Transcription

Valmet Q3 2023 Interim Review webcast

25 October 2023

Pekka Rouhiainen: Good afternoon, ladies and gentlemen, and welcome to Valmet's third quarter 2023 results publication and webcast. My name is Pekka Rouhiainen, I am the IR here at Valmet and the presenters today are Pasi Laine, President and CEO, and then Katri Hokkanen the CFO of Valmet. As usual, we will first go through the highlights of the quarter. Pasi will be presenting the highlights and Katri then the financial part and we will then open the phone lines for Q&A after the presentations. But without further ado, Pasi, please.

Pasi Laine: Thank you Pekka. The headline today is orders received amounting to 980 million and Comparable EBITA increase to 150 million in the third quarter. So, like Pekka said, I'll go first through the quarter three in brief, then some words about segments and business lines, and then some words about the climate program. Katri will continue with the highlights of financial development. So Katri has also highlights. Then I'll come back to talk about guidance and short market outlook.

First quarter three. Orders received decreased to 980 million. I'll go through that in more detail with the business lines and segments as well. Net sales were about 1.3 billion. Our backlog is still 4.1 billion, and Comparable EBITA increase to 150 million and margin was 11.6 percent. Gearing in the end of the period was 21 percent.

Here are the pie chart orders received. I said net sales are a little bit below 1.3 billion, and Comparable EBITA 150 million and Comparable EBITA 11.6 percent, and backlog 4 billion and 100 million. It's a little bit over that. At the end of the period, we employed 18,000 people. Segment-wise, Process Technologies is now contributing about 43 percent in net sales, Services 33 percent, and Automation 24 percent. By geography, Europe 40 percent, North America 23 percent, Asia Pacific 17 percent, so big revenue recognition there. China and South America are 9 and 10 percent. It's quite normal distribution here in the net sales as well.

This is the long-term development of Valmet since the beginning of 2013 and wanted to highlight the long-term development. When we started our EBITA was 54 million and now LTM is 632 million. We have been continuously developing net sales, continuously developing EBITA margin, and also EBITA euros, and the work continues. We are targeting to reach 12 to 14 percent as soon as possible. Now we are at 11.3 percent. So, still 0.7 percent is missing from the low range of the target. The work continues, and we still believe that just working with continuous improvement, continuous renewal and acquisitions, and good integration of acquisitions, we are going to reach the target sooner or later.

Then orders received graph. It has been growing nicely. There have been bumps on the road early as well, like in Covid times, and then also in 2014-2015. One can not think that the order intake graph continues to go up all the time. This time our order intake was 980 million. Then if we look at the cumulative numbers geographically, Europe are a little bit less than traditionally, so 35 percent. North America, on the other side, has been more, 27 percent of the total order intake. Asia Pacific has been active, China has been active, and South America is a little bit less than in a normal average year. Like we here see 980 million is of course a low number. But we have had that kind of quarter before as well. So we should not over dramatisize the order intake of 980 million.

One long-term graph we have been proudly presenting is this stable business. When we started we had about 1 billion in Services order intake and now our LTM in stable business, including Automation, Services segment, together it's a little bit over 3.1 billion. A little bit less than 1.8 coming from Services and a little bit more than 1.3 coming from Automation. And of course the work continues to grow this business in absolute terms with organic growth and acquisitions.

Backlog, as I said, ended at 4.1 billion. It's also going down compared to the peak years. But I think it's normal and in a way healthy as well. We were saying in 2021 and 2022 that the backlog was so high that our delivery times were getting too long. Now slowly, we are getting back to more normal backlog levels. When the backlog level was 3.3 billion, we were very happy. Of course, thereafter, we have merged with Neles. It has an impact on that. But 4.1 million is still a good level of backlog.

Then also, now we have included the number telling that about 30 percent of the backlog is expected to be realised as net sales during 2023. Last year the same percentage was 30 percent. Before this, we hadn't announced during the quarter three public announcement the percentage. Now we are doing it to help you make a good analysis of our expected EBITA for this year and for coming year.

