

Transcript for Valmet's Half Year Review for January-June 2024 webcast, arranged on July 24, 2024

Important notice: This transcript has been prepared and supplied to Valmet by a third party service provider, and is for information purposes only. The reader should acknowledge and agree that neither Valmet nor its service provider have made or make any representations or warranties as to the content, the accuracy or completeness of this transcript. Neither Valmet nor its service provider shall have any liability towards the reader or other recipient in connection with the disclosure and/or accuracy of this transcript.

00:00:00 - 00:00:24

Pekka Rouhiainen: Good afternoon, ladies and gentlemen, and welcome to Valmet's second quarter 2024 result publication and webcast. My name is Pekka Rouhiainen. I'm the head of Investor relations here at Valmet. With me today are Valmet's President and CEO, Pasi Laine and CFO Katri Hokkanen. After the presentations, as usual, you will have the chance to ask questions over the phone lines. Without further ado, Pasi, please go ahead.

00:00:24 - 00:01:54

Pasi Laine: Thank you, Pekka. Welcome. Our headline is that orders received remained at previous year's level and amounted close to 1.3 billion. Comparable EBITA decreased to 141 million in the second quarter. The content is normal. First Quarter 2 in brief then some words about development of segments and business lines. Then one slide about our strategic path forward. Then Katri will come to talk more about financial development, and then I'll join again here talking about guidance and short-term market outlook. First Quarter 2 in brief. Like I said, orders received remained at previous level and amounted close to 1.3 billion. I will go through the business lines and segments later on, but we are very happy with this EUR 1.3 billion order intake. Net sales was at almost the same level, about 1.3 billion. Our backlog, I will come back was a 3.8 billion and comparable EBITA decreased to 141 million and margin was 10.6. Gearing in the end of the period was 45 percent. Orders received were such that in Services in quarter our orders received was 497 and that's good number. We had very good order intake.

00:01:54 - 00:03:35

Pasi Laine: If I remember correctly, order intake in Services grew by 15 percent compared to earlier year. In Automation quarterly order intake was 352. There, if I again remember correctly, we had 4 percent growth. In Process Technologies compared to last year order intake decreased but 434 million order intake is good amount comparing to how the year started in Quarter 1. We are happy with the orders received development in Quarter 2. Net sales Katri we'll go through more in details and then comparable EBITA in Services we were at 80 million roughly at the last year's level in Automation 58. Then there's a decline in Process Technologies to 15 percent. Here's the graph of how Valmet has been developing over the last 10 years. Now EBITA margin is at 11.2 percent cumulative for LTM. As we have been saying, of course the target is to get between 12 to 14 percent as soon as possible. Orders received as we said was at last year's level. If we take H1 and think about the areas then Europe was 43 percent, North America 26. Both were active. China, Asia Pacific and South America traditionally are about 10 percent each. Now Asia-Pacific was more active than normally amounting to 15 percent of order intake in the first half of the year.

00:03:37 - 00:05:12

Pasi Laine: Stable business. This is the story we have been saying over the years. When we started, our Services was with order intake about 1.55 billion. Now our LTM is 1,777 million so good development. In Automation segment, we didn't have it in the beginning. Now the order intake in Automation segment for the last 12 months is almost 1.3 billion. All these together is about 3.1 billion. This is, of course, a good development that has been taking place in Valmet over the years. Stable business represents now 69 percent of the order intake thinking about last 12 months. So of course, majority of the business is now coming from our stable business. Then some words about the backlog. Backlog is decreasing. It's now at 3.8 billion. Now I think it starts to be at a good level. When our backlog was at 4.4 then our delivery times for many of the products were too long. Then of course long from customers perspective and then also long from our perspective. It's - - the longer the lead times are, the more difficult it is to prepare oneself for, for example, inflation or some very rapid developments like the war which was started by Russia against Ukraine.

00:05:12 - 00:06:51

Pasi Laine: Now this 3.8 gives customers good delivery times and also from risk management point of view, it's better for us. In - - from current backlog, about 60 percent we are expecting to be materialized as net sales

during '24. Last year, the corresponding percentage was 50. This means that we have now calculated it out that about - - we have about 70 million now more backlog to be realized this year compared to last year. Roughly 70 million. About 50 percent of the backlog is related to stable business. Last year, about 40 percent was related to stable business. Then some words about the segments and business lines. First Services. In the beginning of the year, order intake grew a little bit compared to last year. This year 1,024,000,000 and last year 1.7 billion. We are very happy with the development of last quarter and Katri will focus more on the quarterly numbers. But I told it already, 498 million in order intake. That's good development. Net sales has been growing a little bit as well and EBITA is now about the last year's level so 140 million compared to last year at 142. Roughly at the same level in euros and a little bit down in in March.

