Valmet Oyj
Q3/2021 Earnings Call Transcript

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+++ presentation

Pekka Rouhiainen^ Good afternoon, ladies and gentlemen, and welcome to Valmet's Q3 2021 Results Publication and Webcast. My name is Pekka Rouhiainen, and I am the Head of Investor Relations here at Valmet.

With me today are the presenters Pasi Laine, President and CEO; as well as Kari Saarinen, CFO. (Operator Instructions)

But now without further ado, Pasi, please go ahead.

Pasi Kalevi Laine^ Thank you, Pekka. So good afternoon. So headline today is that orders received increased to EUR 1.1 billion and comparable EBITA to EUR 107 million in the third quarter. So first, I have some brief words about Q3, then development of business lines, then Kari will go through the financial development. I'll talk about guidance and short-term market outlook and then some words about Neles.

First, quarter 3 in brief. So our orders received increased to EUR 451 million in stable business. In capital business, the orders received increased to EUR 681 million. Net sales increased to EUR 935 million. Our backlog is now quite big, EUR 4.2 billion. Our comparable EBITA increased to EUR 107 million and margin was 11.4%. And gearing in the end of the quarter was -1%.

So here, some of the same numbers and some graphs. So orders received totally was EUR 1.107 billion. So it was a good quarter again for Valmet. Net sales increased to EUR 935 million. That's a good number as well. Comparable EBITA, EUR 107 million, like I said. And comparable EBITA margin, 11.4%, which is in the targeted range. And backlog, almost EUR

4.2 billion, and we employed in the end of the quarter, about 14,200 people.

Then if we look the -- geographically first, how the orders came. So Asia-Pacific was strong. We had one big board machine order there. Europe was strong. North America traditional level, 20%. A little bit smaller numbers in South America and China. Business line wise, Paper continued to have a strong performance. So 48% of the orders came in from Paper business line. Pulp and Energy this time a little bit smaller, 14%, and services 31%, and automation 8%.

Like said, orders received was EUR 1.107 billion. And now if you look at the 12-months curve, now we are first time over EUR 4.5 billion. That's, of course, a good achievement for Valmet. So we have four strong quarters behind us.

If you look at the geographical distribution of the orders. In the first 3 quarters this is quite traditional. Europe, again, about 40%; North America, less than traditionally, 15%; South America, a little bit stronger than as an average,12% ; Asia Pacific close to the average; and China now 18%. So the big change between '20 and '21 is even if China is big this year, it's not as dominant as it was in year '20.

Our stable business development is such that, now the orders received during last 4 quarters is EUR 1.909 billion. So we are again over EUR 1.9 billion, and targeting, of course, to get to the pre-COVID levels as soon as possible. But we are, of course, happy with the development. So if I have calculated correctly, all the 3 quarters are stronger than in the pre-COVID time in 2019. So we are back in business in stable business.

Backlog has been increasing steadily. Now it's EUR 4.2 billion, out of which -- so which is about EUR 180 million higher than end of the second quarter. Now we are not anymore saying how much of the backlog will be materialized as net sales during '21, but about 25% is related to stable business and about 75% are related to capital businesses, but strong and good backlog.

Then some words about the business lines. First, Services. So orders received was EUR 343 million in the third quarter. And if we look at the orders received cumulatively, so now we're at EUR 1.99 billion. So about EUR 85 million higher than a year ago, which corresponds close to 8%.

So we are back in growth mode compared to earlier year in services. And of course, that's what we have been targeting and it's good development. Also, in net sales, we are ahead of last year, about EUR 26 million. And that's, of course, important as well, that we are getting goods out. We still have some COVID-related travel restrictions in some parts of the globe, especially in Asia Pacific, which still affect our Services business.

Geographically, Europe is still a little bit slower than the other areas, the other areas have been growing more during the year, and Europe is still in a mode that we are waiting the growth to come in. Not waiting, actively working, but the market is not back yet in Europe.

In Automation, orders received was strong again, EUR 109 million. And now cumulatively, we are at EUR 347 million, which is EUR 52 million higher than a year ago. So good growth in Automation as well in orders received. Net sales hasn't been developing as favourably. So we are EUR 9 million behind in net sales compared to last year. And we have some challenges with, with component supplies, and that will, of course, continue in coming quarters. And then some timing issues are also affecting net sales development in Automation. The positive thing is that, that order intake is growing nicely compared to previous years.