Then some words about segments and business lines. First Services. Katri will go through the quarterly numbers later and I'll focus on the year-to-date number. So year to date, Services are still in growth mode, a little bit more than one percent. So the cumulative order intake was 1 billion 356 billion. We are still in growth mode. LTM is now a little bit less than 1.8 billion, so 1 billion 774 million. Net sales have been growing as well nicely, so net sales ended up at 1 billion 275 million. We still are getting orders more than what we are recognizing in revenue. What we all are very happy with is that our profitability has improved a lot, almost three percent in one year. Or in the beginning of this year compared to the total last year. So last year our EBITA margin was 14.8 percent and now it's 17.7 percent. Aki, who is heading the Services, and areas together, have been doing very good work and our EBITA is now 221 million in the first nine months. Good development here. To the outlook, I can later back in my last slide.

Automation segment. Here of course we are not comparing apples to apples because in 2022 Flow Control joined us after the first quarter. Order intake has been a little bit over 1 billion, LTM 1.3 billion, a little bit more than 1.3 billion, net sales 953 million, and LTM a little bit over 1.3 billion. So quite steady situation now both in order intake and net sales. We are of course very happy that, usually, profitability has been improving last quarter, and now our LTM, quarter three LTM, is already about the last year, the whole year. So 18.7 percent. So good development here as well. LTM last nine months' EBITA has been improving nicely as well. We have generated 169 million EBITA from our Automation segment. We are happy with the Automation segment performance in the first nine months.

In Flow Control, order intake for the first nine months has been growing from last year. It's now at 613 million and LTM is now 802 million. That is a good level compared to last year. Net sales has been increasing as well. We have been getting more products and values out from the factories, which is good. So now LTM is at 773 million and the first nine months have been 581 million. So a good development in Flow Control as well and the integration into Valmet has been proceeding well like we have been earlier saying as well. We are happy with the Flow Control development.

Automation Systems growth as well in the first nine months. Order intake ended up at 408 million, and LTM is now a little bit less than 550 million. So good development in order intake. Net sales have been growing as well. LTM is at a par with order intake and quarter, first three quarters, have resulted in a 372 million net sales. So good and steady development for the first nine months as well in Automation Systems. As I said, Katri will comment more about the quarterly numbers later on.

In Process Technologies, it's easier or more granular to explain by the business lines. But now our order intake is a little bit less than 2 billion in LTM. We are now at the level where we were in 2018, 2019, and 2020, roughly. Extremely good years, 2021 and 2022 are now behind us. Now the LTM is around 2 billion. First nine months order intake has been 1.4 billion. So about 300 million less than a year ago. Net sales the other way around has continued to develop well. Of course, we are now recognizing the revenue from the peak order intake years 2021 and 2022. Net sales LTM is almost at €2.5 billion. And net sales in the first nine months have been about 1.8 billion. Comparable EBITA is now 4.9 percent. Like said, we had a very good year, 2021, 8.1 percent. Then we had challenges starting and EBITA dropped to 6 percent, and now it's at 4.9 percent. We have still the same reasons. We have some challenges in selected pulp and energy projects which are impacting our profitability.

Pulp and Energy business line order intake in the first three quarters was 626 million, down by 160 million and 70 million compared to last year. Now our LTM is at €900 million level. €900 million level we have had earlier, like in 2020. 2017 was even below 700. And 2015 and 2016 we were at the same pace. So we have been here as well, earlier as well. We have to remember that we have been very conscious on managing our cost level. We call it capacity cost in pulp and energy and we have been preparing ourselves for this kind of situation that order intake is going down so we can use less outsourcing capacity in manufacturing and in engineering. Then of course we have other flexibility methods to be used as well. Net sales is now about almost 1.1 billion like it has been last year as well. On LTM and the first three quarters, almost 800 million.

Then, Paper business line. Order intake has been almost 800 million in the first three quarters. Last year it was 120 million more, but we have to remember that when we looked at the chart the business line had a volume of about 700 million in the order intake for three years and then it jumped to 1 billion. We were very happy with that €1 billion level. Then it went up to 1.6 billion. Then we continue to say that the market is good because we have only weak satisfactory and good as describing words. Then order intake dropped to 1.3 billion and it was at a good level. Now LTM is at €1.1 billion level. We have a little bit challenge in describing the market verbally in a very good way. But this €1 billion level in Paper business line is a good level. Net sales has been the same as in Process Technology and in Pulp and Energy as well. Now we are recognizing the revenue from the peak order intake years. That's why the order intake is now at €1.4 billion level in LTM. I'm happy also with the Paper business line order intake. It's nothing dramatic here.

Then some words about the climate program. So we launched the climate program a couple of years back. We set ourselves a target to reduce the emission in our supply chain by 20 percent, in our own operation by 80 percent, and use phase by 20 percent, and to provide customers with 100 percent possibility for, 100 percent carbon neutral production processes in the pulp and paper industry.

