Transcription

Valmet Q2 2022 / Interim report

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PRESENTATION

Pekka Rouhiainen

Good afternoon ladies and gentlemen, and welcome to Valmet's second quarter 2022 results publication webcast. The highlight of this quarter was the fact that Flow Control – the former Neles – was now fully part of Valmet during the quarter. My name is Pekka Rouhiainen, and I'm the head of Investor Relations here at Valmet, and the presenter today will be Pasi Laine, President and CEO of Valmet. And after the presentation there will be a chance to ask questions over the phone lines. But Pasi, please go ahead.

Pasi Laine

Thank you Pekka. Welcome. Our headline today is that orders received increased to 1.3 billion and comparable EBITA to 122 million in the second quarter. I will go first through quarter two in brief, then some words about the segment of business lines, then some words about Flow Control's integration into Valmet, then CFO appointment, financial development, some words about Valmet's way forward, and then guidance and short-term market outlook. And then Pekka will join me in the question and answers session.

First, quarter two in brief. So, like said, orders received increased to 1.3 billion. Net sales was almost 1.3 billion at 1.29 billion. Backlog ended up being 4.78 billion and comparable EBITA increased 122 million and margin was 9.5%. And gearing in the end of the period was 22%.

And here the numbers and some charts as well. Like you see here, we employed last year about or in the end of the quarter 17,670 people. So, we have been of course growing because of Neles merger. In net sales, about 46% came from process technologies, 31% came from services, and 23% from automation. Geographically, Europe continued to be the biggest one – 36% – North America the second one, and thereafter, China, South America and Asia-Pacific. So, quite good contribution now from all the areas as well.

Orders received in the quarter increased to 1.3 billion, and here you see the graphs which are showing that the 12-month cumulative curve is a little bit less than 5 billion currently. Orders received in the first half of the year have been such that the Europe, Middle East, and Africa has contributed 43%, North America, 22% China, the third one, Asia-Pacific the fourth, and the smallest area has been South America.

Stable business: orders received totaled to 2.3 billion and this is the big development that has taken place in Valmet over the years. So, when we started our services, order intake in 2014 was about 1 billion. Then we acquired automation, continued to grow both automation systems and then services and now we have first quarter when we have included Flow Control's [ph 00:03:44] for one quarter and the order intake now – so Flow Control's is only one quarter and not LTM in this figure, and the order intake is 2.3 billion, and this is of course a big development in Valmet and has changed the company considerably.

Backlog ended up being almost 4.8 billion. It's the biggest backlog we have reported. Of course, Flow Control has an impact there as well, but as we were saying, 65% of the backlog is coming from process technologies, 20% from services and 15% from automation. We are saying now also that 50% of the backlog is expected to be realized as net sales during 2022. Last year, the similar figure was 45% and then of course the number was small as well, but 50% of the current backlog is expected to be recognized as net sales.

Then some words about the segments and business lines. First, Services. So, orders received increased in the first half to 911 million, and that's of course big increase. It grew from 752 million to 911 million, so good growth. Net sales has been growing from 625 million to 720 million, then EBITA has been growing from 83 million to 88 million. But we still have a situation that the EBITA margin for services is lower than a year ago. A year ago it was 13.3% and now it has been for the first half of the year 12.2%. For the quarterly numbers I'll come back later, but good development in services, in order intake, in net sales and for the quarter in profitability as well.

And what is important is that the orders received has increased in all geographical areas and all business units as well. So, strong performance of the total units.

In the automation segment orders received to 452 million in the first half of the year and here of course, the big delta is Flow Control where I come back later on. Last year our order intake was 239 million and now it has been 452 million. Net sales has been growing 161 million to 380 million. And profitability; so comparable EBITA a year ago in automation and then autosystems was 20 million. And now in the first half of the year segment EBITA has been 60 million.

And what's of course nice is that last year our profitability in the segment was 12.6% and now it has improved 15.5%. So, good development in the automation segment as well.

Flow Control's first quarter as part of Valmet, and a strong start. So, last year order intake was in former Neles 151 million and now second quarter order intake was 198 million. So, good growth. Net sales has been developing favorably as well from 146 million to 177 million. So, all in all, Flow Control has been performing like we have expected, so nothing material to any direction. So, it's a good organization, good products, good customers and a good business, and it has been performing like we expected during the planning phase of the merger.