Pulp and Energy, orders received is now EUR 937 million, so almost EUR 290 million higher than a year ago. So trend is at good level, about EUR 1.2 billion level. Net sales has been developing nicely as well. So it's -- the 12-month curve is there at about EUR 1 billion level. And net sales in the first 3 quarters has been EUR 729 million, so a little bit bigger than a year ago.

Here, our organization has been managing the COVID impact very well. So we are not now reporting any COVID impact, but of course, life is not normal, and we still have to be careful with COVID in all the installations where we're working, of course, in offices and factories as well. But the organization has managed the COVID situation in Pulp and Energy very well.

In Paper, we had a record quarter, so EUR 531 million. So it is of course, a very strong quarter for Paper. Here, you see that the order intake has been several years now above that EUR 1 billion level. And now the 12-months cumulative trend is a little bit over EUR 1.5 billion, so strong year. The strong last 12 months for Paper.

Order intake, in the beginning of the year, in first 3 quarters, has been a little bit over EUR 1.3 billion, so being about EUR 500 million higher than a year ago. And we have to remember that last year was a good year as well. So Jari and Jari's team are performing very, very well. Market is active, especially in board and paper, and stock preparation and then orders received have decreased a little bit in Tissue, where I'll come back later on again.

So good development, and here the same message that what I had about COVID management in Pulp and Energy.So Paper business line, together with the areas, has managed very well the COVID. We have had many start-ups where local people have taken a higher, bigger role than earlier and remote support has been given from central organization.

So very well-managed COVID situation in Paper business line as well in '21. So then financial development and it's now Kari's turn.

Kari Juhani Saarinen^ Okay. Thank you, Pasi, and also good afternoon, good day from my behalf as well. Very happy to be here. So about the quarterly figures. Our orders received increased by 58% to EUR 1.1 billion. All business lines increased with their orders. So Pulp and Energy business line increase was more than around 3x. There the comparison was low. Paper business line increased 80%. And the comparison was strong and now Paper business line had the highest quarterly orders ever. Automation business line increased 29%, and Services business line 19% increase.

Very encouraging also is that Services, EMEA area, orders received turned to increase now in quarter 3. Orders received also increased at every geographical area except China area. Order backlog, that was record high EUR 4.2 billion. There's EUR 900 million or 27% increase. And as said, this EUR 4.2 billion order backlog, that is highest ever at Valmet. And also, if we compare a year ago, we compare end of last year, all the business lines and also the areas are higher than at that point of time.

Now our net sales for the quarter increased by 12% to EUR 935 million. Here also all the business lines increased. Capital business lines were the strongest. Pulp and Energy growth 23%. And Paper business line’s 14%. The sales mix for the quarter was 57% and 43%, capital and stable.

Quarter’s comparable EBITA, EUR 107 million or 11.4%. Also higher than last year. And EPS, that was EUR 0.5 per share. Cash flow of EUR 57 million. So this is lower than last year.

We were net debt free end of the quarter 3, gearing end of the quarter was -1%. A year ago, it was 18%. Cumulatively, -- cumulatively, orders received end of quarter 3, were EUR 3.65 billion. This is the same as full last year. So cumulative increase, we are now having -- we had 34%. Every business line increased. Paper business line, 63% increase. Pulp and Energy, almost 50%. Automation 17% and Automation, 8% increase.

Our good success in gaining new project orders shows also at the mix. Capital share of the mix was 62%, cumulatively and stable was 38%. Cumulatively, net sales are 6% increase. Comparable EBITA cumulatively EUR 282 million, equaling to 10.3%. Last year, we were at EUR 218 million or 8.5%. Cumulative cash flow of EUR 385 million, a bit lower than last year's EUR 418 million.

Okay. Then gross profit. Capital business lines' share of quarter's net sales has increased. It was 57%. And even though this increase at capital Valmet's gross profit for the quarter was 25%, which is quite good for us. Overall, we are quite happy also with the quality of our project portfolio at order backlog.

Cumulatively SG&A increased by around EUR 8 million during quarter 3. That's driven by acquired businesses. We also had some personnel-related bonuses and also travel costs increasing.