00:06:54 - 00:08:52

Pasi Laine: Automation segment figures for the first half of the year were decreasing. And like I said, in last quarter it was increasing, but we had a very strong start for '23. That's the reason why we still have a situation that comparing the first half of the year orders have been decreasing in Automation. I'll come back to business line specific topics later. The first half 681 million and last year 732 and then last year we had very strong first quarter of the year. Profitability is roughly at the same level, 110 million last year and 109 million this year. Then Flow Control's business line. Orders received were 389 million in the first half of the year and last year a little bit higher. The change is coming mainly from pulp and paper big projects, so that market hasn't been active earlier like we have seen in our process technology order intake. Mainly the change is coming from that segment. We have good activity in MRO business and services, which is very important from many perspective. So there we are selling small amount of valves to customers who already have installed base and doing services. That business is doing reasonably well in in Flow Control. So we are happy with the development in Flow Control. And like we see, net sales and order intake are at par, so current business level continues. Then of course the target is to grow the business every year. Of course Simo has a target to grow this year as well in order intake.

00:08:54 - 00:10:33

Pasi Laine: In Automation Systems business we had very strong Quarter 1 last year, this year we had a good Quarter 2. The activity is increasing. However, the first half of last year was 304 million. This year 291 million, so small decrease. We have good development in services and in energy and process. Then the market which is not very active is the package sales together with Process Technologies. The delta is mainly coming from that. The acquisition of analyzer products was completed on 2nd of April. We have about 22 million orders here in quarterly numbers from API in our numbers. Then Process Technologies. First quarter this year our order intake was 195 million. Now it bounced back to good levels at 434 million. Good activity in process technology for the quarter. Profitability has been declining. Last year our profitability was 59 million and now it was 36 million. LTM is now at 4 percent. Last year's total year was at 4.5 percent.

00:10:33 - 00:12:21

Pasi Laine: Pulp and Energy business line orders received increased from the 2004 - - from the first quarter when order intake was 57 million and now it was 187 million. Clear improvement in market activity in Pulp and Energy business line. The same has happened in Paper business line. Orders received for the first quarter were 138 million and now it was 247 million. We are back at the normal order intake volumes in both in Pulp and Energy and Paper business line. Now then some words about the strategy. Of course we have been working on our strategy process in a very active way in the spring time. We have been also telling investors, all of you that there is a little bit change in the business scope of Valmet. Earlier we were mainly pulp paper and bio energy-focused company. Now, like we presented last time, about 1.4 billion of our business is coming from non-pulp and paper businesses. This has to be reflected also in our mission statement. That's why we have now developed our mission statement. In the mission statement we continue to say we create sustainable results by converting renewable resources. The same story continues. With Valmet technology, our customers can take renewable resources in and make sustainable products.

00:12:21 - 00:13:54

Pasi Laine: Then for other industries where Flow Control, Automation Systems are mainly active, we say that we make industrial processes reliable and efficient. That's exactly the role of automation. Making processes reliable, safe, efficient, reducing emissions. That's the mission of our Automation segment for non-pulp and paper customers, so process and energy customers. We are very happy with that definition. We are also happy that over the years Valmet has developed that much that we are not only depending on pulp and paper business, we have also other businesses. It's the same kind of big change that has taken place in our stable business. It was 1 billion to 3.1 billion, and this non-pulp and paper, we have been growing from 200 million to 1.4 billion. Of course the development continues in the future as well. We haven't done any other changes. Strategy continues

to be the same. Continuous improvement and renewal continues to be the same as earlier, and the vision as well, to become the global champion serving our customers and in moving the industries forward. So a small addition but very important change in our mission statement and we are very happy with that change. Now I'll let Katri to continue the presentation.

00:14:01 - 00:15:12

Katri Hokkanen: Thank you, Pasi, and hello, everybody on my behalf as well. I will walk through the financial development next. Here you can see the key figures after the second quarter. So order intake was 1.3 billion and roughly on the same level than the comparison quarter. Order backlog amounted to 3.8 billion and net sales was 1.3 billion, and that was 7 percent lower than the comparison quarter. Comparable EBITA was 141 million, or 10.6 percent, for the quarter. Here the lower volume in net sales was impacting the comparable EBITA. Adjusted earnings per share for the quarter was EUR 0.43 and that was 28 percent lower. Here the lower result, as well as higher financial expenses were the reason. For the full year numbers, quickly, order intake 2.3 billion. That is 17 percent lower than last year. Net sales was 2.5 billion and that is also seven percent lower and then comparable EBITA 262 or 10.3 percent. I will come back to the other balance sheet numbers a bit later in my presentation.