Then, the Systems business: order intake has been growing in the first half from 239 million to 253 million. Net sales has been developing from 161 million to 203 million. Here, like I'll come back later on the quarterly numbers in the financial segment. We can be happy of the total growth, it's 6%, but the second quarter was not as strong as maybe we would have wished. But all in all, good development still in the automation systems business as well.

Then in process technologies, orders received decreased to 1.268 billion. Last year It was about almost 300 million more. But that's normal. So, the order intake level in first half of the year has been good. Net sales grew from 1.15 billion to 1.146 billion. Comparable EBITA last year was 84 million; now 71 million. So our profitability has dropped in this segment from 8.2% to 6.2%, and of course we are not happy with that. And mainly the development is caused by some margin erosion in some of the pulp and energy projects, like I think I was saying last time as well that there we have inflation pressures touching our business and that has been now materializing also in the second quarter of the year.

Pulp and Energy business line. Order intake was 581 million – smaller than a year ago, but at a healthy level. The big difference here is now that now energy has been increasing and the pulp side has been decreasing. So, last year, services or energy order intake was lower than pulp. This year actually energy has been increasing more and pulp has been decreasing. So there is a change in the mix of the order intake, but 581 million is a reasonable order intake for the business line.

Net sales has been developing favorably, so from 463 million to 542 million in first segment.

Then Paper business line, last year was a very good year in order intake, this year was a good year. So 688 million in the first half is a very strong order intake level. Net sales has been developing favorably as well from 552 million to 604 million, and one of course has to remember here that our paper business line has manufacturing in China where the lockdown was affecting and then we had also the fire in Rautpohja, so despite all these challenges, and the Ukrainian war on top of that. So, despite all these challenges, the paper business was able to continue on growth mode in net sales, so well done by Jari and Jari's team.

Then some words about the war in Ukraine. So, like we have been saying that direct impacts to Valmet are limited. So we had about 140 people working in Russia. Currently we have about 80 people and then they are working primarily in sales, engineering, maintenance, finance and administration. We don't have any production in Russia. Last year, about 2% of the net sales came from Russia. We have now reversed about 80 million of order backlog in H1/2022. And then we have roughly made 20 million expenses related to withdraw from Russia in the first half of the year, and they are booked as items affecting comparability.

So, we have still a small backlog, which we believe that we can deliver or have to deliver, and our best understanding is now that the expenses we have booked are the correct ones to close our businesses in Russia. And like we have communicated, we will withdraw the business from Russia completely, but it will take some time to work in a manner that we are not causing any risk to any persons.

And then of course the biggest impact that we have from the war in Ukraine is the cost inflation, which we discussed in the last quarterly call as well.

Noh, then some words about the integration of Flow Control into Valmet. So, in the case of proceeding, it's proceeding according to plan. So, we knew the company and they know us so there are no major surprises to anybody. Maybe our style to manage business is different than Flow Control is used to but nothing very big change there.

We have now started to market the whole offering to our technology customers to sell the technology services, automation, with system and with flow controls and then later on we start to see the synergies and revenue potential materialize. But of course it will take some time. We have started some cost synergy actions in the second quarter. We still confirm the earlier statement that we expect to have about 25 million annual run rate synergies, out of which about 60% is achieved by 2023 and 90% by end of 2024. So, we will continue to work on this topic after summer vacations.

Then, Neles merger had of course a big impact to our balance sheet. It looks quite different than earlier, like you will see in later graphs as well. So, the total merger consideration was 1.476 billion. And that's based on the share price Valmet had at the end of March. And then I think it's – thinking about the performance of Flow Control currently, I think it's correctly valued.

Then out of the purchase, we got goodwill more and the goodwill increased to about 879 million and other intangible assets by 860 million. And this means that there will be bigger amortizations in the coming quarters. And now we are saying that about 24 million per quarter until quarter one in 2023, so next year, and thereafter about 9 million a quarter for several years. So, this is to help you model the amortization in your calculations. Then the total balance sheet increased to 6.48 billion, and that's of course a big increase compared to the earlier one about a little bit more than 2 billion. Total equity has increased, and Valmet's equity per share has increased as well, so Valmet looks now, from a balance sheet point of view, different after the merger with Neles.

