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VALMT.HE - Q3 2015 Valmet Corp Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2015 / 12:00PM GMT



CORPORATE PARTICIPANTS

Hanna-Maria Heikkinen *Valmet Corporation - VP - IR*

Pasi Laine *Valmet Corporation - President, CEO*

Markku Honkasalo *Valmet Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Elina Riutta *Evli Bank - Analyst*

Manu Rimpela *Nordea - Analyst*

Antti Suttelin *Danske Bank - Analyst*

Tom Skogman *SHB - Analyst*

Johan Eliason *Kepler Cheuvreux - Analyst*

PRESENTATION

Hanna-Maria Heikkinen - *Valmet Corporation - VP - IR*

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q3 2015 Results Briefing. My name is Hanna-Maria Heikkinen and I'm charge of investor relations. In Q3 2015, we saw strong development in orders received in China, and also, our profitability was in the targeted range. And actually, our profitability has been in the targeted range three times during last four quarters.

Today, our CEO, Pasi Laine, will first go through Q3 2015 in brief and also a business line development. Then our CFO, Markku Honkasalo, will continue with the financial development. And after that, Pasi will review guidance and short-term market outlook. After the presentation, there is possibility to ask questions.

Pasi, please, it's time to start.

Pasi Laine - *Valmet Corporation - President, CEO*

Okay. Thank you, Hanna.

So, like, Hanna said, we had strong development in orders received especially in China and profitability was at targeted range. So, what I want to go through is first, third quarter in brief then business line development then like Hanna said, Markku will go through the financial development then I will go through, again, the guidance and short-term market outlook and then, of course, there's a possibility for discussion.

So, in brief, if we start from the stable businesses, we can say that orders received and net sales increased in our stables businesses and as stable businesses, we count our services and our automation business. And that's, of course, very, very good -- good situation because our call in the -- in the long run is to increase our stable business meaning services and automation.

Then our orders received and net sales increased in capital business has well comparing to Q3 last year. But of course, if you compare to the beginning of 2014, they were not increasing. But comparing to the comparison period, they were increasing.

Our order backlog is at 1.1 billion level which is a reasonable good level for us meaning that we have capacity to take orders in, but then also, we have capacity to deliver what we have in the backlog. So, 2.1 is a very comfortable level for us.



We had good development in our profitability, our EBITA was 47 million and it was 6.4% as percentage. And like Hanna said, third time in four quarters, we reached our -- our profitability target.

Our net debt was EUR229 million, gearing is EUR28 million. Last year, we were very much on negative side, but after the Automation acquisition, we have been on positive side. And now, now the gearing figure was 28.

Cash flow which Markku will explain more in details was by the operating activities about EUR16 million. So, cash flow.

So, here's a picture of our figures in Q3. Like said, stable business net sales was EUR334 million. Our total orders received was EUR725 million and EBITA EUR47 million and we employed 12,300 people.

Stable business accounted to about 45% of our net sales. But like we have been saying we would like to talk about absolute term of how big our stable business is. But if you calculated the percentages last quarter, it was 45%.

Capital business was divided quite evenly between Pulp and Energy and Paper. The other one been 29% and the other one been 25% of of the net sales.

Geographically, Europe accounted to 50% of our businesses and North America, 22%. So, traditionally, we have been saying that roughly 40% of the business is coming from growth market and 60 from established markets and in this quarter, a little bit more came actually from established markets being North America and Europe and Middle East and Africa.

Then, if we look to key figures, like I've said, orders received was EUR725 million and the whole year, first three quarters have been about EUR2.1 billion. Comparing to last year's -- last year, it has declined by 19% but then all in all, I think this EUR2.1 billion is at reasonable level.

Backlog, like I said, is EUR2.1 billion declining 8% compared to last year. Net sales was EUR734 million growth by 25% and on yearly -- on three first quarters, our net sales was about EUR2 billion and EUR74 million. And there, we had growth of 22%.

So, growth -- growth has been quite good comparing to last year and growth has been coming, of course, partly by because of the acquisition of Automation business. But then also on -- on our old Valmet businesses.

EBITA EUR47 million, it improved by 45%. And on yearly basis, EUR120 million. And there, we have more than doubled of EBITA compared to last year. EBITA percentage is 6.4% for the quarter and the whole year, first three quarters 5.8%.

So, we are still on three quarters a little bit down compared to our profit target but we are reaching it slowly but surely. Then, gearing, like I said, 28 million and this cash flow issue, Markku will explain more in his presentation.