00:15:14 - 00:16:42

Katri Hokkanen: Moving then on to the Services, starting from the order intake. So that was 497 million for the quarter and that was 15 percent higher than the comparison quarter. Here orders received from Tissue Converting, which was integrated into Valmet at the beginning of November last year amounted to 38 million. So actually, without Tissue Converting the increase was seven percent. Net sales remained at the previous year's level, being at 473 million. Here Tissue Converting impact was 38 million. Comparable EBITA remained at previous year's level, being at 80 million, and the margin decreased to 16.9 percent. Here the organic net sales decrease had a negative impact on the comparable EBITA margin. The next Automation. There order intake remained at the previous year's level, being at 352 million. In Automation systems, orders received increase in automation services and decreased in capital. Orders received from the acquired API business amounted to 22 million in the second quarter. It's good to note here that the comparison quarter last year included a large single order in Flow Control. Net sales remained at the previous year's level and it was 351 million. Here the API impact was 19 million in the second quarter.

00:16:42 - 00:18:11

Katri Hokkanen: Comparable EBITA remained at previous year's level, and it was 58 million and the margin was 16.5 percent. The margin decreased mainly due to integration of this API business. Lastly, some words about Process Technologies. Pasi mentioned already the order intake, so it was 434 million and good improvement to the first quarter. Net sales was 500 million. Here we had Tissue Converting 41 million. I forgot to mention that in the bookings it was 42 million. Then a comparable EBITA amounted to 15 million and the margin was 3 percent. Comparable EBITA was impacted by lower volume. Then we have a traditional summary slide from the segments. Here I want to highlight the Other segment. It was 12 million for the quarter and for full year 23 million. Comparable gross profit was 27.8 percent of the net sales in the second quarter. Here stable business represented 62 percent of the net sales. When you look at the last 12 months curve, so we were now at 27.1 percent in comparable gross profit. It has been developing well over the years. On comparable SG&A the expenses were 27 million higher in the second quarter. That was coming from the acquired Tissue Converting and Analyzer Products and Integration mainly.

00:18:11 - 00:20:32

Katri Hokkanen: When you look at the SG&A chart, so for the last 12 months we were now at 942 million level. Actually, the increase compared to year end's 901 million is mainly related to previously mentioned Tissue Converting as well as API. Then cash flow was strong provided from operating activities amounted to 128 million in the second quarter, as said very strong. And for the last 12 months we were at 447 million. And net working capital amounted to 150 million. That equals 3 percent of the last 12 months orders received. If we compare to year 2021, our networking capital has increased mainly in capital business and also due to the integration of Flow Control and Tissue Converting. Nowadays our business mix contains much more stable business, which typically ties up much more net working capital than capital business. Net debt increased if we compare it against the first quarter, it was 1.1 billion and gearing amounted to 45 percent. The increase in the net debt and gearing compared to first quarter is mainly related to dividend payment as well as the acquisition of API. Net debt to EBITDA ratio increased also compared with the first quarter, it was 1.63. The average interest rate of our total debt was 4.5 percent at the end of second quarter. Net financial expenses amounted to 32 million after the first half, and the comparison number last year was 12. Capital employed was close to 4.2 billion, and comparable return on capital employed was 14 percent. The acquisitions, Analyzer Products and

Integration this year, Tissue Converting last year and then Flow Control in 2022 have increased the capital employed. Second quarter last 12 months adjusted EPS decreased if we compare it with 2023 being at EUR 2.02. This was mainly due to lower EBITA and higher financial expenses. That was my part. I will give the floor back to Pasi. Thank you.

00:20:40 - 00:22:30

Pasi Laine: Thank you, Katri. Now guidance and short-term market outlook. If I start from the short-term market outlook, in tissue, we keep the satisfactory level. It was satisfactory and it continues to be. Board and paper. We are increasing now to satisfactory, from weak to satisfactory. Earlier we were saying that the market is weak, even if we had satisfactory workload. Now order intake has been increasing, and we also have market activity in front of us so that we have good reasons to say that the market activity is at a satisfactory level. In energy, it goes from good level to satisfactory. There the European market is less active than it was a year ago, and that's why we are reducing it. In pulp like you saw, order intake has been improving in pulp side, so that's the --- and the market outlook also for coming projects is more active. That's the reason why we are increasing our short-term market outlook from weak to satisfactory. In automation systems we have been keeping the good level and it continues to be at a good level. Then of course, we have to remember as well that last year we had not that active third quarter in automation. Now we see that we are, of course, not guiding any quarterly numbers, but we see that the market activity for the coming end of the year is at a good level this year compared even with last year.