Then, today's news is that, after a very thorough selection process in our CFO, we have selected Katri Hokkanen as the new CFO and she will start 1st of August in the role. Like you know, she is now also the Intermediate CFO. We searched external, internal candidates, had a lot of interviews, and then decided in the end that Katri is the best person to continue the CFO function further. She has a long carrier in Valmet, has been working the whole working life in Valmet in very different roles. So, she was running our area financial organization Asia-Pacific for example. And last year she has been a business control [ph 00:17:23] in Pulp and Energy.

So, she knows paper, she knows service, she knows pulp and energy business. So, she has a very good background and understanding of our business. And that's of course the strength of her then, and we are very happy, of course, to have new blood in the management team and of course we are all very happy that diversity in our management team, age-wise and gender-wise, is improving as well. So, Katri is listening to the call, but we have agreed that she can take the well-deserved break which she had booked many, many months earlier and she's not now presenting the results here with me, but next time you will see Katri in person in this presentation. So, welcome Katri to the management team

Then some words about the financial development. I go through, I discussed some of the quarterly numbers already, so orders received, backlog, net sales and comparable EBITA and the comparable EBITA of net sales. Then the EBITA is bigger than the comparable EBITA, and the explanation is that when we did the merger with Neles, we booked a 59 million gain from the shares we owned earlier, and that's something you have to understand. Then that's netted with the expenses which we have to book when we are withdrawing from Russia. And the delta is now the one what we are showing here. 59 and then 20 and the delta is positive. It might be that you would have expected that we book here a negative figure. But this is IFRS accounting rules, and that's how it goes.

Then, the other new thing here is that we have added an adjusted earnings per share KPI here so that you can follow our adjusted earnings per share without acquisitions. So, we have calculated everything else except then the amortization which is coming from the business mergers and acquisitions, and that should be helping you now to understand the company better when our goodwill and PPA amortization is increasing compared to the earlier years.

So, then I'll go through the cumulative numbers still. So, 2.6 billion, 4% growth compared to last year. Backlog is now 19% higher. Net sales has been increasing by 25%. So, 2.2 billion. Comparable EBITA 202 million, 15% increase, comparable EBITA percentage is 9%. Last year 9.7%. Of course, we are not happy with that, but we try to work on that topic. Then cash flow is 65 million negative. And I'll come back later on that one. And gearing now after the merger is 22% including the lease liabilities. So, all in all, strong first half also from figure perspective for Valmet.

Then some words about the about the segment figures. Services had a good order intake in the second quarter for around 60 million, 24% growth compared to last year. Automation segment of course has big figure growth because of the Flow Control. And process technologies, -27% compared to last year. All in all, 1.3 billion in order intake in the quarter.

In net sales, services was growing by 20% compared to last year. Automation, of course, as a segment grew over 100%, and process technologies grew also by 15%. So, totally, 36% growth in net sales. Comparable EBITA in services improved by 10 million and by 22%, and that's of course good performance by services. Automation had good quarter, 50 million EBITA in a quarter. Process technologies had 10 million less than a year ago, and the reason I explained already, and then the other having the head office and everything. So there 15 million is more than it should be on a normal basis. There are some differences in the timing of some of the costs, and of course there are some other extra costs here, but we have to be now very careful with the head office function and head office costs, so this 15 million is a little bit too much. But all in all, we made 122 million.

Comparable EBITA margin for services was 14.2%, and that's of course a good achievement. So, it was better than a year ago, and like you remember, our first quarter was not very good so I'm very happy that services and areas were able to turn the profitability to the decent level so quickly. Automation, strong 17%, and process technologies, not that strong, 5.2%. So, 2.7% down compared to last year.

So, these are the segment figures for the quarter and the half year figures I explained already.

So gross profit, 24% and we of course still have work to do to make sure that the gross profit continues to develop favorably. Then in SG&A the growth is bigger than it should be. Part of that is coming from Flow Control's which increased the SG&A by 55 million and then the legacy Valmet SG&A has been growing as well and there we have to be very careful now that we manage the SG&A costs carefully and at the same time push the gross margin up, and then we should be again on the path where we would like to be.