If we look to the curves, so here, we have first two orders received curves for our business lines and then from the area of perspective and we see that last year, the 12 months cumulative curve was growing very nicely and it went up to EUR3 billion and then we have two or even three, a little bit slower quarter. So, now we have two reasonable quarters so that order intake has started to grow again. And here, you see that the 12 months cumulative curve is a little bit close to EUR2.6 billion.

Then, when you look at the areas perspective, I think it's good to notice that China has been quite good in order intake-wise in our businesses here. Last quarter, the order intake from China was EUR224 million and we got -- if I remember correctly, we got one big deliver for the pulp mill technology in China and then we got two tissue machines and one OptiConcept M board machine.

So, capital market has been active for us. So, at the same time, when people have been very worried about Chinese economy and Chinese economy slowing down, actually, we have seen reasonably good -- good order intake development in China.



Then I have been a little bit wondering that why people are so afraid of Chinese development now and it might be that we saw the change in Chinese market already two or three years ago. We said that the China market was about twice, like it is compared to today's situation.

So, we have seen the market change already a couple of years ago. And now, our -- we compare the Chinese market to the new normal in China. And from that perspective, we actually think that the Chinese market has not been -- it has been good for us during the whole year.

Good. Then I cover the business lines more in detail when I'm in the business line presentation.

Backlog, like I said, EUR2.1 billion and Stable businesses accounting about 30% of that and 70% is coming from capital business. And it's up -- down compared to last year, the same quarter, and a little bit down also compared to second quarter this year. But like I said, it's an healthy level so that we have reasonably good to work load situation almost all the units and we still have a capacity to take new orders as well.

Maybe the unit where we have some workload challenges is the Energy -- Energy unit where we have had weak market situation already for some time and then there we have some workload issues. But otherwise, we have good utilization of our assets in all parts of our organization.

Then, this EBITA margin follow-up curve like we all remember we started with low numbers with 0.7 and the whole year in 2013 was about 2%. Then we improved and in 2014, we got our EBITA to 4.3% and we improved quarter after quarter.

Then, first quarter this year, we had low net sales like we were warning you earlier as well and because of the low sales recognition, our EBITA dropped to 3.5%. And now, we have had about EUR780 million and EBITA was 6.9%. Now, volume was a little bit lower and we have 6.4% in EBITA. So, three quarters out of four in the range what we are targeting and from that perspective, we are not happy but we say that we are going to the direction what we have been saying.

And then, of course, later on, I will explain again that we continue to work with the Must-Wins we have been working with to continue to develop the profitability further. So, we are not saying that now when we are close to 6% that we are somehow happy with the profitability.

What has happened in gross profit and SG&A, I'll start from SG&A. Last year, we had SG&A of about EUR400 million and now, we made acquisition of Automation and now you will start to see the new level of our SG&A spending.

Usually, it's so that our second quarter is high and third quarter is lower in SG&A. So, if you take as an average, the average then you are closer to the reality. So, we have some -- summertime work our compensations which are then reflecting to the cost level so that we see more cost in the second quarter and then less in the third quarter. But if you take, as an average, to average then you are close by to the new SG&A level of new Valmet.

And what I can tell is that this SG&A is under control and we see the increase because of the foreign exchange and because of automation or otherwise, it's under control.

Gross profit has been improving partly because of the acquisition of Automation but it has been also improving without our acquisition. And we'll continue to focus on the must-wins further also so that we'll continue to work with our gross profit and gross profit improvements.

Then last year, we have been focusing, on this slide, quite much on profit improvement. And of course, we'll continue with the profit improvement as well.

But now, we want to talk a little bit more also about other things by which we are developing the company. So, all the time, we have our must-wins customer excellence, leader in technology and innovation, excellence in process and winning teams. And in the communication, we have been focusing more on profitability improvement because it has been the biggest issue.



And now, we have planned to open up a little bit also what kind of actions we are having on the other issues. And I will comment then in coming quarters more in detail to many of these things. But now I can say that next time, I will open up customer excellence, services concept and industrial internet more to you.

After we acquired Automation, we became maybe the number one company in industrial internet in Scandinavia. And we are now preparing a material to present it to you and we will use that. But the fact is that we have developed -- delivered 750 production lines so that they are automated by us.

We have about 400 connections -- remote connections open all the time to our customers. We monitor all 70,000 condition monitoring signals all the time with our customers. We have 79 performance contracts where we are paid based on the performance of our remote controls.