Now we have been, of course, working with customers, and with our suppliers. We have now 45 customers who are engaged in our program. In our own operation, we are more and more buying CO2-free electricity, and we are replacing fossil fuels in locations where it's possible and so on, so we are working on that topic. We of course continue to continuously work on the CO2 emissions and energy consumption in our product offering, and that's well on its way. And the big thing is that this year we have launched that we can provide our customers with processes for the pulp and paper industry. So pulp, paper, bioenergy, tissue, so that they are CO2-neutral. Of course, it depends on the electricity that they are buying. But we have now the possibility to deliver to our customers technologies which are CO2-neutral. That's of course a very big achievement. So now on top of the order intake discussion, it's good to remind that something else needs to be done as well at the same time.

Good. So now it's Katri's turn to go to highlights of financial development.

Katri Hokkanen*:* Thank you, Pasi, and good afternoon to everybody. It's good to be here today. I will walk through the financial highlights as Pasi said in the next slides.

Order intake was 980 million for the quarter. That was 17 percent lower than the comparison quarter. However, when we look at the full-year numbers, order intake was 3.8 billion, which is flat compared to last year. Order backlog was still at a good level of 4.1 billion, and the net sales was 1.3 billion for the quarter. That was one percent higher than last year. Year to date net sales are slightly over 4 billion and 14 percent ahead of last year. Comparable EBITA was 150 million for the quarter, or 11.6 percent. And actually, this was our record quarter three so far and we are very pleased with that. Year to date, Comparable EBITA is 437 million or 10.8 percent. And when we compare to last year, we are 1.3 percentage points ahead. We can clearly see development here as well. Adjusted earnings per share was €0.52 for the quarter. That was three percent higher even if Comparable EBITA increased 11 percent. Here the reason is coming from the increased financial expenses. I will come back to the balance sheet a little bit later in my presentation.

A few words also about the segment numbers starting from the orders. As you can see from the chart, orders received are decreased in all of the segments in Q3. Services was 349 million. That was 18 percent lower. And if we take FX impact out, the change was minus 13 percent. Year to date, Services is close to 1.4 billion, and that is one percent ahead of last year. Automation order intake was 289 million for the quarter. That was 6 percent lower than last year. However, if we take the FX impact out, the change was minus one percent. And the year to date, Automation is slightly over 1 billion in terms of orders. And good to remember that Flow Control was in our numbers since Q2 last year. Process Technologies was 343 million for the quarter and, year to date, Proess Tech is or was at the level of 1.4 billion and 17 percent behind last year.

Moving on to the net sales. When you look at the quarterly numbers, net sales increased in stable businesses, both in Services as well as in Automation, but it was nine percent lower in Process Technologies. For the full year, Pasi already went through the numbers, but Services was one point, close to 1.3 billion, 16 percent ahead, Automation 953 million, and Process Technologies 1.8 billion and three percent ahead.

Margin-wise, Q3, margins improved in the stable businesses, both in Services and Automation. Services was 18.4 percent and Automation was 18.7 percent. So very good development there. Process Technologies was 4.5 percent for the quarter. For the year-to-date numbers, Services was now at the level of 17.3 percent and Automation was 17.7 percent. And both stable businesses have been supporting, the profitability has been supported by of course a good development in the volume. And Process Technologies was 4.7 percent, and that was 1.4 percentage points lower than last year. All in all, as said, good quarter 11.6 percent. Year to date we were at 10.8 percent. Our target is to be between 12 to 14 percent.

Comparable gross profit, that was 25.9 percent for the Q3, and stable business was 57 percent of the volume. When we look at the last 12 months' numbers, gross profit was 1.4 billion or 26 percent. Comparable SG&A was 894 million or 16 percent. So no big changes here.

Cash flow was 57 million for the quarter. When we look at the last 12 months' numbers, it was 215 million. Net working capital was 55 million for the quarter. The net working capital has increased compared to last year. Increase has happened in Process Technologies as well as in the stable business. Good to remember here that our business mix nowadays contains much more stable business, which ties up net working capital.

Net debt, no big changes here compared to the second quarter. Net debt was 531 million and gearing was 21 percent. The net debt to EBITDA ratio was 0.74, and the average interest rate of our total debt was 3.6 percent at the end of Q3, and that was on the same level than in the second quarter. Maybe good to mention also that the financial expenses were 7 million for the quarter and year to date, minus 19 million.