And why I said that was that, of course, here the historically nice curve is not trending in the correct direction. So, the LTM is now at 10.4% and last year we ended up at 10.9%, and of course our target is to get as soon as possible between 12% to 14% and currently the trend is not going in the right direction, and we have to continue to work on that topic in the coming quarters and years as well to reach the target that we have set to ourselves.

Then cash flow, like I said, was not good. So cash flow provided by operating activities was -85 million in second quarter. Our inventories have increased and then the net working capital in the project business has increased, and then Flow Control has added net working capital as well. So, currently we trade somewhere close to 6% of the rolling 12 months order intake. At best, if we could say, it was at 12% and 14%, and then we were saying in 2020 and 2021 that we have more money than we should have, and now it's going in the other direction. But of course, we continue to work on this topic.

We haven't seen any big changes in the contract terms and payment terms in our contracts. But then one fact is that now when the delivery times are longer, we have to order things earlier than we used to, so it has a negative impact and then then of course Flow Control has an impact on net working capital as well. But these two topics – net working capital and cash flow – are things where we will be focusing on in the latter part of the year.

Now, net debt has now increased, so now we have 510 million net debt and gearing is at 22% and, like I said, our equity and total assets have increased considerably as well, and that comes at the next page where you see that the capital employed, what we have now due to the merger, has increased from 1.8 billion to 3.2 billion, and now our return on capital employed, comparable return of capital employed, is 16%. Our target is to be over 15% so we are at targeted range, but because of the merger, the comparable ROCE has dropped compared to earlier times.

Earnings per share is developing favorably, when we calculate the adjusted EPS for 2021 and 2022 and then of course if that would be just EPS then it wouldn't be as good as this graph shows.

Then some words about the strategy. So, we have fine-tuned our strategy being such that – first of all – mission we kept the same. So, converting renewable resources into sustainable results. And that's still the mission we have. In strategy, we developed it such that we say that we develop and supply competitive and reliable process technology, services and automation in the pulp, paper and energy industries. So, there we work with the whole triangle.

Then we say that the automation business covers a wide base of global process industries. So, we have an offering by which we can serve others and pulp, paper and energy industries. And then we are saying that we are committed to moving customers' performance forward with our unique offering and way to serve. So, the change is that automation is now as a segment working with a wide range of industries.

We continue with the same continuous improvement in renewal topics, we continue with business accelerators and in vision, we have modified it a little bit when now we say that our vision is to become the global champion in serving our customers and in moving the industries forward.

We have aligned the financial targets with the reporting structure. So, now we are saying that the services and automation segment should grow over two times of the market growth and net sales for the process technology segment to exceed market growth. This is semantic, but now it's according to segments what we are saying.

Profitability targets are, as said, between 12% to 14%. Comparable return on capital employed at least 15%. And dividend policy continues to be like earlier: dividend payout at least 50% of the net profit. So, still guidance and short-term market outlook, so, we have kept the guidance intact. Valmet estimates that including the merger with Neles net sales in 2022, we will increase in comparison with 2021 and comparable EBITA in 2022 will increase in comparison with 2021.

In Services, we keep the market outlook, good. Automation, Flow Control, good. Automation Systems, good. Then in pulp, we are saying good to satisfactory, and this is coming from the fact that in some of the units in pulp, we have a little bit of a worse workload situation. In some we have very good, in some not that good. And that's why we are saying good to satisfactory. In energy, we have increased the outlook from satisfactory to good. In board and paper, we continue with good. And in tissue with satisfactory.

Good. So, sorry it took too long, I know, but we had many topics to cover. So, now it's your time to make questions and Pekka comes here to help me with answers.

Pekka Rouhiainen

All right. Thanks, Pasi, and let's move on to the questions. So, Operator, I hand over to you.

Q&A

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name has been announced, you can ask your question. If you find it's answered before it's your turn to speak, you can dial 02 to cancel. So, once again that's 01 to ask a question or 02 to cancel.

Our first question comes from Antti Kansanen of SEB. Please go ahead. Your line is open.