So, we have quite a lot of activity going on this industrial IT and, of course, now, when we have automation, we have process technology and services, then the big story in Valmet is this remote concept industrial IT and I will come back to that more later.

Then, in leader in technology, I have one example on excellence in processes. I have one example today. First is leader in technology. We have been talking about this modular OptiConcept M machine for a while. And now, we can proudly present that we have sold 10 machines already after we have launched it.

And all of them are modular, similar kind of machines. They are -- they copies of each other, of course, because they are modular. They bring a lot of benefits to our customers, investment cost for building is smaller, energy efficiency has improved a lot. Runnability has improved and startup curves have improved compared to traditional machines. And we are, of course, very happy that our R&D has resulted to a product which has been so very well received by the markets.

The same kind of success we have had with our new NTT tissue machine. We have sold nine -- 5 of them and there, it's to say a little bit different story. So, NTT is a new type of -- new type of tissue machine which is making high -- high quality tissue machines with low cost and low energy consumption.

And this is one way how we want to differentiate from our competition. And of course, this is one way how our customers can differentiate from their customers, their competitors. So, we are also, of course, very happy that we have been able to sell already five NTT machines.

Then one topic is this excellence in processes and, of course, it's important for us that we were second time included in the Dow Jones Sustainability Index, global index and also European index. And that's, of course, very good recognition for the sustainability work what we are doing all the time in Valmet.

Then one proof why we are included is the improvement in our lost time incident frequency. So, that's telling how many accidents we have per million working hours in our factories and our whole organization. And like you see here, we started from somewhere 15 LTIFs per million hours in 2011. And now, we have been going down and now last figure is 3.5.

It's good figure, but of course, it's not good enough. So, of course, good enough is zero. So, we still have a long way to go. But the improvement has been good and we, of course, have still challenges and we continue to work with this but we start to be on a level that is not acceptable but it's a lot better than it used to be. And of course, we continue to work with this LTIF to go to zero in the future.

So, these are two examples how Valmet has been developing its excellencies in processes in during couple of years. Then, if we go a little bit more in the business line development, if we start from services, so the orders -- orders received remained stable and net sales increased in services.

And if you compare the numbers, now the order intake was 252 and last year, it was 242. So, 10 million. And then if you take the foreign exchange rate away, then practically, our order intake in services was at the same level than last year.

And of course, our target is to grow single digit, low single digit organically our services. We had good beginning of the year or actually end of the last year, we had good beginning of the year. And now, we were about on par compared to last year.

And it came mainly from our order intake, not growing in North America. So, we had growth in China. We're very stable in Europe and we were in Asia Pacific.

And then in North America, we have stable if we kind of calculate that in euros but if we calculate that in U.S. dollars, then we had a decline. So, currently, the main focus is to turn our North American services to growth mode again.

And we all know that we have a possibility to continue to grow our order intake in services. That's, of course, not the main focus but one of the main focuses of our organization, has been so and will be so end of the year and next year as well.

Then, of course, it's nice to see that net sales starts to increase in our services and slowly the order intakes starts to materialize as net sales and, of course, as profit as well.

Then Automation, order intake was EUR78 million if we calculate both external and external orders and when acquired Automation, we said that business is roughly EUR300 million. So, then 78 million is better than the average what we were telling when we acquired. Of course, it's lower than the first excellent quarter but still, it is roughly EUR80 million in order intake is a good level for our automation business.

We have been very happy with performance of our Automation started which -- it has started so well that nowadays, it's difficult to remember that we acquired it only six months ago. So, it works so much integrated now with all the -- all the other operations and cooperation between Automation and rest of our organization is very good and I think still personnel is very happy and customers are happy that we were the company who acquired Automation.

And we, of course, also are very happy because they are performing well and cooperation between all the parties has been good.

Then Pulp and Energy orders received has started to get back to the -- I don't know if in our business you can say normal level but back to the more sustainable level, of course, we had three quarters when order intakes was very low, then EUR260 million and now EUR206 million. So, the trend is correct.

Then net sales wise, you see that our net sales is quite stable even if the order intake is so lumpy. So, when we get big deal, then the delivery takes two and a half, three years, and that's why then the net sales is so much smoother when even if the order intake is so lumpy.

We got a big deal in China for Pulp mill technology and that's of course, very nice because our market position in China for Pulp mill equipments has been very good and we are very happy that we could sold big order from China and it's for technology supplies only so then the value is different than in projects which are being built in South America.

