

Valmet – focus on profitability improvement

SEB Nordic Seminar 2015,
Copenhagen

Pasi Laine, President and CEO

Agenda

Valmet Roadshow

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2 Financial targets

3 Q3/2014 in brief

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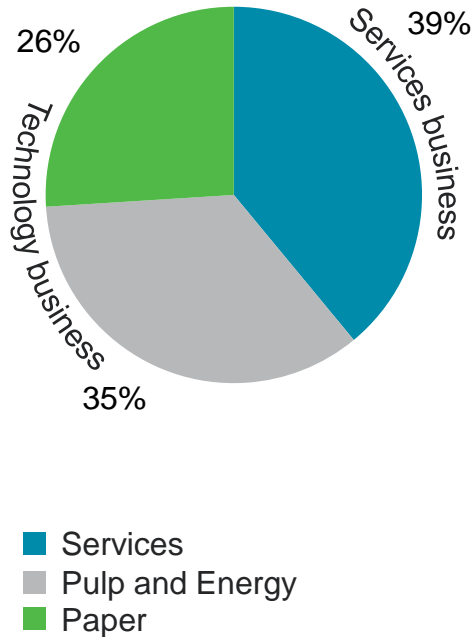
Valmet overview

Key figures

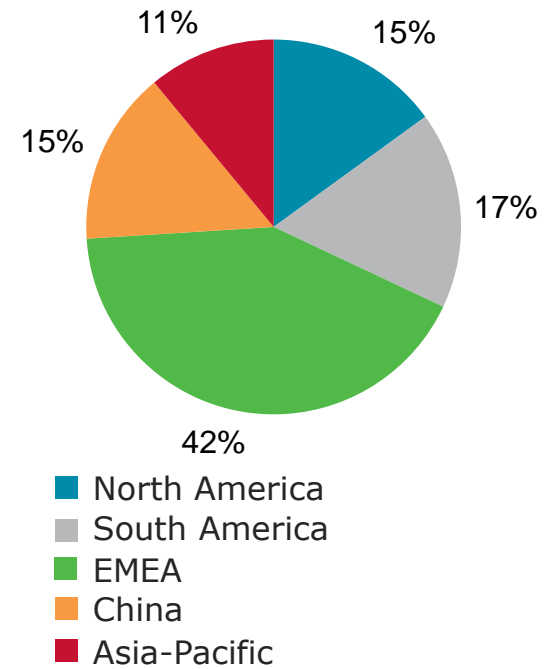
- > Net Sales 2,613 MEUR ⁽¹⁾
- > EBITA before NRI ⁽²⁾ 54 MEUR
- > Gearing 0%
- > Employees 10,500

- > **Global market leader with #1-2 market positions in all markets served**

Sales split by business (2013)¹



Sales by geographic area (2013)¹



1) Carve-out figures 2013
2) NRI = non-recurring items

Three business lines serving pulp, paper and energy industries



Services

- Mill and plant improvements
- Roll and workshop services
- Parts and fabrics
- Life-cycle services



Pulp and Energy

- Technologies and solutions for
- Pulp production
 - Energy production
 - Biomass conversion



Paper


- Technologies and solutions for
- Board production
 - Tissue production
 - Paper production

Strong global presence – good platform for growth


North America

- Large installed base to be serviced
- Growth opportunity in increased outsourcing
- Capital project opportunities in tissue and board

1,127 employees




Net sales¹⁾ EUR 401 m




EMEA

- Large installed base to be serviced
- Growth opportunity in increased outsourcing
- Machine closures in printing and writing
- Capital project opportunities in pulp, tissue, and bioenergy

6,442 employees



Net sales¹⁾ EUR 1,096 m



China

- Capital project opportunities in board and tissue
- Good services market with growth potential

1,942 employees



Net sales¹⁾ EUR 389 m



South America

- Capital project opportunities in pulp, tissue and bioenergy
- Good services growth potential

428 employees



Net sales¹⁾ EUR 442 m



Asia Pacific

- Capital project opportunities in pulp, tissue, and board
- Good services market with growth potential

585 employees



Net sales¹⁾ EUR 285 m



1) Net sales breakdown by area on a carve-out basis for 2013. Breakdown of employees by area as at September 30, 2014.

Global customer base



Key customers



Key customers



Key customers



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Valmet's way forward

Our Mission

Converting renewable resources into sustainable results

Our Strategy

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

We are committed to moving our customers' performance forward.