Business activity is more, so it has improved and that also shows at the modest cost increase. Then looking at comparable EBITA. So rolling 12-months net sales were EUR 3.9 billion and EBITA was the highest ever, 11% or EUR 428 million. So we are in the middle of our target range, which is 10% to 12%. Development, looking from year 2014, we have had strong development -- strong and continuous development here.

Our cash flow. So 9 quarters, cash flow has been positive, now it was about EUR 57 million. This is the lowest quarter in two years. Reduction in cash flow was caused by increase in net working capital. CapEx for the quarter were normal. And looking at net working capital, -16% of the rolling 12-months orders. Normal good level of net working capital is around -12%. So meaning that we have around EUR 160 million cash above the normal good level.

Net debt, EUR -17 million, and gearing was -1%. Year ago, our net debt was EUR 184 million, and gearing was 18%. So we have had favorable development here as well. Equity-to-asset ratio has increased to 41%. And our comparable return of capital employed that was 24%, remaining at relatively or actually -- quite a good level. Favorable development, even though capital employed increased as the equities or retained earnings increased.

Thanks. Back to you, Pasi.

Pasi Kalevi Laine^ Thank you, Kari. That was effective like always. Then guidance and short-term market outlook. So we still keep the same guidance, which we announced in April. So Valmet estimates that net sales in '21 will increase in comparison with 2020, and comparable EBITA in '21 will increase in comparison with 2020.

Services -- then short-term market outlooks. So in Services, we increased our market outlook to good. So earlier, we were saying good/satisfactory, and mainly we were saying that Asia Pacific and Europe have a little bit less activity. Said that Europe has not recovered yet, but still because of our order intake has been growing by 8% and the level order intake level is at the pre-COVID levels, then we don't have any other -- any reasons not to say that the market wouldn't be good. So market outlook and capacity utilization are good in Services currently.

In Automation, like you have seen, order intake has been developing favorably a long time. Capacity utilization is good as well. So we continue with the market outlook good. In Pulp, order intake has been good. Capacity utilization is good. So we keep the same market outlook.

In Energy, market activity has improved a little bit. But still, we are not at the level that we would like to increase it, and that's why we keep the outlook at weak. And of course, one factor is that the marine market hasn't come back yet. So that's one factor in that statement.

Board and paper, good. We have only words weak-satisfactory-good. But of course, in order intake we are now at the level which we have never seen earlier. So Board and paper market, and outlook is good, workload is good and our success in that market has been very good.

Tissue, we decreased the outlook to satisfactory. The order intake hasn't been -- or it's at satisfactory level, workload is at satisfactory level. And we work, of course, hard now to make sure that the situation is improving. But we had reasons to reduce the outlook from good to satisfactory.

Pekka, now it's your turn.

Pekka Rouhiainen^ So the next part of the presentation and the question-and-answer session after it will contain discussion regarding Valmet's contemplated merger with Neles. The securities laws in the United States and in other jurisdictions restrict Valmet from discussing or disclosing information with respect to the contemplated merger. Until the completion of the merger, Valmet and Neles will carry out their respective businesses as separate and independent companies. The materials and oral comments regarding the contemplated merger are not provided for, and are not directed at, any person that is a citizen or resident of, or located in the United States.

Pasi Kalevi Laine^ Thank you, Pekka. So some words about the merger with Neles. So we are merging with Neles to create a leading company with a unique offering for process industries globally. And this process has been going for a while. And we have had important steps during this quarter. So both companies had the Extraordinary General Meeting for the shareholders on September 22. The merger was approved by both General Meetings. Over 99% of votes cast at the meeting were in favor of the merger. So that was, of course, very important message from our shareholders to Board of Directors in Neles and Valmet, management in Neles and Valmet. So it was very important and strong message that shareholders are behind this merger.

We have started the integration planning. So now after the EGMs, we can plan the integration. But of course, we all the time have to remember that we are not allowed to share any competition law related information between the 2 companies. But the integration planning has started well, and we have decided that the new business line in Valmet would be named Flow Control.

We have filed all time critical competition authority filings. Up to now, we have got unconditional clearance from -- in Germany and in Poland. And then both companies, Valmet and Neles, are working constructively with all competition authorities who are reviewing the transaction.

It's important to remember that, and this is also for internal and Neles people who are listing the presentation, that until the completion of the merger, Valmet and Neles will-- until the completion of the merger, Valmet and Neles will carry out the respective businesses as separate and independent companies. This is important topic to be remembered by everybody.