Then Paper, order intake more stable compared to Pulp and Energy. And now, of course, we are -- we are happy that order intake was close to EUR200 million. Like we said, the market was good and we got to roughly EUR200 million orders and net sales has started to climb up also after first quarter being very low, second quarter reasonable and third quarter reasonable as well.

And we are happy that our orders received has been increasing both in tissue and board and paper as well. So, good and stable development in our Paper business line.

So, Markku.

Markku Honkasalo - Valmet Corporation - CFO

Okay. Thank you, Pasi, and good afternoon also on my behalf.



So, our cash flow before investment in Q3 was EUR16 million and on the cumulatively since the beginning of the year, it has been EUR14 million. We have been creating EBITA since the beginning of the year EUR161 million but due to the fact that the change in net working capital has been cumulatively EUR110 million, it has had an impact on our cash flow from operations.

Capital expenditure in Q3 was EUR11 million and cumulatively, it has been EUR29 million. Depreciation in this quarter was EUR14 million and since the beginning of the year, EUR46 million. So, our CapEx is lower than our depreciation.

A good indicator for the net working capital development is the order received development on a rolling 12 months basis. So, historically, networking capital has been on average, minus 9% of the rolling 12 months orders received and at the end of our Q3, it was minus 10% of the rolling 12 months orders received.

And actually this graph is quite well showing that how the net working capital has changed year on year. So, last year, when we were very successful on getting orders during the first half of the year, so the networking capital change year-on-year on was EUR103 million positive. And now, when the orders received level is lower than a year ago, the change has been negative. So, we have been funding that difference.

At the end of Q3, we had cash and cash equivalence EUR170 million. Our gross debt was EUR399 million and net debt was positive EUR229 million. It's turned into the gearing of 28%. Our equity at the end of the Q3 was EUR850 million which turns into the equity ratio of 35. So that was at the same level as it was in Q2 2015.

Capital employed at the end of the Q3 was EUR1.2 billion and return on capital employed calculated before taxes and the nonrecurring items on a rolling 12 months basis was 14%. So, this is nicely on the improving trend and our target, financial target is for the return on capital employed is 15%. So, we are not there as of yet but we are moving on to the right direction.

Nonrecurring items during the Q3 were EUR4 million and on cumulatively, we have had all in all EUR16 million out of which 12 million are relating to the acquisition of the automation business.

Our gross debt EUR399 million will be paid by the end of 2025 so we have an evenly splitted maturity structure of our own portfolio and our long-term portfolio consists debts from European Investment Bank, SEB, Swedish Export Kredit and the Nordic Investment Bank. And in addition to that, we have back-up facilities, 200 million revolving credit facility. It has not grown at the end of the end of the Q3. And then we have EUR200 million domestic commercial paper program out of which EUR10 million was outstanding at the end of the Q3. The average maturity of our long-term loan portfolio at the end of Q3 was 3.6 years and the average interest rate was 1.4%.

So, Pasi?

Pasi Laine - Valmet Corporation - President, CEO

So, if I continue with the guidance and short-term market outlook. So, we have kept our guidance like it has been, Valmet estimates that including the acquisition of Process Automation Systems, net sales in 2015 will increase in comparison with 2014 and EBITA before nonrecurring items in 2015 will increase in comparison with 2014. So, we are not changing our guidance and it stay -- it stays like it has been.

Then short-term market outlook, in services, we see that the market is satisfactory like it has been the whole year. In Automation, it's satisfactory like it has been the three quarters we have had Automation in our business. Then Pulp -- or two quarters, we had it in our business.

Pulp and Energy, we are saying that the Pulp activity continues to be good. So, there has been two decisions in quarter three. The other one we lost, the other one we won and we still see that there are activities in Pulp industry and that's why we still keep Pulp as good.

And in Energy, the same situation continues. The energy, per electricity prices are quite low especially in Europe. CO2 prices have been increasing a little bit but not very much and that all keeps boiler type of energy investments still at the weak level.

Board and Paper, we are changing from good to satisfactory and we have reasonably good workload. We have sales activity but it seems that decision willingness of customers or decision capability of the customers is such that many projects what we are negotiating will be delayed. And that's why we are now changing the market outlook to satisfactory. So we don't see that we have less activity but we see that it takes longer time for our customers to make the decisions. And Tissue, we continue to say that the market is satisfactory in our terms.

So, this is the market -- short-term market outlook.