Our Must-Wins

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

Our Vision

To become the global champion in serving our customers

Our Values create and strengthen our culture

Customers - We move our customers' performance forward

Renewal – We promote new ideas to create the future

Excellence – We improve every day to deliver results

People – We work together to make a difference

Megatrends

- Need for renewable solutions
- Bio-economy and climate change
- Increase in standards of living



Financial targets

Financial targets

Growth



Net sales growth to exceed market growth

Profitability



EBITA¹ before non-recurring items: 6-9%

ROCE

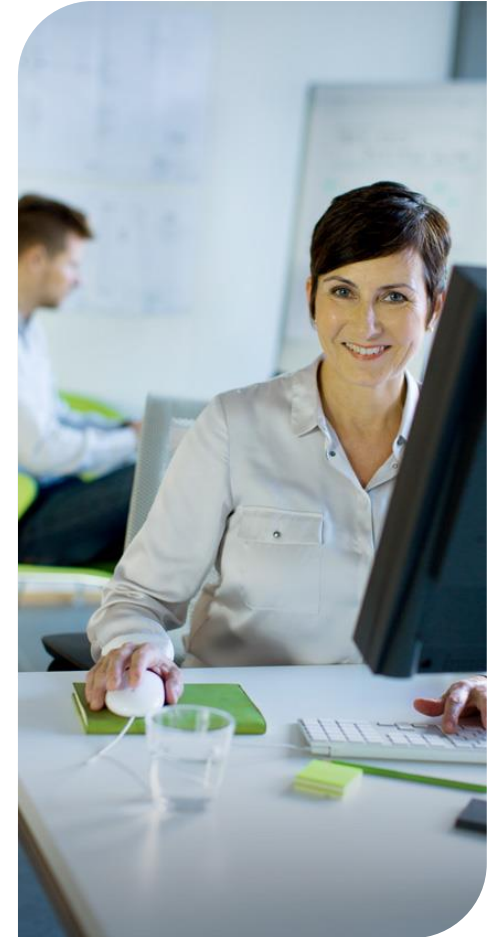


Return on capital employed (pre-tax),
ROCE²: minimum of 15%

Dividend policy



Dividend payout at least 40% of net profit



- 1) EBITA before non-recurring items = operating profit + amortization + non-recurring items
- 2) ROCE (pre-tax) = (profit before taxes + interests and other financial expenses) / (balance sheet total - non-interest-bearing liabilities)



Q3/2014 in brief

Q3/2014 in brief



Orders received on a par with Q3/2013 in services

- Services orders on a par with Q3/2013
- Net sales decreased compared with Q3/2013



Orders received slowed down in capital business from high level in H1/2014

- Orders received increased in Paper, and Pulp and Energy compared with Q3/2013
- Net sales increased in Pulp and Energy and decreased in Paper compared with Q3/2013



Order backlog at EUR 2.3 billion

- Order backlog EUR 914 million higher than at the beginning of the year



Profitability continued to improve according to plan

- EBITA margin improved compared with Q3/2013 and Q2/2014
- EBITA increased compared with Q2/2014
- SG&A expenses decreased by EUR 17 million compared with Q3/2013
- Gross profit increased by EUR 9 million compared with Q3/2013
- Further profitability improvement potential through savings in procurement and quality, by actions to improve project and service margin, by continuing to improve cost competitiveness, and by improving product cost competitiveness to increase gross profit



Strong balance sheet and good cash flow

- Net debt EUR -158 million, and gearing -20%
- Cash flow provided by operating activities EUR 117 million

EBITA = Earnings before interest, taxes and amortization and non-recurring items

Key figures Q3/2014

EUR million	Q3/2014	Q3/2013	Change	Q1-Q3/2014	Q1-Q3/2013	Change
Orders received	466	382	22%	2,590	1,754	48%
Order backlog ¹	2,312	1,658	39%	2,312	1,658	39%
Net sales	590	601	-2%	1,697	1,946	-13%
EBITA ²	32	31	4%	58	79	-27%
% of net sales	5.5%	5.1%		3.4%	4.1%	
EBIT ³	26	-17		35	7	>100%
% of net sales	4.4%	-2.8%		2.1%	0.4%	
Earnings per share, EUR	0.11	-0.10 ⁵		0.14	-0.01 ⁵	
Return on capital employed (ROCE), before taxes ⁴				6%	1%	
Cash flow provided by operating activities	117	12	>100%	206	-5	
Gearing ¹				-20%	0%	