The planned closing date is January 1, 2022. There is a risk that the planned closing date may be delayed, as a complaint has been filed to a Brazilian Competition Authority.

So one has to now remember a couple of things. So first of all, Neles and Valmet don't have any overlapping products. So that's not an issue at all. In some countries, if you have a certain position in the markets, which the other company is also serving, you have to file in any case. And that's the case in Brazil. So we have filed in Brazil and one company has filed an objection to the -- or not yet objection, but they have set a complaint against the merger.

And that process is ongoing in Brazil and we'll continue to follow that. And of course, we work actively with Brazilian and all the other competition authorities to get the clearance for the merger.

Good. Now it's Pekka's turn again to say some words.

Pekka Rouhiainen^ Yes, Thank you Pasi. So we are now done with the presentations and ready to move to the Q&A session. So if I may ask gentlemen to move behind the tables. And as we don't have a physical audience here today, we will start with – or go to the phone lines immediately. So operator, I hand over to you.

+++ q-and-a

Operator^ (Operator Instructions) Our first question is from Antti Kansanen of SEB.

Antti Kansanen^ It's Antti from SEB. Just a couple of questions. First, on the kind of the component availability that you mentioned. Is this totally isolated to the Automation division? Or are you experiencing any similar headwinds in the capital or Services side?

Pasi Kalevi Laine^ It's mainly now in Automation where we have to work a lot to get all the electronic components. But of course, the other businesses can be affected also by -- if they are buying products, which include electronics. So it can affect the others as well, but mainly it has been currently in Automation.

Antti Kansanen^ So kind of you don't see a similar shortages in any spare parts, consumable businesses, or any components related to the capital machinery?

Pasi Kalevi Laine^ Up to now, our teams have managed to get the supplies working. So of course, our procurement and logistics organizations have to work a lot to get the materials on time in deliveries. But up to now, we have been able to manage the situation. But of course, there is a risk that the situation is getting worse. But up to now, we have been able to manage it.

Antti Kansanen^ Now the second question is maybe on a kind of the broader cost inflation theme-- and I mean, I guess, in your supplier base, they are seeing cost inflation and I guess their energy costs are most likely going up going into '22. So what are the discussions that you're kind of having with your suppliers? And how should we think about timing of certain cost impacts versus pricing next year and how your gross margin would kind of on a business line basis develop? Any guidance on that front or any comments?

Pasi Kalevi Laine^ So a little bit longer answer. So we started to see the inflation arising in raw materials somewhere in end of first half -- beginning of -- end of first quarter, beginning of second quarter. And then our procurement team started to send alerts to all the organization and now something is happening. And we have had discussions in all the management teams, how to deal with the issue. So I think it's an important point that the organization has been alert to increasing costs. And then of course, how we have to manage this is that in sales phase, we have to be very careful what kind of cost base we are estimating for projects to be delivered, so that we are reserving enough for the inflation but not reserving too much. Because if we —if one is too pessimistic, then one is not anymore competitive.

Now then the fact is that some of the costs have been rising more than we have been anticipating. And then the tool to counteract that is to increas the CCC sourcing we have in our organization and then, of course, continue the good work in other parts of the procurement try to compensate the inflation in parts of the categories.

How it will affect our results, business line wise, it's too early to say, but we work hard on, on keeping the projects at as-sold levels.

Kari Juhani Saarinen^ Yes. And maybe something to add here still. So our gross profit for the quarter, 25%, even though the sales mix 57% capital 43% stable. So typically, our sales mix 50-50. So strong gross profit percent. And then also we recognize our projects through the percentage of completion, and that means that whatever increase at the costs, that is also visible immediately at the project updates as well. So we had a strong gross profit here.

Antti Kansanen^ Okay. And perhaps, if I may continue, like, if there are some surprises or accelerating inflation, where do you think that you would be most vulnerable? Are the, kind of the long-term projects very well hedged, so it should be more on the Services side? Or where do you think you would see any adverse impacts, if any?

Pasi Kalevi Laine^ I think in Services, it's quicker to have discussion with customers about the pricing. So there, the risk is maybe smaller. Then maybe the risk is the highest on long delivery time Pulp and Energy projects.

Operator^ Our next question is from Sindre Sørbye of Arctic Asset Management.

