



# Increasing profitability through Must-Win implementation

Kari Saarinen,  
SVP, Strategy and Operational  
Development

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# Agenda

Capital Markets Day 2015

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# Strategy implementation and Must-Wins

# Valmet's Way Forward

## Our Mission

Converting renewable resources into sustainable results

## Our Strategy

Valmet develops and supplies competitive technology and services to the pulp, paper and energy industries.

We are committed to moving our customers' performance forward.

## Our Must-Wins

- Customer excellence
- Leader in technology and innovation
- Excellence in processes
- Winning team

## Our Vision

To become the global champion in serving our customers

Must-Wins are our way to implement our strategy and cascade it to operational level actions throughout the organization

# Valmet's Must-Win implementation

## Must-Wins

## Must-Win implementation objectives for 2015

### Customer excellence

- Strengthen our presence close to customers and growth markets
- Strengthen Key Account Management to enhance growth at the customer
- Drive services growth through long-term agreements and expanded customer base

### Leader in technology and innovation


- Improve product cost competitiveness to increase gross profit
- Drive renewal through biotechnology solutions and new offering

### Excellence in processes

- Implement Lean to reduce quality costs and lead times
- Save in procurement
- Improve health and safety
- Sales and project management process to improve product margin
- Continue to improve cost competitiveness

### Winning team

- Nurture shared values
- Drive high performance
- Continue globalization of our capabilities

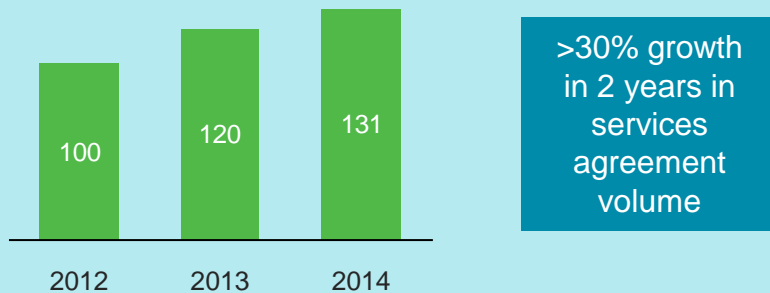


# Must-Win achievements 2014 and way forward

# Customer excellence

## Good development at agreement based sales

### Services agreement based sales (indexed)



### Development in 2014

- Major improvement in agreement based sales
- Utilization of CRM<sup>1</sup> more structured and improved
- Orders received from key corporations increased
- One third of new hires in emerging markets, in Q4/2014 55% new hires in emerging markets

## Further improvements in 2015

### Strengthen our presence close to customers and growth markets

- Strengthen our presence in countries with high pulp, energy and paper production and low presence

### Key Account Management

- Focus on closing projects faster, improving market coverage and hit ratio
- Utilize CRM<sup>1</sup> 100% both at customer plans and sales management

### Drive services growth

- Launch new service concepts
- New service centers – Brazil and Indonesia

1) CRM = Customer Relationship Management

# Leader in technology and innovation

## Good development in increasing sales of new products

### 2014 achievements

- 4 OCM<sup>1</sup> and 1 NTT<sup>2</sup> machines sold
- 4 'new biotechnologies' projects sold
- 48 new services products launched
- 80 new products launched in total

### Development in 2014

- Orders received of new products increased almost 50%
- Commercialization of new offering and further development in lignin separation, pre-hydrolysis and gasification of biomass
- Modularization of paper machine proceeding as planned

1) OCM = OptiConcept M paper and board machine

2) NTT = Advantage NTT tissue machine

## Further improvements in 2015

### Improve product cost competitiveness to increase gross profit

- Multiple design and cost improvement initiatives in each business line
  - 40% of Pulp and Energy volume under specific cost competitiveness programs

### Drive renewal through biotechnology solutions and new offering

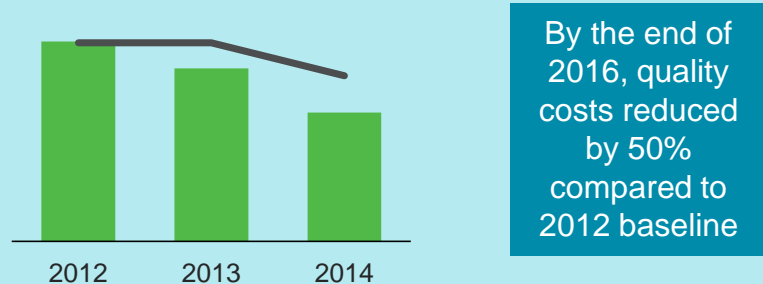
- All business lines bringing new products to the market, >20% of sales from new offering
- Focus R&D on Services. Organization created and R&D programs kicked off