Capital employed 3.5 billion for Q3, and comparable return on capital employed was 16 percent. And adjusted earnings per share increased to €2.43. That was the financials. I will give the floor back to Pasi. Thank you.

***Pasi Laine**:* So now it's time for guidance and short-term market outlook. First of all, first guidance. Valmet estimates that net sales in 2023 will increase in comparison with 2022 and Comparable EBITA in 2023 will increase in comparison with 2022. So no change in our guidance.

Then short-term market outlook. Like you remember, we try to assess here both our capacity utilization and customer activity, 50-50. First, if we start from Services. So here, like said, we are still in growth mode after the third quarter in year-to-date numbers, which means of course that our capacity utilization is good. Then last quarter order intake was what Katri said. We saw that, and that's why we have been reducing already in after second quarter the market activity to satisfactory level. Now like said earlier, there is of course customer activity, and we start to see signs of activity improvement in North America and in China. It's of course very important if North America, which is a big market and big economy, when we start to see more activity there. It's also promising that we start to see more activity in China as well, because that would, of course, generally mean that there is more activity in the world economy. So some positive signs now in our customer activity. In Flow Control, the market continues to be good as you saw in order intake cumulatively. Automation Systems the same, LTM was at 400, between 540 and 550 million. The third quarter was not strong, but there is always quarterly variations and Automation System management continues to push a lot for order intake and continues to target the growth also in this year in order intake.

In Pulp, we have good reasons to keep the outlook as satisfactory. Like we have been saying earlier, we are not seeing that there would be mega meal decisions coming soon. We are talking with customers about mega mill projects in different parts of the world and they will come, but not in the near future. We are of course in discussions about them and meanwhile, we are of course focusing on small to medium-sized projects and we work all the time with customers. Customers are having investments in more small to medium-sized projects. We continue to be active there. In Energy, the market outlook has been good and order intake has been good, so no reason to change that. Then Board and Paper is more challenging from communications perspective. As you saw our order intake for the whole Paper business line is 800 million. It's at a good level. With this satisfactory, what we wanted to signal to you that this 1.6, 1.3 billion level is not continuing. But 800 million in order intake for the whole business line in first three months is a good level.

Then in Tissue, we continue to have the same outlook. So the market outlook has been satisfactory for a while and it continues to be so. The one where we have difficulties with communication is Board and Paper, because one could of course think that, some have been thinking that with this satisfactory, we mean that order intake will drop at €700 million level. Like you have seen our order intake in the first nine months has been already 800 million. It's a little bit longer explanation this time but sometimes it is challenging to describe the market with the three words only. So, thank you and now I assume that Pekka will let some of you to make some questions.

Pekka Rouhiainen: Yes. Thank you, Pasi. Katri, I also ask you to now join Pasi here at the front. We will then move on to the Q&A session. Operator, I hand over to you.

Moderator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad.

The next question comes from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen: Hi guys. It's Antti from SEB. I have a couple of questions from me, one by one. I'll start with the Services and the order growth or order decline of 13 percent on Q3. Could you provide a bit more color on how you see activity developing for shut-down services, parts, and consumables? Also, you mentioned that in North America and China, there are some positive signs. How about Europe? Is that still weakening or lets say stabilizing on a lower level? Thank you.

Pasi Laine: Katri can help me later on, but I'll start. Europe year-to-date numbers are still in growth and Europe is a typical case that the beginning of the year was good. The second quarter was also good. The third quarter was weak. You all have seen the results of some of our big customers. Production rates in Europe haven't been that high and that has been impacting our order intake in Europe. Business unit-wise, spare parts, performance parts, performance has been at last year's level. There has been growth in pulp and energy solutions. And then Katri, you have to help me.

Katri Hokkanen: The rest of the businesses have decreased.

Pasi Laine: Have been decreased.

Katri Hokkanen: Exactly. Yes.

Pasi Laine: Did I answer to your question?

Antti Kansanen: Yes, almost. I was thinking that kind of sequentially compared to Q2. I mean Q2 was a bit down as well. This was more down. So, I don't know. Is there any positive signs on Europe if we go into the fourth quarter that it's not declining further? It's stabilizing? Anything you want to comment on that one?