And as a summary, I can say, in Valmet in third quarter, orders received and net sales increased in stable business which is our strategic goal as well. Our orders received and net sales increased in capital business as well. Our backlog is 2.1 billion which is at the good level so we can take more orders but we have enough workload as well.

We have good development and profitability so we will target these trends and EBITA percentage was 6.4%. And like Markku said, gearing is EUR28 million and cash flow has been EUR16 million and Markku explained the reasons behind that.

QUESTIONS AND ANSWERS

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Thank you, Pasi and Markku. Now, it's time for questions. We will start from here Keilasatama.

Elina Riutta - Evli Bank - Analyst

Hello. Elina Riutta from Evli Bank. First, on what you said on the board and paper that it takes more time to negotiate that, which regions are the prospects in and where are the delays taking place?

Pasi Laine - Valmet Corporation - President, CEO

There are in all, all regions. So, earlier, Paper and Pulp business was more such that it was mainly in China. So, 80% was in China. Last years, actually the market has been so but it's quite evenly split between China, Asia Pacific, Europe and North America. We have activity in all these regions and investment decisions in all the regions have been delayed in the same way.

Elina Riutta - Evli Bank - Analyst

And then --

Pasi Laine - Valmet Corporation - President, CEO

And if I would take -- one exception of that is that maybe the countries which are close to China have more tendency for dealers because those countries which have a lot of export to China. So, maybe there is more -- more than the other but others at the same level.

Elina Riutta - Evli Bank - Analyst

And then about the comment on services in North America having declined, what do you expect they are going forward and can you talk a bit about what you're seeing in the market now?



Pasi Laine - Valmet Corporation - President, CEO

I think it's partly coming from market and partly, it's coming from our internal issues and we had been very successful now in capital business in North America and we have partly the same people working with capital and service. And then capital market is very active and the attention goes there and it's a little bit of away from services. So, I see part that is coming from our internal issues and we can -- we can influence on those.

Elina Riutta - Evli Bank - Analyst

And then finally, one more question on the Pulp and Energy deliveries or sales which have been quite stable this year, what do you expect for Q4. Is there going to be a kind of similar delivery spike that we saw last year or what's the kind of profile there?

Pasi Laine - Valmet Corporation - President, CEO

We haven't been guiding on that level on business line levels.

Markku Honkasalo - Valmet Corporation - CFO

And we are not giving guidance for individual quarter either but the POCings are not always taking evenly placed on each quarter.

Elina Riutta - Evli Bank - Analyst

Thank you.

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Thank you, Elina. Good questions. Do we have more questions from Keilasatama? If not then we can continue with the international questions.

Operator

(Operator instructions). Your first question comes from Manu Rimpela from Nordea. Please go ahead.

Manu Rimpela - Nordea - Analyst

Good afternoon. Can you hear me?

Pasi Laine - Valmet Corporation - President, CEO

Yes, we can hear you.

Manu Rimpela - Nordea - Analyst

Okay. My first question would be on the workload you mentioned in energies maybe a bit less than you would have been hoping for. So, do you see that you had the cost base in a good shape and are you -- the measures you've been already announcing, are those enough or do you see that you need to start taking more measures in order to deal with the lower activities?



Pasi Laine - Valmet Corporation - President, CEO

Yes, we can use the people also. So there was -- our energy experts, we can use also for our part of our Pulp offering. So, of course, we are cross utilizing the people so that will give us possibility. Then we have, of course, outsourced and we have outsourced -- we are using outsourced engineers and production all the time. So, of course, we can reduce the amount of outsourcing.

And then -- then, of course, there are other ways to be flexible in Finland as well. But we are not that far with the situation yet that we would have any plans.

Manu Rimpela - Nordea - Analyst

Okay. Thank you. And then maybe another question on the North American service. Do you feel that you are able to respond quickly enough with what it seems to be two little people in the organization and that you have to deal with the kind of a good market conditions or do you see that you could be lack in the market for still some time for services?

Pasi Laine - Valmet Corporation - President, CEO

We have started to react already, so I'm sure that our North American team is now very much focused on services, order intake, and they are working everyday already so to reach better results. So, I'm not concerned about that.

Manu Rimpela - Nordea - Analyst

Okay. And finally, could you, maybe, give a bit comment on the seasonality you see for the margins. I mean, we have some history but do you see that there should be a normal seasonality in this year or because we saw Q1 was a weaker quarter but now we had two good quarters and the fourth quarter is normally strong but can you just give some more guidance on the kind of how you see the seasonality?