Antti Kansanen

Thank you. Hi, Pasi and Pekka. A few questions from me. First on the outlook and the downgrade on the pulp side. Did I understand correctly that it refers only to the workflow situation? And perhaps can you talk a little bit more broadly what do you see regarding your customer discussions regarding them investing, taking into account the macro uncertainties and things that we've lately seen.

Pasi Laine

Yea, so, we have some units which are overload in Pulp and Energy, and some which don't have very good workload. And that's why we have downgraded. And then it goes also that for that unit, where we don't have very good workload, the market outlook is not that good either. And then for the rest, the market outlook is better.

Customer activity in small to medium sized -projects: for most of the business units it's good, but for one it's not that good, and customers are still planning small to medium -sized projects. And then in the long run, of course, new capacity investments as well.

Antti Kansanen

Is it possible to specify where the workload and outlook is? Maybe not as good as in the other businesses?

Pasi Laine

Pardon? Can you repeat?

Antti Kansanen

Yeah, sorry, so is it possible to specify the business where the workload and outlook situation has worsened within pulp?

Pasi Laine

No, but I can be a little bit more specific. It's one out of four.

Antti Kansanen

Okay, and then secondly on the kind of the process technology profitability, it seems to be quite isolated on the pulp and energy side. So, is it such that – is it very broad-based or can you pinpoint it to a number of larger projects and kind of is it possible to think about how long these processes will run? Obviously, trying to get how long are we living with this mismatch of prices and cost levels. So, I'm assuming that the new orders that you are taking in are more in line with the cost levels that you're seeing.

Pasi Laine

Yeah, it's a small number, and some of them are bigger ones and some are smaller ones where the costs have been overrunning, but like you said, it's in pulp and energy a limited amount. And then how long it will take to overcome then? Of course, it depends on the pocking [? 00:34:58] speed. So, I can't say exactly, even if I know how long will it take, but I can't explain it too much in detail.

And then of course like you said in all the orders what we are now negotiating, then of course we are taking all the inflation and more inflation as well into account when pricing the project. But this goes pretty much in the way what we tried to communicate in quarter one. I hope that we were clear on that then that we will have challenges with some pulp and energy projects.

Antti Kansanen

Yeah, absolutely. I think it was very much in line what you said. Then lastly from me on the services side and there kind of the margin development showed quite good improvement from Q1 and obviously order growth was strong considering last year's Q2 was already good. So, the price realization I assume is quite good there and now you're already kind of seeing the impact of price hikes that you have made. Or is there something else that is also driving kind of the growth and profitability in that division?

Pasi Laine

Yeah, so our services team and areas worked very hard in turning the profitability because it was not so nice to explain to all of you that we all knew that there has been inflation, and we haven't been fast enough in increasing our prices and our organization has worked very well on that topic, so I'm happy with that. And I'm sure that now we know better how to live in an inflationary environment than half a year ago.

Then about the growth, I don't have a number. It's so complex that I don't even have the numbers to tell what the impact is, but one is of course coming – one component of the growth is coming from price increases. Then one is coming from good demand, demand because of the good operational rates of customers, and then because of a little bit pent-up demand during the COVID times. And then there is a third component which I want to be specific about that there is that component that customers are now ordering the services earlier than they used to, because all of us have learned that there are longer delivery times, and of course our customers understand it as well. And then if there is a service that they have been earlier ordering four months before they need it now, they might be ordering it six months or eight months earlier. So, there is that kind of phenomenon happening as well.

Antti Kansanen

All right, that's very clear, thank you.

Operator

Thank you. Our next question comes from the line of Panu Laitinmäki of Danske Bank. Please go ahead. Your line is open.

Panu Laitinmäki

Thank you, I have two questions, just to follow up on the process technology margin. So, I mean, can you give any indication what will the level of margins be going forward from 5.2%? Do you see like further pressure in the second half, given the problem projects that you have? Or is this kind of improving?

And then the second question on the energy outlook. It was upgraded. So where is it coming from? And what are you seeing in the market? Thanks.

Pasi Laine

Yea. Unluckily I can't give a good guidance for process technology margin, but of course we work hard on that topic. So, I can't give a good guidance on that, but we know that there's a problem and then we are working on the topic.