Pasi Laine: I don't want to comment on that one. It's too early to say. I wanted to comment specifically that we have started to see some positive signs in China and North America, but rest, I would not like to comment.

Antti Kansanen: How do you feel about kind of offering that, let's say counter-cyclical things like shut down services and things like that could hold up better or even improve when clients are taking downtime? Has it been weaker than expected?

Pasi Laine: It was weaker than expected in the beginning of the year in the paper and tissue, board and tissue side, and pulp and energy was actually more active than normally. Now I think the situation has been balancing. Board and tissue solution business has been coming back. Then the pulp and energy solution business hasn't been as active as it has been in the beginning of the year. Then our sales force has been quite successful with performance parts. So I'm happy that that has been holding reasonably well.

Antti Kansanen: Okay. Then maybe on the Process Tech side and the profitability and it's still kind of slightly trending downwards, but it has been around that four or five percent level now for I guess six quarters. How has the work with the legacy low-margin pulp and energy project progressed during let's say first three quarters, during Q3? Where are we now with those ones?

Pasi Laine: It has been progressing. The projects we took then before Covid, they are getting older and older, which means that there's less and less to be recognized. So it's proceeding according to the time schedules of the projects. Do you want to Katri add something on that?

Katri Hokkanen: No, as said that of course we are trying to improve the profitability as soon as possible. That's what we have also said in the past.

Antti Kansanen: But I mean, I guess you have commented that usually, projects have most kind of revenue recognition in the middle. Now it seems that just based on what the margin was, you are still kind of in the middle of those revenue recognitions, that the impact out of those is not going down if we look at the performance. So is that a fair contribution that there is still quite a lot of work related to those ongoing?

Katri Hokkanen: I think it's probably just fair to say that the profitability in the Process Technology can also vary between the quarters. It's always the mix what is the revenue recognition. I think in general that's…

Pasi Laine: And then the more detailed answer would go to the interesting discussion about revenue and margin recognition.

Antti Kansanen: Yes, I guess also when do you do expect those projects to be behind you, but I'm not expecting a firm answer on that one.

Pasi Laine: Your assumption was good.

Antti Kansanen: Right. Okay. The last one from me would be on cash flow and working capital. I understand kind of the business mix impacts with more stable businesses now. But what has happening with working capital within stable business and within Process Tech and when and if should we kind of expect improving cash conversion?

Katri Hokkanen: Okay. So first of all, of course, the development has been in such a favor that net working capital has increased. It was now plus 55 and the change was minus 85 in Q3. And inventories have continued to increase. That's the reason. And we have a high focus on the topic. So we are working on it. Of course, it takes some time. We have to go through everything, that where we can reduce kind of the safety stock levels. At the same time, the portion of stable business has increased. As you know, the prepayments on the capital side, they can have a significant impact on the net working capital. I would say that at the moment the focus is on the inventories.

Receivable collection is on a good level as well as payables. So nothing special there.

***Pasi Laine**:* You have a very much focus on this topic. So like we were saying earlier, it was a little bit difficult to challenge the organization with the inventory levels when there were a lot of difficulties just to get the goods and products from sub-suppliers. And now when the delivery times are getting more normal, then of course we have to work hard to get back to the levels where we were earlier. Katri is very actively working on that topic.

***Antti Kansanen**:* I guess also within P&P the impact is less advances and higher inventories that are kind of the key issues that you are dealing with.

***Katri Hokkanen**:* Actually, on the Process Technology side, the inventory, they are not increasing that much because the work in progress we are doing the cost-to-cost revenue recognition. I would say that the inventory is more on the stable side. As you said, the advance payments, they make a difference there.

***Antti Kansanen**:* All right, I'll get back to the queue. Thank you.

***Katri Hokkanen**:* Thank you.

***Moderator**:* The next question comes from Sven Weier from UBS. Please go ahead.

***Sven Weier**:* Good afternoon and thanks for taking my questions. Pasi, the first one I had was just when you said there are signs of activity improvement in the US and in China. Was that just referring to services, or do you also see that in parts of the capital equipment side?

***Pasi Laine**:* That comment was in services and then generally, for example, the Chinese market has been quite good. We just announced a nice order even today for container board and some of the tissue machine lines. The comment was for services. But China has been good also from a capital perspective.

***Sven Weier**:* Okay. Fair. And what I was also wondering on the Q3 development, when we look at it sequentially, I mean, it strikes me also with a few other companies that now after four years, we have seasonality coming back, and that third quarter was also maybe seasonally more impacted than in the last couple of years. Would you confirm that also from your side, that this might have not only been the weak market but there's also a seasonality element this year?