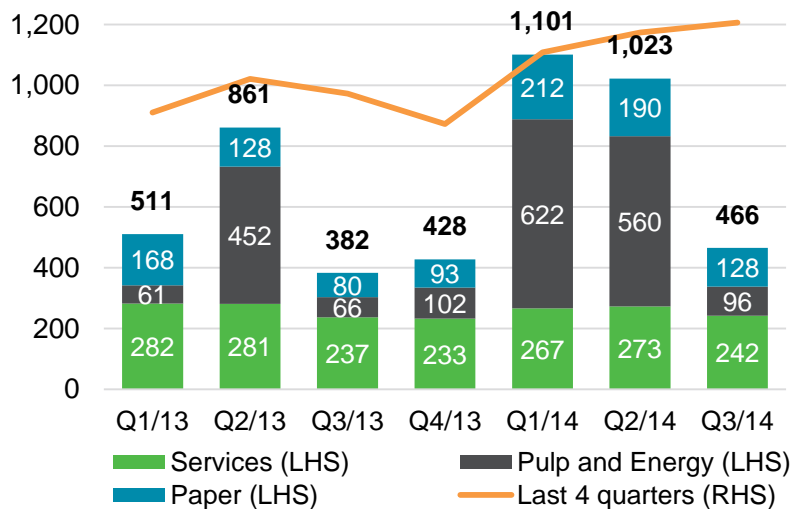
Non-recurring items: EUR -1 million in Q3/2014 (EUR -41 million in Q3/2013), EUR -7 million in Q1-Q3/2014 (EUR -52 million in Q1-Q3/2013)

- 1) At the end of period
- 2) Before non-recurring items
- 3) After non-recurring items
- 4) Annualized
- 5) The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the comparison period.

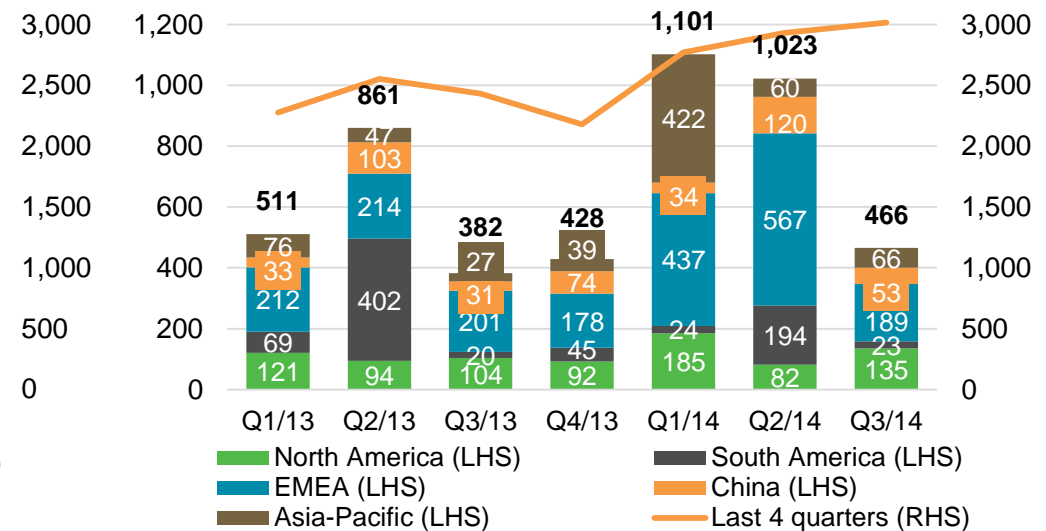
The comparison figures are based on financial carve-out data. The balance sheet and its related key figures as at December 31, 2013 are based on actual figures.