00:22:30 - 00:23:46

Pasi Laine: In flow controls we have good market activity. As I said, MRO business, services is active. Pulp and paper projects hasn't been much active, but everything else is going on the active level. Then in services we are saying that the market continues to be good. There it might be good to compare with third and fourth quarter of last year when we were saying that our workload is still good, but the market activity is satisfactory. Now we are saying that the market activity is good and workload is good. This is, of course a big change in our market situation. These are the reasons why we made a positive change to our guidance. We estimate for the whole year that net sales will remain at the previous year's level in comparison with '23 and comparable EBITA in '24 will increase compared to '23. Good. Now I let Pekka to say two words.

00:23:47 - 00:24:04

Pekka Rouhiainen: Thank you, Pasi. Now it's time to go to the Q&A. I also invite Katri to join Pasi here at the front. If you are ready from that part, I will now hand over to the operator, please.

00:24:08 - 00:24:33

Speaker 4: 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. The next question comes from Sven Weier from UBS. Please go ahead.

00:24:36 - 00:25:15

Sven Weier: Yes. Good afternoon. Thanks for taking my questions. The first one is just on the outlook change. You obviously just upgraded it back to satisfactory after one weak quarter. Looking a little bit ahead, if we look at the current pulp and paper results and if we think more about maybe bigger capacity projects, would it be fair to say that it will probably take more than one quarter until the outlook goes back to good? That's the first one.

00:25:17 - 00:26:09

Pasi Laine: Now we are of course guiding for coming six months and then we say that it's at a satisfactory level. We have seen now more activity, customers buying single island projects and where we are, we are competitive. That's what why have now - - and we had also better order intake in Quarter 2. We have good visibility for the coming quarters. Then for the activity to go to the good level I would say that in pulp it means that the big project pipeline should become even more active. Then in paper and board it should mean that paper and board market should be even more active than it is today.

00:26:11 - 00:26:46

Sven Weier: Yes, that makes sense. Thank you. That was the first one. The second one, I was just wondering, I understand obviously Process Technologies EBIT margin was down because of the negative sales development. I was just wondering where you stand on those legacy projects that were lower margin. Have they been largely completed in the meantime? Is that maybe also reason why you became a bit more upbeat about the guidance that you think you're done on these and you have a better margin in the second half?

00:26:47 - 00:27:05

Katri Hokkanen: We haven't been commenting the old projects, but what we said about the margin that of course net sales has an impact. However, we have also been closing some of old projects and smaller ones. That has also impacted the margin this quarter.

00:27:08 - 00:27:29

Sven Weier: It leads me to the next question, because I was wondering, you also talked about the first time integration of API. How those diluted margins, were there may be also some what you would normally call one-off costs that were not really adjusted in the comparable EBITA, but were maybe more one off in nature.

00:27:30 - 00:27:52

Katri Hokkanen: Well, I can comment in general the Automation segment profitability or the comparable EBITA, so it was flat but the margin decreased. We also said that this integration of API impacted the margin. We have also published in the interim report that its impact to Valmet's net profit was -4 million. It was impacting that.

00:27:53 - 00:27:59

Sven Weier: That was the integration costs that you do however adjust on the comparable.

00:27:59 - 00:28:50

Speaker 2: No integration cost you would look under comparable, but it is so that the organization was using all the Siemens systems until the 2nd or 1st of April, and then they had to change to all Valmet systems. Meaning ERP. We had full ERP rollout, we had full HR system rollout, we had all the systems rolled out in that organization. It takes a while before they are effective with all those tools. At the same time they had some capacity limitations in some of their units. I would say more that it's a normal situation, having that big change happening in an organization in such a short time period.

00:28:52 - 00:29:06

Sven Weier: Okay, understood. Maybe one final remark from my side, Pasi. I just wanted to congratulate you on a great career and your achievements also at Valmet in the last 10 years. It's been great and I'm wishing you all the best for the next chapter. Thanks for everything.

00:29:09 - 00:29:13

Pasi Laine: Thank you. I'll come to a little bit longer answer in the end.

00:29:16 - 00:29:17

Sven Weier: Thanks, Pasi.

00:29:26 - 00:29:32

Speaker 4: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:29:34 - 00:30:09

Panu Laitinmäki: Thank you. I have two questions. Firstly, on the guidance and the implied second half improvement. You had both revenue and EBITA down in the first half year-on-year, but then you are guiding flat sales and higher EBITA for the year. It implies a clear improvement in the second half. The question is that what is driving this and how does this split into different divisions? Are they all going to improve or some of them more than the others. Any comments on that?

00:30:09 - 00:31:43

Pasi Laine: I can start and then Katri will give the correct answer. If we start from Services we had very low order intake in Services last year especially in third quarter and also fourth quarter. Then we had still high backlog and we had long delivery times. The market was like you maybe well remember was quite challenging. Now we don't see that kind of situation. We have good market activity. Our delivery times are shorter in Services. Based on that market activity and delivery capability, we estimate that our performance in Services is better than a year ago. The same applies in Automation segment. There of course we have also the impact of API integration. Now we have had it for one quarter with all the challenges I explained. Then in coming quarters we will have the full positive impact of API coming in the picture as well. In Process Technologies, the revenue recognition from all new projects is not that big anymore for the year, but it has of course impact to EBITA from the workload perspective and then also from margin perspective. Katri, to go on.

