into this Valmet picture. There's of course a sort of current picture. Then there's the thing about what could the future picture be like. I think we've got a lot of... First of all, I think if you've got a very solid, strong foundation, lots of good people, good technology, got good knowledge, then it's about how can we get more out of that and move into the future. As we said, we have the CMD in June.

00:55:40 - 00:56:10
Mr. Thomas Hinnerskov: They will definitely deep dive into it and share a lot of their thoughts so far, but clearly, questions, how can we... with strong service and stable business? How can we expand that more? How can we get more out of it? How can we maybe simplify a bit how we operate so that we become faster and more agile? Those are some of the questions that we will need to sort of answer for ourselves going forward in the future.

00:56:11 - 00:56:12
Mr. Pekka Rouhiainen: Good. Thank you.

00:56:13 - 00:56:28

Mr. Thomas Hinnerskov: I also had a good handover from the board. They were quite keen on sort of giving their perspective and view on how they see the world or Valmet, where they also see some future opportunities.

00:56:29 - 00:56:37
Mr. Pekka Rouhiainen: Thank you, Thomas. Timo questioned on the share buyback, so what's your view on the share buybacks in the future?

00:56:38 - 00:56:39
Mr. Thomas Hinnerskov: Yes.

00:56:39 - 00:56:53
Ms. Katri Hokkanen: They're not on our agenda at the moment. We have closed some acquisitions lately, and we have full focus on closing those, so capital allocation is not maybe in our minds, firstly, at the moment. I'm sure you agree.

00:56:54 - 00:57:40
Mr. Thomas Hinnerskov: It's an interesting question. Different markets also have different sorts of views to it. Some markets might actually have more share buybacks than dividends, and others have more dividends, depending also on the ownership structure. I think overall capital allocation is an important topic, and also how we see the investment. It's definitely something we will come back to, but not necessarily in terms of capital buyback or whatever, but as an organization, this is something that we are looking at. It's also where we allocate in terms of what we think about acquisition strategies and where we would actually want to spend acquisition funds.

00:57:41 - 00:58:04
Mr. Pekka Rouhiainen: Well, that leads us to the next question, which is about M&A and ROCE. The person here is asking about your view on ROCE and M&A. Valmet is active on the M&A front with quite good success, but it's fair to say that the ROCE has been decreasing somewhat. What's your view on this?

00:58:06 - 00:59:12
Mr. Thomas Hinnerskov: Yes. I think important metrics... As a company, you have to remember that at the end of the day, it is about what you invest and what cash you actually generate. The accounting numbers are also something that you manage the business with, but the accounting numbers should lead to a return on capital employed. That's what we are here for, in terms of the shareholders. That's what matters at the end of the day. Clearly, if you are a shareholder, if you looked that the ROCE was what, 23 percent in '21, and then we've done some acquisitions, and now it's 13 percent, then that's a question to raise. That also comes into when... if you're trading at eight times, but you buy something at 14 times, that will impact it. Yes, it's an important topic. I think it's also an important metric in terms of our decision-making.

00:59:13 - 00:59:45
Mr. Pekka Rouhiainen: Thank you. Then, a question about APIs or the analyzer products and integration business that was recently acquired. When do you expect it to return back to its profitability level of about 10 percent EBITDA margin before the acquisition? As a background, you said in the report that API has now had an approximately €5 million impact on the net profit as a negative side, year to date. When do we expect it to return to normal profitability level?

00:59:46 - 01:00:11
Ms. Katri Hokkanen: I think that's maybe a bit too detailed question to answer, but what I can say is that it was extremely challenging to carve out, and the organization has been doing a fantastic job. It will take some time, and now the focus is on getting everything onboarded and going on with the integration, so let's see. [silence 01:00:08-00:01:11]

01:00:11 - 01:00:30
Mr. Pekka Rouhiainen: Thank you, Katri. Then another one on the SG&A costs, which have been going up as a percentage of net sales and then, of course, due to acquisitions also. In absolute terms, what could be a reasonable target for the future in terms of SG&A as a percentage of group sales?

01:00:31 - 01:00:56
Ms. Katri Hokkanen: Yes, maybe it is very difficult to say a percentage target, but you are right. The SG&A has been increasing, and the increase is actually related to acquisitions. Of course, then the change in the volume as

I said during my presentation there has been a decline in the organic net sales. Then that is impacting the percentage, but we are constantly evaluating our cost base and taking action if needed.

01:00:58 - 01:00:59
Mr. Pekka Rouhiainen: All right.

01:00:59 - 01:01:25
Mr. Thomas Hinnerskov: I think it's also important to say that different types of businesses require different types of structures, so it's hard to say sort of overall what's the percentage target. You need to sort of look more granular to that. That's of course our job as a leadership team of the business. You look at each business line or business unit, what should the structure be like, and what the structure cost should be like.

01:01:27 - 01:02:01
Mr. Pekka Rouhiainen: Thank you. Those were all the questions from my guests on the conference call line, and this is how I am indicated here. Those have been tackled, and also I think everything here is from the online platform. The next webcast for investors will then be on the 13th of February, in terms of the Q4 results. Now I'd like to thank the audience and Thomas and Katri for the presentations and the discussions. Thank you, and see you on the 13th of February latest.

01:02:02 - 01:02:02
Mr. Thomas Hinnerskov: Thank you very much.

01:02:02 - 01:02:03
Ms. Katri Hokkanen: Thank you.