Unidentified Analyst^ Yes. Gentlemen, just 2 questions from my side here. You alluded to the fact that you still keep your energy short-term outlook at weak and you referred to the scrubber market, which is still weak. But on the other hand, given today's energy prices, have you seen or do you think it's likely that you'll see an increased demand for things like waste incineration solutions, recovery boilers, biofuel boilers and so forth?

Pasi Kalevi Laine^ I think the short-term energy prices has changed so quickly that it doesn't have a direct impact. The investments, if somebody wants to build a boiler, the investment time horizon is at least 10 years. And in normal -- in many cases, 20 years. So -- but -- so energy price increase in short term hasn't had an impact. But in long term, of course, now when people are looking for solutions to reduce the CO_2 emissions, then of course, all the products that you mentioned and solutions you mentioned, will have a better market in the future.

So biomass boilers, sorted waste to energy boilers will be one way to reduce the burning gas and burning coal in industrial and, and also district heating applications. So in long term, I'm -- is confident too is a strong word, but I see that the market continues to be, to be active in coming years as well because of CO2 reduction targets.

Unidentified Analyst^ Yes. That was very useful. My second question is regarding the broader margin picture. As already you have Kari said, the mix apparently slightly weakened in the sense that share of stable business is down approximately 3% year-over-year. In spite of that, you have a quite strong margin increase. That to minor extent due to increased gross margin.

But apart from that, is it -- can you enlighten us on where that improvement comes from? Is it quality cost? Is it project execution? Or is it mix within equipment? Or is it just kind of operational leverage?

Kari Juhani Saarinen^ Well, I would say that in a big picture, our projects are going as we've been planning them to go. So that the project execution and project management has improved and is in a different level than what it was some time ago. So we've had quite good development there. And also then Pasi was earlier saying about the prices, price increases. So -- of course, it goes so that this is also an environment for Valmet to go to Valmet's customers and with higher price.

Unidentified Analyst^ Okay, okay. So there is no more -- I think actually, if I recall, I think you also said that project execution was quite satisfactory a year ago as well. But it's -- you have improved a little all over the board, if that's what you were saying.

Kari Juhani Saarinen^ And it continues to improve. So we were in a good path already a year ago, but that continues.

Operator^ Our next question is from Robert Davies of Morgan Stanley.

Robert Davies ^ The first one was just on the change in short-term outlook. Apologies if you covered this already. But just to be a kind of curious, you've obviously nudged up the outlook in services and brought it down in tissue. Just to be looking for a bit more color in terms of what were the kind of key drivers behind that? Is there a particular regional dynamics there? Or is it just the overall global picture that's changed? That was my first question.

Pasi Kalevi Laine^ In tissue, the pulp prices usually has an impact to Tissue order intake. So when the pulp price goes up, then those tissue makers who rely on market pulp has less profitability and that quite often has an impact to decision-making this year. So that's the global answer.

Then regionally, we haven't seen any differences actually. A year ago, China was very active, this year not that much active. But I think the variation between the regions has been normal, like in normal year.

Robert Davies ^ Yes. Sorry, I think I was on mute there, sorry. The other part of the question was around your margin targets. You've obviously had, I think it's three quarters in a row now, where you've been in the 10% to 12% margin and you're kind of hitting the midpoint of that range.

Just in terms of, I guess, the evolution over the next year or so of that margin profile, how impactful is the sort of capital versus stable business mix going to have on that? Are we going to -- I guess, that you are expecting that margin to come down before it continues to go up? Or are volumes' strength enough to keep that margin moving in a sort of sideways or upward direction over the next year or so?

Pasi Kalevi Laine^ So our target is now to be between 10% to 12%, and that's where we are now. Then we have been saying all the time when increasing the target setting that to improve Valmet's EBITA, all the businesses have to improve.

So we have to continue to push, because it's simple mathematics. If half of the business is coming from capital, half is coming from stable, then if you want to increase by 2%, if the other one is not improving, the other side has to improve by 4%. So simple mathematics. So we continue to push the margins up in all the business lines next year as well. And the tools are the same we have had -- so try to push the prices up, develop new products, which are more cost competitive, improve project management, like Kari was saying, improve procurement, and reduce the quality costs.

Kari Juhani Saarinen^ And maybe also still wanting to add here so that if we look at the growth now at quarter 3, so our Automation increased 29%. Services, 19%. Good figures. Also EMEA, which is the biggest area with our Services, so that increased now after like having a bit difficult times earlier. So good development here with our stable business as well.