00:31:43 - 00:32:01

Katri Hokkanen: Maybe just to add to the net sales what Pasi mentioned also in his presentation that we have now 70 million more in the backlog to be recognized this year. The delivery times are now back in pre-COVID levels. Of course, those are also important drivers together with the market activity.

00:32:04 - 00:32:35

Panu Laitinmäki: Thank you. The second question is still on the Process Technologies margin. I get the comment that revenue was down year-on-year, but it was similar to Q1 sequentially. Was there something like one-off negative in the Process Technologies margin in Q2? What's your thought of how soon could you return back to six percent which I believe is the target.

00:32:36 - 00:32:44

Pasi Laine: Like Katri said, we were closing some projects. I wanted to close some projects now.

00:32:44 - 00:32:51

Katri Hokkanen: Pasi, has been very active. Of course that was that was good for us but they were smaller ones.

00:32:54 - 00:32:56

Panu Laitinmäki: Okay. Thank you.

00:33:03 - 00:33:09

Speaker 4: The next question comes from Antti Kansanen from SEB. Please go ahead.

00:33:11 - 00:33:40

Antti Kansanen: Hi, it's Antti from SEB. Thanks for taking my questions. I'll start with the comment on delivery times. If you look at single islands in pulp and then your paper, board and tissue machines kind of the demand that you're facing right now, what are actually the delivery times? What I'm trying to understand is the level of '25 sales. Is it still like Q1 and Q2 orders next year that would impact the full year revenues in '25?

00:33:43 - 00:35:21

Pasi Laine: Of course it will impact. However, if I start from the delivery time, at the longest I think we started to be at three years delivery times in board machines, which was way too long. Now the delivery time would be under two years. Now we would be having that kind of delivery time what the customer needs in any case for its construction work and everything else. Now we are back in normal delivery times. That same applies to pulp and energy single island deliveries where typically the construction works takes two years when the ground work starts. Then I don't remember now or you can of course calculate actually it from our backlog. We have been saying how much is related to process technology backlog. From that you can actually calculate how much typically we recognize revenue from projects which we booked during the year in process technology. I think we haven't published that number, but but now of course when the delivery times are shorter, we can recognize more revenue from the new coming orders than in the situation that we are actually selling capacity, which will be free in in a year.

00:35:24 - 00:36:03

Antti Kansanen: Yes, because what I'm trying to maybe better understand from next year's perspective is that obviously the existing backlog for '25 and beyond is quite a lot slimmer than it was, for example, a year ago. If we just look at PT, you have grown the business, you have made acquisitions, and there are quite a lot of more personnel in there. So it's the activity level that you are seeing in the marketplace sufficient to have a satisfactory workload in '25, or do we need to see a further acceleration to be in the clear for next year's earnings?

00:36:03 - 00:36:45

Pasi Laine: We have been reporting this capacity cost. We are of course, managing that capacity cost all the time. This year we have done already some actions in Pulp and Energy. Then of course if needed then there will be further actions, but all in all we have tried to be very careful, especially in Process Technologies' capacity cost. However, if there is too much capacity cost or if there is a possibility after the acquisitions to make the footprint even more effective, then of course we'll do it.

00:36:46 - 00:37:00

Katri Hokkanen: If I may add what we also discussed after the first quarter call that procurement savings, of

course, is a very important topic for us. We then said that we have actually been having a good start on that. Of course, we work in many fronts.

00:37:04 - 00:37:14

Antti Kansanen: Also the backlog margin for delivery is better given the impact from legacy projects, but I don't know if you want to quantify anything on that front.

00:37:15 - 00:37:17

Pasi Laine: You guessed correctly.

00:37:19 - 00:37:21

Antti Kansanen: Yes, I thought so. All right. Thank you.

00:37:30 - 00:37:36

Speaker 4: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:37:38 - 00:37:55

Mikael Doepel: Yes. Thank you and good afternoon, everybody. I have just a couple of quick questions following on the earlier one regarding the delivery times. Just wondering if you could talk a bit about that also in terms of Automation segment as well as the service business. What is the lead time now from orders to sales in those segments.