***Pasi Laine**:* I haven't had time to read what the other companies have been saying, but I think there has been some reaction from our customer's side. If you remember what the customers were saying after the first quarter, they were telling that the challenge is the destocking that's happening, and then quarter three will be a normal quarter again. Now when listening to our customers' quarterly calls, they are saying that they have started to see the market improve and because there has been a delay in that improvement, they have been a little bit tougher with their maintenance spending and the machines have been not running at the speed with they were running earlier, which has impacted our services.

Sven Weier: I think you also mentioned that obviously, the decisions on the capital equipment side in pulp have been that there are projects, but they are delayed. Do you think we're talking here about delays until further notice or really a bit further out? How should we think about those pushouts?

Pasi Laine: In pulp, I think I haven't said that there have been delays in pulp side. I think I have been saying to postponements have been more on board side and tissue side. In pulp, customers who have plans to invest in new mills, the discussions continue and the customers who have the plans, they have actually also publicly said when they would go ahead. Our tradition is not to tell the amount so you can check it from their IR pages. But the big pulp project development continues like planned currently. But there is no big decision…

Sven Weier: And those you mentioned on the board and tissue side?

Pasi Laine: Sorry?

Sven Weier: No, sorry, sorry. But in those decisions on the board and on the tissue side that are being postponed. Do we have to expect longer postponements or how should we think about that?

Pasi Laine: Our order intake in the first three quarters has been 800 million roughly. So quite good market activity. We have a lot of discussions ongoing. But when they will materialize as orders, there can be quarterly variations. But still it's so that our customers believe in long run to the benefit of bio-based packaging and bio-based materials compared to plastics. That hasn't gone anywhere. It hasn't gone anywhere that people are moving more and more to the cities and they need more packaging materials. The standard of living globally is going up. So the megatrends are still favoring the investments of our customers to renewable packaging materials.

Sven Weier: The final question I had was just on pricing. I mean, obviously, with the markets weak like that, do you see any more price aggression from your competitors or is pricing still behaving out there?

Pasi Laine: We have tough competition all the time so also during the booming years. So that continues like normally. We have to work hard on making sure that our cost base is competitive both in Process Technology and Services, Flow Control, and Automation Systems. So, no big change in that normal competitive environment.

Sven Weier: Thank you, Pasi.

Pasi Laine: Thank you, Sven.

Moderator: The next question comes from Mikael Doepel, from Nordea. Please go ahead.

Mikael Doepel: Thank you. Thanks for taking the questions. Good afternoon, everybody. Just a couple of questions here. Firstly in terms of the market outlook, I'm just wondering how we should read that statement. If you take the service segment as an example, you had orders of around 350 down by about 18 percent year over year. The market is seen as good to satisfactory. So is this absolute level a good approximation going forward as well, or how should we read that?

***Pasi Laine**:* First of all it's the combination of our workload and then market activity. There we are saying good slash satisfactory. We have order intake year to date still at last year's level. Our people are very busy with deliveries currently. Then, like said, year-to-date order intake is still at one percent improvement. From that perspective, we could keep a good outlook. But, of course, the fact is that the third quarter was not as good as last year and there was a drop compared to last year. That's why we have changed the outlook, the market activity to satisfactory.

***Mikael Doepel**:* Okay. Just to continue in the service business. As you mentioned in your presentation, you had quite a good improvement in the margins for the service business. What would you say are the key building blocks to continue to improve from here?

***Pasi Laine**:* The same as up to now. Of course, the improvement in one year is more than we have ever had. Then we have to go a little bit back to the history. The one percent improvement is a good improvement. Then we were delayed with our price increases. Last year profitability was dropping even if the market was good. That was not a good performance. Now we have been catching it up. That's why the improvement is now bigger. It's bigger than it should be in a year. We should have had better profitability already a year ago and now the profitability what we have. So Valmet is targeting 12 to 14 in EBITA. We of course, to achieve that we need to improve in all the businesses. It includes services as well. The normal thing try to push the service prices up. Of course, customers are working in the other direction then. Then we have to invent new products which are more cost-competitive, and new services that are more cost-competitive. Then we have to be very careful with our costs, both in costs which are included in the deliveries and then which are in other indirect costs and SG&A. Our target is of course to continue to improve the service profitability even further.