Pasi Laine - Valmet Corporation - President, CEO

So, I don't know if you asked about order intake or net sales but in Services, we usually -- in the normal year, we have had the situation that 45% of the orders is coming in first half of the year and 45%, 55 in the first and 45 in the second half of the year. And last year was exception.

And so there is, traditionally, that kind of -- that kind of seasonality. Then in services, net sales usually goes little bit the other way around that we get orders in the beginning of the year and we deliver more of them in the later part of the years. So, that's how much we have seasonality in our business.

Manu Rimpela - Nordea - Analyst

And any comments on the seasonality of the margins?

Pasi Laine - Valmet Corporation - President, CEO

I think there is seasonality on the markets. Margins or markets?

Manu Rimpela - Nordea - Analyst

The EBITA margins.



Pasi Laine - Valmet Corporation - President, CEO

Once we have lived many years, then we can calculate the statistics. But in one year, it's too early to say.

Manu Rimpela - Nordea - Analyst

Okay. No further questions. Thank you.

Operator

Thank you. And your next question comes from the line of Antti Suttelin. Please go ahead.

Antti Suttelin - Danske Bank - Analyst

Yes. Thanks. This is Antti. I have a few questions. But starting with a kind of a Valmet big picture question, when I look at your numbers, it seems to me that, you know, Valmet is still in a phase where all money is made with what you call stable business, services and automation. And equipment is hardly making any profit at all. If it's really the case and if there's you can do about this?

Pasi Laine - Valmet Corporation - President, CEO

That was very clever. That's very -- it's clever much. So, I try to answer in good way. So, like we have been saying, we think that all businesses have to be businesses. So, we don't accept that we lose money in our capital business and then we think that later on, we gain the money back in our services. So, basic thinking is that all the businesses have to be businesses and that's what we have been saying early on as well.

And then to the other question, of course, we still have room for improvement in our profitability and we are saying that the target is between six to nine and now we are at 5.8 and we are not saying that to reach the targets, we have to have increased volumes. And of course, it means that we still see that we have profit improvement potential in our stable businesses but also in our capital business.

Antti Suttelin - Danske Bank - Analyst

I'm not really trying anything. I'm just thinking about the -- what we should project for the future. Do you think that, you know, you could make something like -- let's say, you think you could make 5% EBITA margin on your equipment. Is that realistic for the future?

Pasi Laine - Valmet Corporation - President, CEO

But now you make me to answer that. It's not 5%. No. So, I'm not telling exact numbers but we have possibility to improve our profitability of our capital business. And like we have been saying, there are many ways, of course, the first is that you try to price products as well as possible. And in real terms we are competing with our friends and then usually the price is market price but then you have your own costs so you can do more cost effective designs like I was showing again the example of OptiConcept M then you can work -- your procurement costs like we are working, you can work with your quality costs and you can -- you can, of course, work with your engineering cost at how quick you'll start up your machines.

And we all -- we still have room for improvement in all those aspects to improve the profitability of our -- our capital businesses.

Antti Suttelin - *Danske Bank - Analyst*

Okay. And looking at that your two cost side programs, quality cost and procurement cost cutting, do you see that there is still room to improve this in 2016 or do you start to be pretty much done with your targets already.

Pasi Laine - *Valmet Corporation - President, CEO*

We still have room to improve our quality costs and decrease -- decrease our quality costs. It's a little bit same kind of trend and what I showed in this LTIF that it takes years to reduce it. It's not something where you can suddenly reduce it by a lot. So, it takes years to work with the qualities used and improve or reduce the quality cost.

And first we started to measure the quality and then had some impact on that. Now, we are introducing more and more lean programs in different parts of the organization to continue with the -- with the quality improvements.

And in procurement, it's so that we started first -- I'm not saying easy ones but most straight forward ones with category management. And now the procurement savings are more going to - design to cost type of actions that we have to redesign products so that they are more cost competitive to produce or to procure. So, the tools are changing but the targets stay as they have been.

Markku Honkasalo - *Valmet Corporation - CFO*

And then just --

Antti Suttelin - *Danske Bank - Analyst*

Yes. But you have the 10% target. My question is if there is still room less for next year to what's been target or are you pretty much done that?

Pasi Laine - *Valmet Corporation - President, CEO*

Yes, there is still room on both.

Markku Honkasalo - *Valmet Corporation - CFO*

So, can I -- just a little bit one comment for this one. If you remember that in our Capital Markets Day, we actually -- we introduced this details of this program so this is our three-year program. First year was 2014. This is the second year and then we have third year, 2016.