00:37:56 - 00:39:12

Pasi Laine: In flow - - Automation segment first. Valves typically if you sell a project then the project delivery time goes together with the process technology order or delivery time. Customers are ordering them well in advance so it can be that the delivery time is one year or even longer. In Services, the delivery time can be some weeks. Then typically, if customers are buying maintenance and repair operations valves were let's say three four, five, seven valves, 10 valves, then the delivery time is from three months to six months. Systems business, of course service goes quick. That's where it goes quickly. And then if you buy QCS system, the delivery time is something like four to five months and DCS is about six months to one year. Then of course in this bigger project we use POC method in revenue recognition. The revenue recognition from our perspective happens when the costs are coming in.

00:39:15 - 00:39:56

Mikael Doepel: Okay. Now that's that's helpful. Thank you. Then just a final one from my side on this service business. Just wondering if you could talk a bit about what dynamics do you currently see in that Service division or segment? I think you've been talking about customer operating rates improving in the past couple of quarters, listening to your customers. It sounds like that's going to continue, but is there something else also happening? I think here might be some upgrades and that kind of work that didn't really materialize last year. Do you see any kind of change in the dynamics? Do you see some pent-up demand coming through? Any color you can give that would be helpful. Thank you.

00:39:57 - 00:40:54

Pasi Laine: Thanks, Mikael. That was a good point. I think neither of us remembered to say that. In Services we can now say that all market areas are active. Earlier we were hinting that a couple market areas haven't been that active. Now in the last quarter actually all the market areas, so North America, South America, Europe, Asia-Pacific and China all have been active. Then we have seen also good activity level in all the BUs. All the BUs have also good activity level. I think that tells that the whole industry is back in normal business. Maybe there is still room for improvement in operational rates and prices in some of the segments. However, currently the good services order intake is coming from all parts which is positive. I don't know if Katri wants to add.

00:40:54 - 00:40:58

Katri Hokkanen: Your answer was right, so all businesses and all market areas. That's very good.

00:40:59 - 00:41:01

Mikael Doepel: All right. That's good. Thank you very much.

00:41:01 - 00:41:08

Speaker 2: Thank you for reminding us because that was in our question and answer story but we forgot to say it.

00:41:10 - 00:41:12

Mikael Doepel: Oh, good that it came through. Thank you very much.

00:41:20 - 00:41:26

Speaker 4: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

00:41:29 - 00:42:45

Johan Eliason: Yes. Hi, Pasi and Katri. This is Johan from Kepler Cheuvreux. I have two questions. First, you talked about this improved market activity on pulp. I understand that from earlier single island orders and similar. However, I've also understood there's been some news articles about three pretty big pulp projects all in Brazil. I was wondering a little bit how you view your competitive situation. At the last CMD you sort of indicated that your market share had fallen to 30 or 40 percent from previously, I think 40/60 or something like that in pulp equipment. What's your view on these orders? Will any of these materialize? First of all, would you be competitive to win them? And would you be willing to take them as a EPC contracts, or would you still prefer to take parts of these potentially very big projects? I guess now that's up to your successor CEO obviously, but what's your view on those projects.

00:42:45 - 00:44:35

Pasi Laine: First of all, we cannot comment about the projects themselves. You can follow our customers communication when they are talking about the project. However, you are right that there projects developing in Brazil, and they are all in Brazil. It's good that they are in Brazil. Then we have been saying ourselves that the market share dropped during one-and-a-half years to 30 percent. Last year, again, when there were not big mega mills decisions done, then actually our market share was again 50/50 with Andritz. We have a very capable team in Brazil making EPC projects. Why we have been not that successful lately in a couple big projects one reason was that we were executing at the same time very big paper machine project. We couldn't take the risk of overloading our organization. Now, currently we have a reasonable workload in our organization, and we are sure that our organization can take a full mill supply if customer so decides. We are of course, working hard with our competitiveness. Like Katri said, it's quite a lot depending also on the supply chain. Then we have been of course, making sure that we have good references in Brazil. We have excellent references and our customer base and all the mills we have been delivering are working with very good efficiency. That of course helps us also in discussions about the future cases.

00:44:37 - 00:44:58

Johan Eliason: Excellent. Sounds good. Then just coming back to this somewhat underperforming legacy projects. With the Q2 numbers can we now say going forward that that's all behind you, or will there still be some lingering project impacts in in the coming quarters?

00:44:58 - 00:45:14

Pasi Laine: In projects you always have a situation that some projects go well and some don't. Like Katri said, we wanted to close some of the lengthy discussions where I have been involved myself and wanted to close them now before I leave the company.

00:45:16 - 00:45:34

Johan Eliason: Okay, excellent. I must say I've been impressed on how the company has developed under your leadership, especially compared with the previous decade when it was part of Metso. I wish you all the good luck for your future endeavors. Thank you, Pasi.

00:45:35 - 00:45:36

Pasi Laine: Thank you Johan.

00:45:41 - 00:45:46

Speaker 4: The next question comes from Tomi Railo from DNB. Please go ahead.