Then in energy, it has been active in Europe mainly, a little bit in Asia as well, but mainly in Europe and I think it – so order intake has been good and then we have also a good pipeline and now because of all these energy crises, we are all reading in the newspapers every day, I would assume that the good outlook and demand and discussion with customers for biomass boilers and waste to energy boilers will continue.

Panu Laitinmäki

All right, thanks.

Operator

Thank you. We currently have one further person in the queue. So, just as a reminder to participants, if you do have a question, please dial 01 on your telephone keypads now.

The next person is Sven Weier of UBS. Please go ahead. Your line is open.

Sven Weier

Yeah, thanks. Good afternoon, Pasi. Good afternoon, Pekka. The first one is just to follow up on the service margin. I mean as it was already said, you had quite a remarkable sequential turn around there. I was just wondering, I mean has that exceeded your expectations because you improved almost by 500 basis points? And I was just curious, how did you do that? It's real fast. Is there more to go for? I mean, typically in the second half you have higher service margins than in the first half. So, I'm still a bit impressed by that improvement. So, that is the first one.

Pasi Laine

Maybe one has to first say that we were disappointed with the first quarter service profitability. So then, if you calculate the delta from there, then of course it has to be big because the first quarter was not good. The services team has worked very, very hard on this topic and we from head office – how would I say – we have encouraged them, and I'm of course happy how it has been developing. And I was saying to our team that I don't want to continue to explain to you that our services profitability is not developing favorably and Aki and area heads understood the message. So, thanks for making the pressure to me.

Sven Weier

Okay. I was just wondering also, I mean you have obviously different units within the service business, right? And if I remember correctly, there was one specific area that was falling quite a bit short of your expectations in Q1. Is that really then also responsible for the turnaround then? Or is it basically all these subdivisions and services contributing?

Pasi Laine

I think it's all of them and then I wouldn't say totally 'turn around' because last year our profit was 13.9% and it was four 14.2% now. So, actually we got back to the level where we should be. So, the first quarter was bad, but now we are at the level where we should be. Not to over mark it, actually.

Sven Weier

But you don't foresee such a quick improvement on the process technology side [inaudible 00:42:26].

Pasi Laine

It's difficult. I'm sorry but I can't give too clear guidance on process technology. So, like I said to Panu as well that we work on the topic and we know where the challenges are, but I can't give you any promises how quickly and when, because otherwise I'm guiding too accurately. Sorry for that.

Sven Weier

No worries. And then I was just wondering, I think on the Neles side or the flow [ph 00:42:59] side of the business you had temporary layoffs, and if I remember correctly, this is more of an impact in Q3. I mean, is that a tangible impact or will we not be able to see that?

Pasi Laine

It's a more normal way how to manage the workload. So, seldomly you have that kind of situation that you have all the products and units in full load, and in Finland we have this possibility for temporary layoffs and then when we announced the layoffs we had to tell the total personnel in that unit and we are not allowed to tell how big of a portion of them might be affected, if all of them are one or two days away. That's why the announcement was bigger than the planned action and it’s nothing dramatic. So, I would say that that's normal capacity management where this temporary layoff mechanism in Finland gives good flexibility.

Sven Weier

Understood. And the last one I just had was on the scrubber side of things. I mean of course, there the spreads at the moment are kind of record high, several hundred dollars, and still there is not much activity. What do you reckon the customers are waiting for here?

Pasi Laine

No, we haven't seen the activity yet and that's something I have to check as well that do we start to see it because you are right, now the spreads are big and then there should be more market activity. So, you have a point. But we haven't seen it yet.

Sven Weier

Okay, that's it from my side. Thanks, Pasi.

Pasi Laine

Ok, thank you.

Operator

Thank you. Our next question comes from the line of Johan Eliason of Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliason

Yeah, hi, Pasi. Hi, Pekka. Just a question, follow up on the services side. You said part of the good orders were sort of catch up from last year's lower orders. And if I remember it correctly, it was sort of rebuilds and that sort of stuff that went away during the pandemic. Does this imply now that some of the order recovery you're seeing here, is this a bit lower margin type of services?

Pasi Laine

I would say that the order intake is now quite much normal, like we are saying that all the business units have been increasing the order intake. So, the mix is actually quite much like it has been.