Robert Davies ^ My final one is just around the Paper business. There is quite a strong (inaudible) this year that business relative to consensus expectations from an order perspective. Were there any sort of larger ticket items? Maybe I missed them, but that would seem to quite a (inaudible)Was there sort of a lot of medium orders, one big order? What sort of underpinned that EUR 530-odd million of orders you did in the Paper business?

Pasi Kalevi Laine^ There was one quite big size order in Asia-Pacific and then the rest of the orders were normal type of orders in Europe mainly.

Robert Davies ^ I see. And you didn't quantify the size of that large APAC order anyway did you?

Pasi Kalevi Laine^ No, no, if I remember correctly.

Operator^ Our next question is from Manu Rimpelä of Nordea.

Manu M. Rimpelä^ Firstly, in terms of your financial guidance on both the sales and the adjusted profit to improve this year. So just checking that, do you have any other kind of guidance than "increase" since I think you've already -- your profits are up 29% in the first 9 months. And most likely, we are not expecting fourth quarter to be down either. So do you have in your toolbox a stronger word than “increase”? Or does “increase” cover everything from plus to infinity?

Pasi Kalevi Laine^ So we don't have stronger word than “increase”.

Manu M. Rimpelä^ Okay. That's clear. Then in terms of the Services business, so you raised the outlook for that to more positive now. And how would you say that the customers are behaving at the moment? Are you seeing that there is kind of a - - this pent-up potential demand is starting to being - - coming to you as order intake already? I mean the order growth has been strong, but do you think that can still kind of continue? -- I guess we still have easier comparables in the fourth quarter from last year. But when we kind of start looking into '22 as well, so do you see that that activity pace can remain at the kind of maybe above trend levels?

Pasi Kalevi Laine^ What we have been saying earlier is that first, we target to get to the business level, which we had pre-COVID and then there after the target has to be to continue the organic growth with the pace we had earlier. So that's generally about the target setting we have in our minds.

Currently, all the other areas are quite active except Europe. And then if one think – of normal situations, or quite seldomly, all the areas are very active. So maybe this would be kind of normal situation that one area is not as active than the others. Of course, Europe is a strong area for us. So has big impact because of that.

Then customer activity, it has increased. And then I think there won't be too much overshooting quickly because there's, of course, limited amount of professionals who can do services, and who can do different kind of things at customer sites. So the market will not bump up suddenly by 10% or 20% because there is no extra resources anyway. So it's more that kind of step by step continuous, small step growth what we see in the future.

Manu M. Rimpelä^ Okay. And then finally, in terms of the backlog you have today, which is, I guess, at the all-time high level. Do you see that there is still room for you to take on more orders?

And also, are you able to, in any way, comment that how much of that backlog is kind of, to be delivered in '22?

Pasi Kalevi Laine^ We'll come back to this '22, '23 in the first quarter. So of course, now a big part of the backlog is to be delivered in '22 and in '23 as well. We can take more orders. And what happens now is that the delivery times are getting longer and customers are even accepting longer delivery times.

So part of the backlog is already for deliveries in '23. And I think that phenomenon will continue to be - - take place. Especially in Paper, where our backlog is very strong, and our market position is very strong. Kari, any comments?

Kari Juhani Saarinen^ No, maybe just one thing to say about our order backlog. So that we don't book orders lightly. So there needs to be some bank guarantee or down payment before we book an order. And also, that means that for a customer, it's also difficult to cancel any orders. So that's the thing that we also need to remember here about our order backlog.

Operator^ Our next question is from Antti Kansanen of SEB.

Antti Kansanen^ Thanks for taking the follow up. This was on China and kind of what you are seeing in that market now on Q3, and how the outlook looks like for the customer activity on the capital side, Pulp and Paper? It's been very good market for you helping during the COVID times, but what's the activity level today? And what's the outlook there?

Pasi Kalevi Laine^ So it goes pretty much like we have been saying earlier. China was very active in end of '19 and '20 and helped, of course, Valmet keeping the good order intake level. And then we were saying that China will start to slow down and then the rest of the markets, hopefully, will pick up and that has happened now. So Chinese market is not as active as it used to be, and now the capital markets are more active in Europe, North America and South America. So activity in China has reduced, but it's still at a good level, but it has reduced from last year's exceptional levels.