00:45:49 - 00:46:29

Tomi Railo: Yes. Hi, Pasi and Katri. It's Tomi from DNB. Still coming back to the guidance upgrade earlier in June. You mentioned then that overall general positive development and reading is now I guess that it's more second half tilted profit improvement year-on-year. My first question is that, what do you mean by increasing in EBITA year-on-year? I'm not very optimistic to get an answer, but I'm still trying.

00:46:32 - 00:46:50

Pasi Laine: You will not get a clear answer. Sorry, Tomi. Good try and thanks for letting us know that your expectations were not very high. However, we mean, of course, that it's increasing so it can we [crosstalk 00:46:50-00:46:51]

00:46:50 - 00:47:41

Tomi Railo: The second question is that this is then as everyone has seen second half tilted. I hear that you are saying Services, Automation improvement. Is there something that you know but we can't see? For example, PT having easy comparison for the second half where last year numbers are impacted by cost overruns included in the numbers. You can comfortably yourself see that you will beat those numbers hence profit improvement is coming from PT side as well, or maybe savings, timings or so which is triggering the second half profit improvement year-on-year.

00:47:42 - 00:48:34

Pasi Laine: Of course we have to be confident ourselves otherwise we shouldn't have done it. We have our estimation process. Based on that process we are giving the guidance. When the estimation process is giving the numbers, then of course management has to make the profit warning to whichever direction. You have to do it when your numbers are showing that. We are not guiding quarters, we are guiding for the full year. Like you said yourself, and maybe I have been saying and Katri as well that comparison quarters, for example in Services are not that challenging from last year. That's why we believe that we can make better numbers in latter part of the year.

00:48:37 - 00:49:12

Tomi Railo: Thank you. I'm still continuing that you practically refer to Services now especially with the latter comment. However, would you be able to comment on the ranking? Is it Services tilted? Is it Automation tilted? How much is the weight from PT side because of course there is expectation that it's really second half improvement because you are behind for the first half. Where is it coming from?

00:49:12 - 00:49:26

Pasi Laine: We can't give business line numbers. As you know, we are guiding only for the whole company. It's not acceptable to give guidance for segments or business lines.

00:49:28 - 00:50:06

Katri Hokkanen: And if you look now where we are today, you are talking about comparable EBITA. Stable business is flat year-over-year. Then the decrease is related to Processed Technologies. Pasi has been talking a lot about the improved market outlook compared to last year in Services. Market outlook is good and also in the Automation segment it is good, and now upgrade also in in pulp and board and paper so all of these ingredients. Then of course what we mentioned earlier about having 70 million more order backlog for this year to be recognized. It's a combination. Of course, the market activity is really important there.

00:50:08 - 00:50:12

Tomi Railo: All right. Thank you very much, and all the best, Pasi. It's been a pleasure.

00:50:13 - 00:50:14

Pasi Laine: Thank you Tomi.

00:50:21 - 00:50:27

Speaker 4: The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:50:30 - 00:51:11

Tom Skogman : Yes. Hi, this is Tom from Carnegie. Also, congratulations from me to you Pasi. Ten good years of Valmet. That's a big achievement. However, I would like to use your knowledge that you have built up just to talk about the industry sentiment. Last year was a big shock for your customers and some pulp and paper companies were forced to cut dividends aggressively. We have heard that there is overcapacity being built in in Europe and in China in board machines, et cetera. Could you open up this landscape? Not for the next quarter, but just the next three to five years. How do you see this playing out because you still work for Valmet?

00:51:12 - 00:53:17

Pasi Laine: That's a good question. I was visiting some customers and I'm not saying in which area. I was asking

two different CEOs that okay, how do you see the market. The first answer was okay that it's good market. Then the next comment was of course, depending on which year you compare. Both were saying that they themselves have to forget the exceptional COVID years when it was very easy to make money. They said that comparing to earlier years, the market is good and they continue to develop their companies. That's somehow the sentiment in many of our customer discussions that they continue to believe in the industry. They know that there were a couple of quite easy years, and now they have to work hard on making good numbers. However, nobody somehow, in the long or medium term is suspecting whether they are in good business. If we think about between 2000 and 2010 when there was bad years, then everybody was losing their confidence in long-term development. Now that's not the case at all. Then what is interesting is that now when for example, we have overcapacity in Europe, then actually the ones who have modern machine and can run lightweight are having a good situation because their cost base is lower per produced package because of energy and raw material and many other things. Actually, now we start to see again that the ones who have been investing in new machines are doing better than the ones who haven't been doing it, which then of course gives confidence to those customers who have been buying big and modern machines from us.

00:53:22 - 00:53:33

Tom Skogman : Yes, and would you expect that equipment sales will tilt more to pulp in the next five years after five really good years in paper?