# Implement Lean to reduce quality costs and lead times

## Quality costs were reduced in 2014, and further reduction planned for 2015–2016

Quality costs (EUR million and % of net sales)



### Development in 2014

- Positive trend, quality costs within target range
- Systematic monthly reporting and follow-up in place
- Quality now on all management agendas and incentives
- Active communication and awareness building

## 2015 key actions

### Implement Lean

- Launch Valmet Lean program
- Provide Lean training for a wide group
- Define and set up Lean measurement system
- Each business line and area to have Lean projects

### Reduce lead times

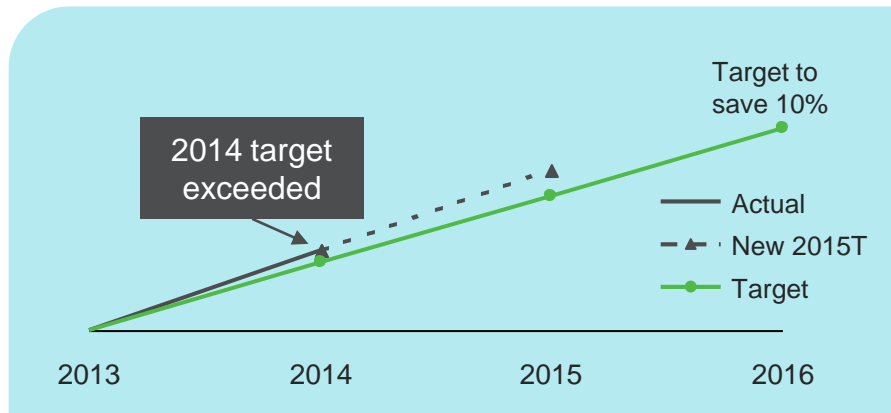
- Utilize Value Stream Mapping and Visual Management
- Identify and eliminate waste

### Reduce quality costs

- Consolidate quality feedback systems as feasible
- Emphasis on finding root causes and implementing corrective action

# Save in procurement

**Target to save 10% in procurement by the end of 2016**



## Development in 2014

- First year savings target exceeded
- Valmet group-wide procurement savings program established and resourced
- Focus on global category management, design-to-cost and sourcing from lower-cost countries
- Valmet's first supplier days held in Q3/2014

**Key procurement saving actions for 2015**

### Increase design-to-cost practices in business lines

- Cross-functional teams and total cost management

### Start new global categories

- Category management spend doubled
- Further increase CCC<sup>1</sup> participation

### Develop procurement structure

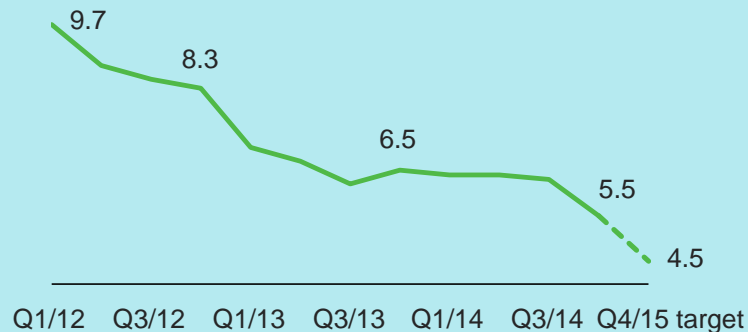
- Supplier management practice implementation
- Payment policy implementation
- Procure-to-pay process harmonization and IT tools

1) CCC = cost-competitive countries

# Improve health and safety

## Health and safety is on agendas: improvement plans and alignment projects started

LTIF<sup>1</sup> (rolling 12 months) - own employees



### Development in 2014

- Multiple units reached excellent level in health and safety
- Global standards, procedures and tools further developed
- Action plans in high LTIF<sup>1</sup> units started in 2014 giving results towards the end of the year

## Key actions for global development towards health and safety excellence

### Common standards, procedures and tools

- Valmet health and safety manual updated

### Improve competency and awareness

- Health and safety mindset and responsibility trainings in units and e-learnings for all