***Mikael Doepel**:* Okay, and just a brief follow-up on that. If you look at the order intake for service and the year-over-year development in Q3, what kind of pricing impact did you have in those numbers? Is that something that you can quantify?

***Pasi Laine**:* Last year we gave and that's a very good question. So Katri has an answer.

***Katri Hokkanen**:* When you look at last year, the comparison year, the development was really good. Actually, our orders for the full last year increased 13 percent. We have said that roughly half of that number was coming from the inflation and half from the increase. So when you are comparing against last year's quarters and especially Q3, the price increases were already in the bookings.

***Mikael Doepel**:* Okay. So basically not much of a year-over-year impact there. I assume. Okay, good. Thank you.

***Pasi Laine**:* Thank you.

Katri Hokkanen: Thank you.

Moderator: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason: Hi Pekka, Katri and Pasi. It's Johan at Kepler Cheuvreux here. I was wondering a little bit about the comments you made on pulp, it seems like the pipeline is developing according to plan. I remember you sort of indicated in the Q2 call this summer that potentially there could be big pulp orders returning already in 2024. Is that sort of still, as you say, that this is still according to plan? What one could potentially expect?

Pasi Laine: You might remember better what I said then. Customers are planning especially in Latin America some pulp projects. You can check the time schedule from their web pages. There haven't been any changes in those ones. Sorry if I haven't been clear enough.

Johan Eliason: Nope. That's fine. In terms of their planning and your participation, you have indicated that you have been losing a bit share in the pulp side over the past decade. Are you aiming at regaining some share here in any decisive way? Is there anything you could shed on how you think your market share going forward there?

Pasi Laine: Yes. We just started up one new pulp mill here in Finland one month ago together with Metsä Fiber. From there we work very good reference. It will be the biggest softwood pulp mill in the world. That of course tells that we are tough in the competition. Currently, we are making a very big rebuild of the pulp mill in South America for hardwood. Earlier that was our mill as well and that continues to be our mill as well. The reference base is in good shape, and our organization in South America is in good shape to deliver the total pulp mill. When the next competition comes, we are eager to participate.

Johan Eliason: Okay, good. Then I have a question a little bit on the Process Tech margin overall. We've seen this margin declining. It's been explained by this mismatch between pricing and the actual cost inflation you suddenly experienced in the orders you took in pulp and energy. Now, I assume that the negative mix will go away as you deliver on these existing orders but at the same time, as you pointed out, your rolling order intake has dropped to around 2 billion level from the peak of 2.8 billion, whereas your sales have been growing now to 2.5 billion. That sort of points to that there will be a lower volume rollout going forward as well. How should we think about these diverging forces? Can you still improve your margin when volumes are falling because of these bad projects falling away? Should we at best assume that you can stay at this five percent level that you are right now? Is the volume decline significantly more important for your margin than these bad projects that you will eventually get rid of? Any directional views here?

Pasi Laine: It's very difficult to answer precisely without giving direct guidance for the profitability of a segment. In our capital markets day presentations, we have described what's our capacity cost against the net sales and how it has been developing over the years. Roughly 20 percent of net sales of the pulp and energy is our capital cost which means that when the volume goes down, we have to be very careful that we are not using external resources to anything where we can use the internal resources. That work is of course, ongoing. Then we have to be very precise also with our SG&A costs in the same segment and with those actions, and then with the tradition that usually the small to medium-sized projects are less risky and a little bit more profitable than the big ones. Our target is to improve the profitability and, again getting back to the same answer, when Valmet wants to reach 12 to 14, it cannot reach it if not all the businesses are improving a little bit. But with low volumes of course it's a challenge, but that's our goal that we have to work towards that 12 to 14 points not depending on the cycle.

Johan Eliason: Okay. Excellent. Thank you very much.

Pasi Laine: Thank you, Johan.

Moderator: The next question comes from Tomi Railo from DNB. Please go ahead.

Tomi Railo: Hi Pasi, Katri and Pekka. It's Tomi from DNB. I have a couple of questions. Just out of interest, if could you provide some sort of an early look into 24? If you look at your main indicators going into next year, is the order backlog decline sequentially, sort of soft market conditions, creating worries on the next year's performance? Are you preparing any adjustments on the courtside? What should we be thinking about going into next year?