Johan Eliason

Before the pandemic, you mean?

Pasi Laine

Now I'm comparing to last year, and last year the activity. So, it started to be – I would say that it's quite close to the one which was before pandemic as well.

Johan Eliason

Okay. And then you gave this backlog and the delivery this year. Will all of the services and automation orders be delivered this year or are those also some orders that slip into the coming years?

Pasi Laine

Some of the automation and services backlog is going to next year.

Johan Eliason

Okay, okay, good. And then just finally on the margin here.

Pasi Laine

Not slipping, not slipping, they are planned for next year.

Johan Eliason

Yeah, okay. Then on the profitability overall, I mean Kari always used to talk about the seasonality that you will have typically the highest margin in the final quarter, et cetera. You don't see anything that would change that this year despite the issues you have on the process technology side?

Pasi Laine

Yeah, we have seasonality, and we will have this year seasonality as well. Then it's of course difficult to say that how much there will be seasonality. So, first half against the second half. But like you have been following us many years. So there is a seasonality and it continues.

Johan Eliason

Yeah. Excellent, okay. Many thanks and happy summer.

Pasi Laine

Thank you. The same to you.

Operator

Thank you. Our next question comes from the line of Tomi Railo of DNB. Please go ahead, your line is open.

Tomi Railo

Yes, hi, Pasi and Pekka. This is Tomi from DNB. Coming back to these process technologies issues. I just want to get the picture right and confirmed. Is it project related, and cost overrun issues? Or is it price and cost mismatch which is causing it?

Pasi Laine

Of course, different reasons for different projects but the big thing is the logistic cost which has increased, then some of the inflation has been hitting more, and then in some projects, in some small projects – not in the big ones – but in the small projects there has been also some not good enough accuracy in costing. That's from Valmet's perspective, but from Valmet's perspective, those are not material.

Tomi Railo

So, are there sort of project-related cost overruns also playing a part or challenges with projects, as you mentioned, or is that not a major issue?

Pasi Laine

I would say that if one takes the biggest one, then it's the inflation in logistics and all the other sub-suppliers.

Tomi Railo

Okay, thank you. And another question on the services. You presented a good list of activities driving the growth. I was just wondering if the extended lead times have – can you see those as temporary or can you see that, actually, this activity, which is coming earlier than before, can that be sustained for a couple of quarters or is it just temporary for the second quarter?

Pasi Laine

Now, I would guess that it will continue for a while before all the delivery chains are working quickly again and with the normal pace. And then customers have to also learn to trust to that. And then of course we have to learn to trust to that as well because now when we are quoting something then we of course take extra time for the delivery times to make sure that we can keep the promised time schedule. So, it will take some time before the situation gets back to the normal.

Tomi Railo

Makes sense. Excellent. Thank you very much.

Operator

Thank you. And we have one further person in the queue at this time. That's Tom Skogman from Carnegie. Please go ahead, your line is open.

Tom Skogman

Yes, hi, Pasi and Pekka. This is Tom from Carnegie.

Pasi Laine

Terve, terve.

Tom Skogman

I have a couple of questions, starting with kind of some indications of future net financial costs and taxes. You had no financial costs this quarter despite of course a big net debt coming from the Neles side. So, what should we look for in the coming quarters?

Pasi Laine

Yeaah, now without CFO next to me, Pekka, can you answer to that or is it –?

Pekka Rouhiainen

I didn't quite catch Tom's question so –.

Pasi Laine

Taxes and financial costs.

Pekka Rouhiainen

I don't have an answer to that one.

Pasi Laine

Yea. So, we have now the net debt what we have said, and then like we have been earlier communicating, our interest rates are competitive. So, from that perspective, I wouldn't see any big change compared to earlier times, except that we have a little bit more debt or we have more debt than earlier. Then in taxes, I don't see any change actually compared to the earlier years when thinking about when we have analyzed the taxation. So, I don't see any change happening in that number either.

Tom Skogman

Okay. Then, on roller manufacturing, where you had the factory fire, how well have you managed to find replacing capacity? And as part of this question, also the former CFO said that he expected paper sales to reach 1.3 billion. You know, then we started to doubt that after the fire, but now you had very good kind of deliveries in the paper division. So what sales is kind of reasonable to expect in paper?