### Sustainable improvements in local health and safety performance

- Action plans in all locations and corporate follow-up of units with LTIF<sup>1</sup> > 5
- Corporate health and safety assurance program with auditor pool from business lines and areas

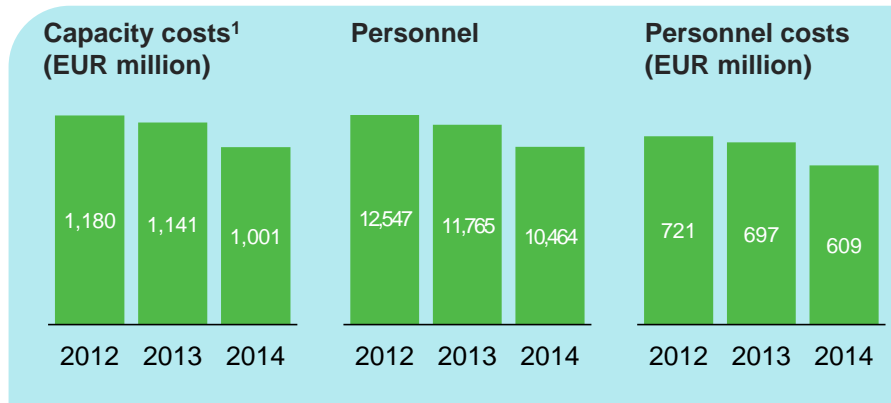
### Valmet guidelines for leaders' health and safety walks

1) LTIF = Lost Time Incident Frequency

# Continue to improve cost competitiveness

Focus on keeping SG&A and capacity cost flat with increased volumes

## EUR 100 million cost competitiveness program implemented and targets exceeded



## EUR 100 million cost competitiveness program successfully implemented in 2013–2014

- Higher than planned capacity cost savings
- Headcount reduction since Q3/2013 >1,600 employees

## In 2014–2015, capacity cost will be flat

- Despite slightly growing headcount and growth investments in some areas

## 2015 focus

### Selling, general and administrative (SG&A) costs

- Focus on keeping SG&A flat: no headcount increases except in selected areas and R&D
- R&D efficiency, awareness and management of costs, facility utilization/consolidation

### Cost awareness

- Further develop cost awareness and transparency
- Cost management programs

### Resourcing

- Cost shift to lower-cost countries
- Outsourcing plans and production roadmap

### Must-Wins

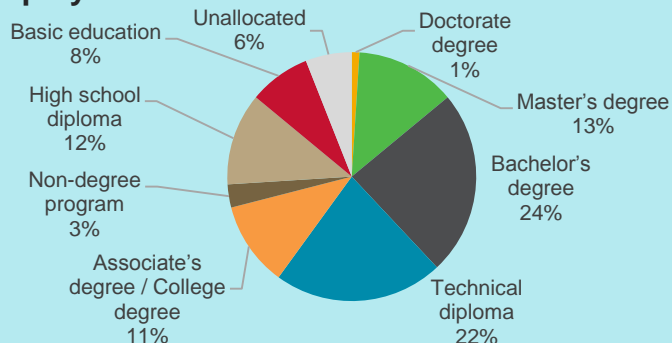
- Emphasis on Must-Win implementation

1) Capacity cost means total fixed type of own costs which generally do not vary with production levels and which are based on present normal capacity, e.g. wages & salaries, rents & leases, estates & equipment, travel, common functions, telecom expenses, insurances and other outside services

# Winning team

## Basis for high performance laid

### Employees based on education



### Development in 2014

- More than 6,000 persons participated in creation of Valmet's values
- Renewal, headcount reduced by 11% to 10,400 (+800 and -2,100)
- 700 senior managers and high potentials assessed as part of new talent review process

## Further improvements in 2015

### Nurture shared values

- Value discussions at annual reviews
- New ways of communicating to personnel

### Drive high performance

- Upgraded annual review process launched
- New training modules for key processes and for talents

### Continue globalization of our capabilities

- Succession planning and competence mapping
- Ensure proper resourcing and competence pools in emerging markets and key countries



# Summary

# Summary

## Increasing profitability through Must-Win implementation

- Multiple product design and cost improvement initiatives to continue good development in 2014
- Lean program ongoing to further reduce quality costs and lead times
- Procurement savings program to expand category management and increase design to cost practises
- Continue to focus on HSE, aim to lower LTIF from 5.5 to 4.5
- Continue globalization of our capabilities