Orders received EUR 2.6 billion in Q1-Q3/2014

Orders received (EUR million),
by business line



Orders received (EUR million),
by area



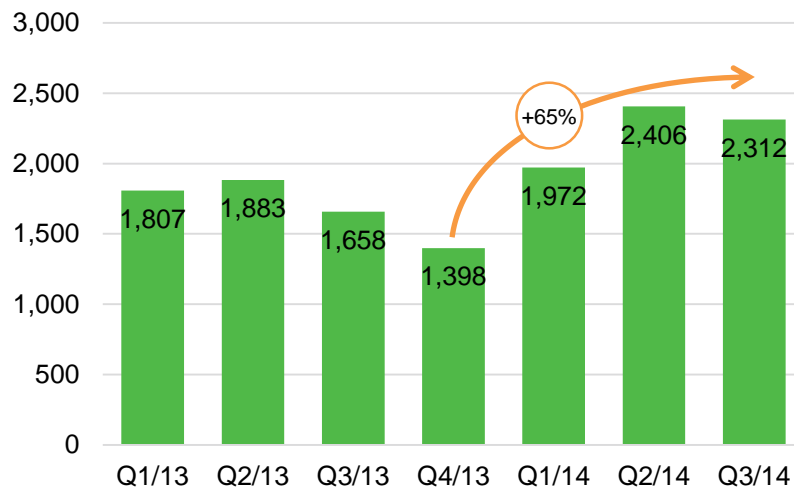
- Orders received at the previous year's level in Services
- Orders received increased in Pulp and Energy
- Orders received increased in Paper
- Orders received increased in North America, Asia-Pacific, and China

Customer activity increased in 2014

Date	Description	Business line	Country	Value
Jan 27	Multi-fuel boiler	Pulp and Energy	Finland	Not disclosed
Jan 31	Upgrade of recovery boiler and power boiler	Pulp and Energy	Sweden and Bulgaria	Not disclosed
Feb 7	Key technology for pulp mill	Pulp and Energy	Indonesia	Approximately EUR 340 million
Feb 10	Paper machine rebuild	Paper	Austria	Not disclosed (typically above EUR 20 million)
Feb 13	Heat recovery steam generator	Pulp and Energy	Sweden	Nearly EUR 10 million
Feb 27	Wood-chip-fired heating plant	Pulp and Energy	Finland	Around EUR 27 million
Mar 7	Containerboard line	Paper	Vietnam	Not disclosed
Mar 19	Tissue production line	Paper	Mexico	Not disclosed (typically EUR 20-40 million)
Mar 27	CompactCooking G2 cooking plant	Pulp and Energy	Sweden	About EUR 30 million
Apr 3	Advantage tissue production line	Paper	Turkey	Not disclosed
Apr 28	Large-scale boiler plant	Pulp and Energy	Finland	Typically one third of the total investment of EUR 260 million.
May 5	Pulp and board production lines	Paper, and Pulp and Energy	China	Around EUR 115 million
May 6	Finalized order agreement for pulp dryers	Pulp and Energy	Brazil	A project of this size and scope is typically valued at EUR 150-200 million.
May 13	Paper machine grade conversion rebuild	Paper	Finland	Around EUR 30 million
May 20	Complete boiler plant	Pulp and Energy	Hungary	About EUR 50 million
May 20	Complete boiler plant	Pulp and Energy	Czech Republic	About EUR 50 million
May 21	Part of a major pulp mill rebuild	Pulp and Energy	Thailand	Around EUR 30 million
May 21	A boiler plant	Pulp and Energy	Finland	Around EUR 30 million
Jun 3	Major rebuild and new equipment for pulp mill	Pulp and Energy	Sweden	Around EUR 200 million
Jun 27	Complete Advantage ThruAir tissue line	Paper	USA	Not disclosed
Jul 2	Advantage DCT 200 tissue line	Paper	Middle East	Not disclosed
Aug 4	Advantage NTT line	Paper	USA	Not disclosed
Aug 15	Paper machine grade conversion rebuild	Paper	Thailand	Typically valued at around EUR 20 million
Aug 18	OptiConcept M board production line	Paper	USA	Not disclosed
Aug 20	Tissue production line	Paper	Turkey	Not disclosed
Oct 13	Biomass based power plant	Pulp and Energy	Sweden	About EUR 30 million
Oct 30	Advantage DCT 200HS tissue line	Paper	China	Not disclosed
Nov 20	Advantage DCT 200HS tissue line	Paper	Poland	Not disclosed
Dec 15	New machine for folding boxboard production	Paper	Sweden	Typically valued at around EUR 60-70 million