Pasi Laine

So, net sales, I can't of course guide too well, but our organization managed the fire very well. So, of course, so the fire was first of all isolated to one island only and then the three or four others, we got back to, almost three of them, we got reasonably quickly to normal operation, part of the fifth one as well, and then the one where the fire was part of that now could be used in normal operation, but we still need to work with the authorities to get the approval. The team has found some sub-contracting capacity for many of the activities. For some of the activities, we still need to work on to solve all the delivery issues. But I have to give a lot of credit to the paper business line in managing the situation. So, they have done very good work. But, sorry, I can’t give an exact estimate for net sales.

Tom Skogman

But if I understand it right, the fire is not really holding back deliveries as you feared three months, two months ago?

Pasi Laine

The impact has been smaller than what we feared thanks to the good work of our team.

Tom Skogman

Yeah, and you already talked about opening bottlenecks in paper to increase capacity. Could you give an update on where we are with that?

Pasi Laine

Actually, then the paper business line is now working on this topic at the same time, because for us to catch all the delivery schedules, we have to increase the capacity. So they are working at the same time on the fire, but then also on finding extra new ways how to catch up the missed hours we have lost due to the fire.

Tom Skogman

Yeah. And then the steel price has come down [inaudible 00:55:13] hedging, but what will the impact from –

Pasi Laine

Now you're a little bit cut, so you asked something about steel price?

Tom Skogman

Yes, so the steel price had a short peak and now it is down again. And what will this mean for you with your hedging?

Pasi Laine

We, of course, had to buy steel for some of the deliveries when there was the peak of the steel price and then now, of course, we have to see that what kind of possibilities we have now to benefit from the drop in steel prices. I don't have that number in my head yet, but this is of course an opportunity for us.

Tom Skogman

Yeah. And then finally just about this kind of dynamic demand implications from changes in the world. So the price of your board machines and pulp machines are up a lot in the last two years, and now we see of course you have this gas situation in Germany, and you have a lot of paper manufacturing in Germany, and you also have your key competitor being based in Germany. What do you see if we not talk about the demand the next quarter or two quarters ahead, but is it a problem in customer discussions that prices have increased so much in your type of products the last couple of years? And what do you see from this gas situation?

Pasi Laine

Yea. I haven't had too much now customer discussions after the summer vacation. Middle Europeans are still on vacation. So, some of the customers will, of course, think that should they delay the decision a little bit to wait that the commodity prices will go down. And some are seeing that the market has been that good, so they'll continue with the time schedules, what they have had.

And then, of course, the third component is that if there will be a recession in Germany and the Middle Europe, how much it will impact demand of packaging material. Then, that will be kind of the short-term challenge. But then in the long-term, I haven't seen actually anybody saying that the demand for renewable packaging materials wouldn't be – and recyclable packaging materials – wouldn't be increasing. So our customers still have a long-term positive view of the future and then between there will be maybe some hiccups. But the long-term, I'm confident.

Tom Skogman

Okay, thank you.

Operator

Thank you. And we've had one further question come through. That's from the line of Tomi Railo at DNB. Please go ahead, your line is open.

Tomi Railo

Yes, I still have one housekeeping question. You had the 15 million cost on the Other line for common Group costs. Is that a fair assumption now going forward with Neles? Or any guidance on that line?

Pasi Laine

Not direct guidance, but we have to work on that topic.

Tomi Railo

But is that a little bit on the high side or should it be –

Pasi Laine

I think it's on the high side.

Tomi Railo

Okay, thank you.

Pasi Laine

Thank you.

Operator

And there are no further questions on the line at this time, so I'll hand back to our speakers for the closing comments.

Pasi Laine

Pekka will close soon but thank you. Sorry for giving a half an hour presentation, but luckily you had enough energy to continue to follow it. Pekka, now it's your closing ones.

Pekka Rouhiainen

Yeah, thanks, Pasi. And thanks everybody for the good questions and have a nice summer and we will get back with the Q3 results then on the 26th of October. So, thank you very much. This concludes now the event.

Pasi Laine

Thank you.