So, to answer your question, yes, we can -- we still obtain something out of these programs.

Antti Suttelin - *Danske Bank - Analyst*

All right. And then finally, on the Board business, can you say how much of your total Paper segment order intake for this year, nine-month, has been from -- from Board? If you assume that this business goes to zero, how much will it take?

Pasi Laine - *Valmet Corporation - President, CEO*

Board business. We talked the share of board business in capital market day as for last year but we haven't told it for whole year. We have to think about it if in the fourth quarter we would -- we would announce it. But now I don't have the figures in my head or I have but I don't want to tell them because we haven't published them out.

But what was your continuation about paper?

Antti Suttelin - *Danske Bank - Analyst*

Yes. No, the question was just that you took down the outlook for the paper segment and I might think that it's because of the board business. So, I was just thinking whether how much it would be if the board business goes to zero in order intake?

Pasi Laine - *Valmet Corporation - President, CEO*

I can't see the future so that Board business would go to zero and I think it's -- this year, we have been selling board machines and next year, we will be selling board machines as well and the market continues, we just took the market outlook from good to satisfactory so it was not very dramatic change. So, we didn't change it to weak. So, it's -- I don't see that the change is somehow dramatic.

Antti Suttelin - *Danske Bank - Analyst*

Yes. All right. That's all. Thanks a lot.

Operator

Thank you. Your next question comes from the line of Tom Skogman from SEB. Please go ahead.

Tom Skogman - *SHB - Analyst*

All right. Thank you. I have a couple of question. I was thinking it's best that I take them one by one.

And first of all, I mean, it's obvious that Valmet has the lowest EBITA sales multiple in Nordic engineering and to me it's very obvious that you have nothing to lose from publishing the profitability of your stable business. I don't understand why you wouldn't do that given this valuation and given that the profitability level is also not kind of, you know, best in class in service either. So, can we expect the change eventually or what are your arguments for keeping this or publishing numbers?

Pasi Laine - *Valmet Corporation - President, CEO*

We have one reporting segment and that's -- that has been the decision and then we are not publishing the profitability of different business lines separately.

There are many reasons. One is that if we open too much, then it's too easy for our friends from Germany and Austria to fight with us in capital business because then they could -- it would be easy for them to actually calculate our cost level in our capital business. So, that would harm us immediately in our capital business.

Then the other reason is that that you have a lot of allocations between the business lines and it's a little bit management decision that how much you show profit on services and how much you show profit on capital. So, you wouldn't be able to compare our figures to anybody else's figures because you don't know how they have allocated the costs and you wouldn't know it that from us either.

So, then you would be comparing something to something which you can't compare. So, we see that Valmet is one reporting segment and because of these two reasons, we don't have any plans to open the profitability of our stable businesses.

Tom Skogman - SHB - Analyst

So, if I just continue on that subject, how is it then when people working, for instance, in your service or equipment business, do they know themselves exactly the profitability level they have? If you don't know how to allocate the costs because typically, a good rate in improved performance is just the improved transparency internally. So, you got only two or three people at the top in the company that knows anything about the profitability?

Pasi Laine - Valmet Corporation - President, CEO

Of course they know but we wouldn't be opening to outside world how much, for example, from the products and overheads we would be allocating for -- allocating for service and how much for an R&D we allocate into service, so that kind of things. Of course, internally, we measure profitability to quite detailed level.

Tom Skogman - SHB - Analyst

All right. So, now we have a normalized networking capital to sales ratio to my understanding and given that, what is optimal balance sheet structure, I cannot recall that you have any -- any kind of official targets for that but I think it would really valuable for us to understand how you think, is the best thing to have a zero debt position or can you -- how would be those debt, you know, over the years, so what is the best level?

Markku Honkasalo - Valmet Corporation - CFO

Okay. Yes. So, to answer your question, so it's true that they don't have any -- any target when it comes to the balance sheet structure but if you look at the situation against our dear competitors, so I mean, they have a negative gearing. And in this business, when you are selling lots of projects, so it's important that you have a strong balance sheet position. So I don't have the right answer to that what it's the right one, but I mean, at least now, we are concentrating on reducing our gearing closer to the -- to the level where we have been earlier on. But I don't have the right answer for you.

Tom Skogman - SHB - Analyst

And then with this in mind, what is your appetite for acquisitions? You have -- if we look the last 10 years, you have, you know, if you forget about this Automation, you know, re-addition to the portfolio, then it's -- to my -- what I remember, it's only Aker-kvaerner and Tamfelt the other two main acquisitions the last 10 years and how do you see it? You know, where would you like to strengthen if you want to allocate more into that.