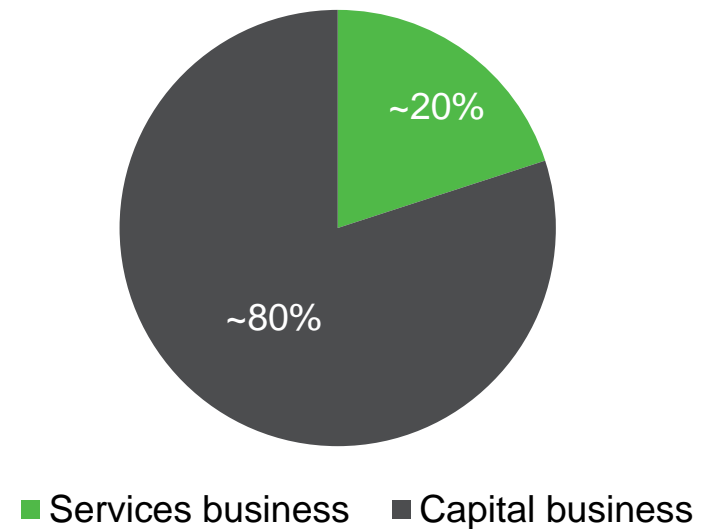
Order backlog at EUR 2.3 billion

Order backlog (EUR million)



Cancelled Fibria order of EUR 331 million excluded from Q1/2013 figures

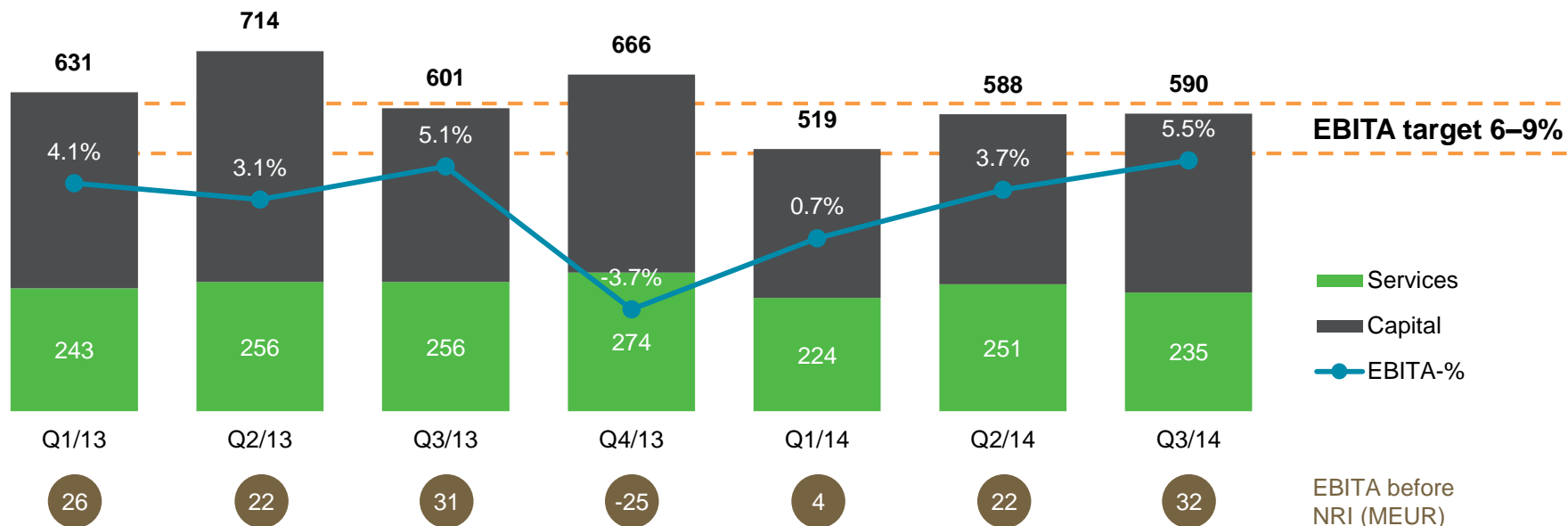
Structure of order backlog



- Order backlog EUR 914 million higher than at the end of 2013
- Approximately 20% of the order backlog relates to the Services business line