00:53:34 - 00:54:54

Pasi Laine: There was an exceptional time in paper. If you remember, we had about 700 million order intake. Then it went to 1 billion and then suddenly 1.7 and was at 1.3 thereafter? This was this extraordinary COVID time. Let's say so that this kind of market volume of 1 billion is good volume for our paper business line. Then in pulp, there is more lumpiness in order intake. Sometimes the order intake is a lot over 1 billion and sometimes less. Then it depends just on timing that which year it happens to be. I wouldn't be saying that there is tilt from other market to another one. The share depends more at how the timing of individual projects is happening. Both are needed. If there's new pulp, then the pulp needs to be used as well. As we were saying also in our capital markets day, or it was Jari who was telling that about 30 percent of our board machines and paper machines, even on the high market were sold to replace old capacity.

00:54:56 - 00:55:08

Tom Skogman : How would you see plantations being developed? We hear every now and then that there is a lack of good locations for plantations, which could be a limiting factor for the whole industry.

00:55:08 - 00:55:48

Pasi Laine: Well, that discussion was very active two years ago and now it has disappeared again. In South America, when they are developing new plantations, then it takes seven years for the trees to grow. If somebody starts new plantation now, then he could start to build a pulp mill after four years. Now our customers are saying that they have active projects and then of course, they have secured their raw material supply if they are talking about investments.

00:55:50 - 00:56:09

Tom Skogman : Then a question to Katri. Networking capital has changed a lot and the business mix has changed a lot. Can you provide some kind of a range where you expect it to be with Valmet's current business mix? Are we really on a high level at the moment or not?

00:56:10 - 00:57:02

Katri Hokkanen: I think if you look at the developments, of course it improved from year end. That was a positive thing. Inventories is the topic where we are mainly working with. We have said that on the stable business side, the inventories have been on elevated level. We have been actively working with those changes there were now especially in the finished goods so they they came down. On the other hand, the work in progress has increased a bit. That is then linked to the stable business where majority of the revenue recognition is done in point in time. However, inventory is the topic that we have been working with. I cannot give you exact amount because of course then when you have capital projects, the pre-payments can have a big impact then. Now capital volume has been lower as we have been discussing a lot. It's a combination of that. However, of course we want to optimize the levels and we are working hard with that.

00:57:04 - 00:57:13

Tom Skogman : But is it like five to minus five percent of orders? What is some kind of an acceptable range for current Valmet?

00:57:14 - 00:57:30

Katri Hokkanen: I think you have to look at it also from an historical perspective. Pasi was mentioning, the stable business part. Close to 70 percent is stable business from the bookings. You have to take that into account that it ties more capital than capital business.

00:57:32 - 00:57:49

Tom Skogman : Then finally the service sales mix. What will it be in the second half based on what you have booked as orders in the first half? Will it tilt more or less to spare parts or modernization projects?

00:57:52 - 00:58:07

Pasi Laine: As I said we have now good activity in all the businesses. I would say more that it's stable, not tilting to any direction.

00:58:14 - 00:58:15

Tom Skogman : All right. Thank you, Pasi and Katri.

00:58:19 - 01:00:11

Pasi Laine: Well, we will close the meeting. I would say some words. 11 years ago we started IR work with Valmet. Now we have been listed for over 10.5 years. We calculated I have participated in roughly 600 IR meetings over the years. I think all of them are not calculated. I have done over 600 meetings with our analysts and investors. First to the analysts, I have to say that we have had the luxury of having very good and professional analysts. You all who have been working, analyzing us, who are now doing and who have been earlier doing, you have been very professional and you have been doing very good questions and good reports and have been treating Valmet in a fair and professional way. That has been very nice. Then of course, we have had a lot of discussions with investors as well. I have to say that I have learned a lot from these investor and IR meetings. Investors and analysts are a bunch of people where you end up if you have good brains and good mathematical thinking. I have enjoyed a lot of discussing with you and debating with you and trying to answer to your difficult questions in a way that it helps you, but that I'm not opening too much. However, I have enjoyed a lot to work with you and I wish you all personally all the best in the future and continue to be very constructive and supportive to Katri and Valmet then I will be happy as well. Thank you.

01:00:13 - 01:00:50

Pekka Rouhiainen: Thank you Pasi for those words, I'm sure also on behalf of all the analysts and investors as well. For Valmet, the next larger event is of course in the August 12th, when Thomas Hinnerskov will start as the president and CEO of Valmet. Then that, of course, means that Pasi Laine will also be leaving Valmet. On my behalf, thank you very much Pasi for these years. Valmet's next result webcast will be then on October 30th. Until then, have a nice summer, everybody.

01:00:52 - 01:00:52

Pasi Laine: Thank you.