Pasi Laine - Valmet Corporation - President, CEO

So when we started then we were saying that we are not focusing on acquisitions but then we were focusing on acquisition and then bought Automation business because it was for sale and it was, of course, very obvious acquisition target for us.

We are currently not actively on acquisition market. We focus on improving the business what we have -- we focus on integrating Automation. It's a quite big acquisition for us to acquire business with EUR340 million and having 1,600 people and I think it still takes time for us to take out all the advantages of that acquisition. So, that's the main focus currently of the management.

And then, of course, we do small ones like now we were strengthening our tissue business and bought a small -- from our perspective, small business in Italy to extend offering to rewinders in tissue as well. So, of course, that kind of small to medium size acquisitions we are, all the time, looking at.



Tom Skogman - SHB - Analyst

And CapEx ahead will be in the range of EUR40 million to EUR50 million annually?

Markku Honkasalo - Valmet Corporation - CFO

That will be -- that will be the normalized level going -- going forward.

Tom Skogman - SHB - Analyst

And then my final question is that a lot of companies disclose how the order book margin is developing and to my understanding, you have less EPC and more kind of high value added equipment and more automation, obviously, than a year ago. So, the order book margin must be trending upwards. But the order book is, of course, not, you know, growing at the moment. So, could you comment, you know, just about the -- how you see -- do you need to scale down overhead cost for next year or just, you know, happy to see that the order book margin is improving so much that you don't need to scale down on overhead cost for next year given this?

Pasi Laine - Valmet Corporation - President, CEO

I think we have now -- of course, we can never say optimum -- optimum SG&A structure but you cannot expect any big moves on that respect, not to increase it and not to decrease it either. Of course in today's situation, it's difficult to totally follow it up because the currencies are changing so much. So, actually let's see how next year develops, what may be the currency changes in SG&A can be bigger than what real constant currency changes. Roughly we continue with the same organization what we have today.

Tom Skogman - SHB - Analyst

So, you're, you know, we don't know what happens to orders in Q4 as of today but it looks like, you know, that -- that organically, the order book will be down but the SG&A are up. And then they have a better margin in the order book. That's how we should look at next year as it looks now?

Pasi Laine - Valmet Corporation - President, CEO

No. It's a little bit too early to give a guidance for next year. So, let's -- let's come back to it in the first quarter 2016.

Tom Skogman - SHB - Analyst

Thank you.

Operator

Thank you. And your next question comes from the line of Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason - Kepler Cheuvreux - Analyst

Yes, hi. This is Johan at Kepler Cheuvreux. I hope you can hear me well. I have a question regarding Pulp. Your short term market outlook remains positive, I think is that or good, that's the word you used. Now, I guess, part of that relates to Latin America. Brazil is specifically whether Pulp makers are making a lot of money these days.



Now, we have heard about that potentially Eldorado will sort of require Fibria, what would that do to your outlook for the Pulp business going forward, if there's a consolidation among the Pulp producers in Brazil? What do you think?

Pasi Laine - Valmet Corporation - President, CEO

I can't speculate on that rumor at all. So, but of course there has been consolidation in the industry last year and there continues to be consolidation and then some newcomers as well like Eldorado has been a newcomer. But in long term, it doesn't have any impact to the demand of pulp mills because the demand of pulp is increasing and then, of course, somebody has to build the pulp mill and it's more of a question of who is building it and this consolidation doesn't have any impact from our perspective.

Johan Eliason - Kepler Cheuvreux - Analyst

Not a very longer term, I guess. But in the shorter term, I guess, those have plans to invest in a mill each. And obviously, if they merged, they might decide to only invest in one of those, obviously.

Pasi Laine - Valmet Corporation - President, CEO

Yes. Yes. And the other one actually has started the investment already and the other one, I don't know. But the big picture in the market will not be changed if there's some consolidation.

Johan Eliason - Kepler Cheuvreux - Analyst

Okay. Good. Thank you very much.

Pasi Laine - Valmet Corporation - President, CEO

Thank you.

Operator

... there's no questions.

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Do we have further questions from Keilasatama? If not, then I'd like to remind our upcoming site visits. It will be to Tampere even though it's in November, I would highly recommend you to participate that site visit. You're going to learn more about Automation there.

And we will meet in February 9 where we will publish the financial statements review for 2015. Thank you for your active participation.



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