Pasi Laine: If I start from the flexibility and continue from what we discussed with Johan as well, that of course we have flexibility items in our operational model so we can use less subcontracting in manufacturing and engineering, in everything. That gives flexibility. Then there are other ways to reduce the cost as well. If needed, we are of course ready to do some other actions as well if needed. One has to be careful that it's a lot better to keep the organization in very good shape and continue to work on the resources and develop in the businesses instead of reducing resources. But of course that's one tool as well. Then for next year, it's a little bit too early to give any guidance. We traditionally have been coming out with the guidance in January or in February for the coming year. It's a little bit too early to say, or I'm sure that you have modeled in already the acquisitions that we have been announcing. The closing of Körber is planned to happen in November and then the closing of Siemens gas chromatography business is planned to happen in the beginning of April. That's of course something additional that's taking place in Valmet in the coming four or five months.

Tomi Railo: That was another question. Thanks for that comment on the M&A. Have you seen any delay or any faster developments at all those timelines impact?

Pasi Laine: The integration planning goes well with both. We haven't seen any delays or speed-ups in either of them. The cooperation with Körber goes very well in regards to the Körber Tissue. I've been visiting Lucca many times and also some other, one other location. Then we are very eagerly waiting for the time when we can start to work together. We are getting very good colleagues from there and good operations. In Siemens, it's a complex carve out first from Siemens and then integration back to us. That's why it takes a little bit of time. The atmosphere in the teams is good as well. We are very eagerly waiting also to get more colleagues from Siemens to work as Valmeteers.

Tomi Railo: Thank you.

Pasi Laine: Thank you, Tomi.

Moderator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

Panu Laitinmäki: I wanted to ask about the Automation business. Basically, both Automation Systems and Flow Control. In Automation Systems, the orders turned to a year-over-year decline and slowed somewhat in Flow Control. But the market outlook is unchanged at good. Could you talk about what are you seeing and what your expectations for demand going forward if you think about your sales pipeline and your end markets in both of these businesses?

Pasi Laine: Quarter three was a little bit weaker in both of the businesses, but we have good capacity utilization, and we still have many projects and many services to be won. We have confident business line heads on both of the businesses. So that's why we kept the outlook as good.

Panu Laitinmäki: Can I continue on the Automation Systems? How much of that business goes to the larger pulp and paper projects, and how much is something that's replacement or…?

Pasi Laine: So at the lowest, it has been 10 percent of the order intake, about 10 percent, when we acquired the systems business. Now it has been growing up and if I remember correctly, it has been even up to 80 million in last year, roughly. Don't take this as an exact number. Now of course, when the capital business is not as active as it has been, then of course it reduces the packaging sales. It means then that Emilia and Emilia's organization has to get more orders directly from end customers. So more pressure on that side, and it's good. They have very good products and good sales networks. They are targeting to grow even if package sales would decline.

Panu Laitinmäki: Okay. Thank you.

Moderator: The next question comes from Johan Eliason, from Kepler Cheuvreux. Please go ahead.

Johan Eliason: Hi again. I thought it was interesting when you commented on the acquisition here. I especially think Körber Tissue is interesting because it's sort of the next step after your tissue machines. Are there significantly more M&A to do sort of further downstream from your core technologies, whether it's in board, tissue, or fine paper?

Pasi Laine: In tissue, we have now, after the acquisition is closed we have a full offering. Then it's difficult to see any big moves anymore in tissue. I'm very happy that in tissue we are getting the market leader and we are the market leader. So as combined we are of course a good supplier to our customers and we have a good network together and a lot of connections to customers together to help them. Then on the packaging side, we have analyzed but up to now, we haven't ended up in any serious discussions. We have to analyze it further. We have been focusing quite much on this Körber tissue and we finally got it. So now the next step is that we integrate it well and it will take some time and then after we start to think about the next actions.

Johan Eliason: But there are more that you could add from a technology point of view, on the packaging side. Is that basically what you're saying?

Pasi Laine: It's a little bit different story. I wouldn't comment or I wouldn't give any good comment on that yet. It was clear that this tissue business made sense and with the others, one has to analyze it more carefully.

Johan Eliason: Okay. Thank you very much.

Moderator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Pekka Rouhiainen: Thank you for the Q&A session and the financial statements review release will be the next result publication of Valmet. That's going to take place on February 7th next year. Thank you, Pasi and Katri, and thank you, everybody, for the good questions, and goodbye for now.

Pasi Laine: Thank you Pekka.

Katri Hokkanen: Thank you.