Net sales and profitability development

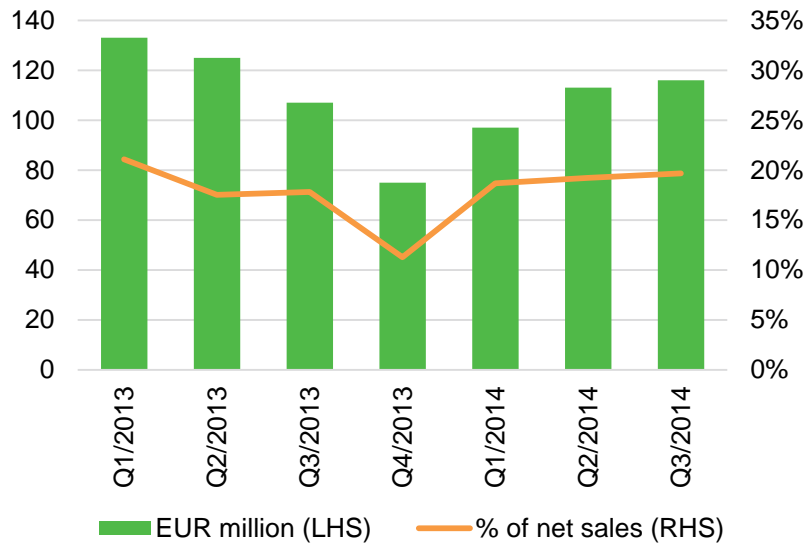
Net sales and EBITA before NRI (EUR million)



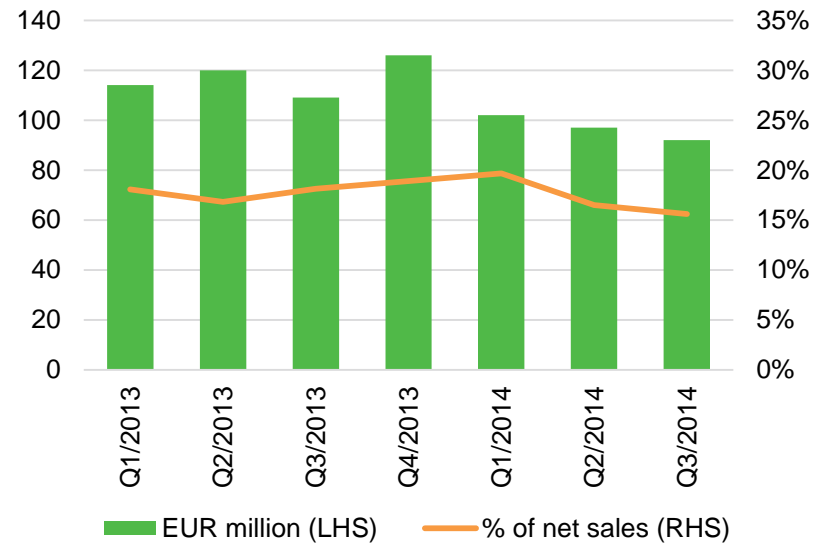
- Net sales stable compared with Q3/2013
- Profitability on an improving trend since Q4/2013

Good development in gross profit and SG&A expenses

Gross profit (EUR million and % of net sales)



SG&A (EUR million and % of net sales)



- Selling, general and administrative expenses (SG&A) declined further
- Gross profit improved
- Further actions to improve gross profit through Must-Win implementation

Key Must-Win objectives to improve profitability to the targeted level of 6–9%

Improve project and service margin	Reduce quality costs and lead times	Savings in procurement	Continue to improve cost competitiveness	Improve product cost competitiveness to increase gross profit
<ul style="list-style-type: none">• Harmonization of processes• Localization of competencies• Better selection of sales cases• Development in project management	<ul style="list-style-type: none">• Common quality development approach• Quality tools and processes• Highlight the importance of quality initiatives and accountability	<ul style="list-style-type: none">• Increase sourcing from cost competitive countries• Increase use of sub-contracting• Consolidation of shipment and warehouse network	<ul style="list-style-type: none">• Focus on cost competitiveness also after the EUR 100 million program	<ul style="list-style-type: none">• Focus on cost efficient design• Modularity and standardization 

Guidance and short-term market outlook

Guidance for 2014 (as given on February 6, 2014)

Guidance for 2014



Valmet estimates that net sales in 2014 will decline from the 2013 level and EBITA before non-recurring items will increase in comparison with 2013

Short-term market outlook

		Q4/2013	Q1/2014	Q2/2014	Q3/2014
Services		Satisfactory	Satisfactory	Satisfactory	Satisfactory
Pulp and Energy	Pulp	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	Energy	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Paper	Board and Paper	Satisfactory	Satisfactory	Good	Good
	Tissue	Satisfactory	Satisfactory	Satisfactory	Satisfactory



Conclusion

Valmet's way forward

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People – We work together to make a difference

Megatrends

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- Bio-economy and climate change
- Increase in standards of living

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