Antti Kansanen^ Okay. But there's still a bit of a pipeline of bigger orders, but perhaps not on the same scale as we saw in the past couple of years.

Pasi Kalevi Laine^ More, more at normal level, I would say.

Operator^ Our next question is from Tom Skogman of Carnegie.

Tomas Skogman^ I have two questions. So first, I would like to get some insight into orders and order outlook for the new growth avenues that you have been talking about during the year. And then I have a follow-up question after this.

Pasi Kalevi Laine^ So orders for the textile, no news on textile front. So now we are in the phase that we are delivering the orders what we have been getting and then, of course, the plants have to be up and running before we want to take more orders or somebody want to invest. So of course, we all have to prove that those processes work well. And then the same goes with, for example, with the 3D foam application we are developing together with Metsä.

So first, we have to get the pilot plants up and running and, and then see the next steps in that area. So in our industry, once you get the order, then you typically deliver this kind of a little bit smaller project for one year and then you have a startup for half a year, and then you might have a possibility for the continuation orders. So the delays are reasonably long.

Kari Juhani Saarinen^ Maybe still one thing to add here is our Industrial Internet. So the solutions, the products and services that we have around Industrial Internet. So it's ongoing business and it's a growth business for us as well.

Pasi Kalevi Laine^ And there the development has been percent-wise actually quite good.

Tomas Skogman^ All right. Then I heard a rumor that you had withdrawn the filing in Austria. Can you comment on this?

Pasi Kalevi Laine^ It's a technical issue that - - no business reason for that. It's technicality, how the competition filings is working, and then it's more effective if we do it a little bit later in Austria.

Tomas Skogman^ Okay. And then you have a very strong balance sheet if we assume that the merger is completed. Also the new company will clearly have a very strong balance sheet. I just wondered how the merger will change your M&A strategy? Do you see that the majority of your acquisitions will be in the flow control and automation space in the future?

Or do you plan to work (inaudible) buying more service companies, so are these still kind of technology companies and equipment companies in pulp and in board that are of interest?

Pasi Kalevi Laine^ I think we have to be active on all those three fronts. So strengthening technologies if there are targets available, same goes for services and then same goes for new automation, so including systems and flow controls. So -- and that's, I think, is one of the thoughts in this merger that it creates a company which has a strong balance sheet, good profitability, and then enough space in three categories to continue with acquisitions.

But then, of course, we have to be careful now that we are not raising the expectations of acquisitions too much. Because, of course, first, we have to make a very good and thorough integration with Flow Controls to make sure that we get the synergies out what we have been promising. So that will be the highest priority next year.

Operator^ Our next question is from Tomi Railo of DNB.

Tomi Markus Railo^ It's Tomi from DNB here. Just a question on the pulp activity and the outlook. If you can comment a little bit, have you seen any hesitation from your customers or clients deciding on new bigger pulp mill projects?

Or how does that market has been developing? And what would you expect in the coming months and quarters?

Pasi Kalevi Laine^ First of all, this short-term variation in pulp prices doesn't have too big impact in the long-term investments. Then -- so that's one topic we have discussed sometimes. And then other thing is that now quite many big decisions have been taken. So it might be that there is short while when there aren’t that big decisions to be taken. But then from the other perspective, we have now a good backlog and a good situation.

So there is no necessity to get orders. But longer term, I'm sure that -- not longer, medium-term, I'm sure that the pulp investment continues because the demand of pulp is increasing because of packaging needs, because of the hygiene and these hygiene needs. So it's like in the history that sometimes 2, 3 decisions in a year, then a little bit cool down and then 1 or 2 decisions and again, more decisions. So I would say that history will repeat itself.

Operator^ Our next question is from Antti Suttelin of Danske Bank.

Antti Suttelin^ This is Antti. I have a question on China. We have heard recently that because of the energy situation, some plants in different industries have been forced to close down. I don't know if this has had any impact on the industry that Valmet is serving, and whether this has potentially had any impact on the investment appetite in those industries? Just seeing that the order intake from China fell quite a bit in the third quarter.

Pasi Kalevi Laine^ Yes. So our customers face that challenge as well that they are not getting energy all the time from the grid. And even in our services center, once in a while, we have to close down the services because of lack of energy. But this is a short-term issue.

So then if I go a little bit back why the -- so the investment level in China was very big, and we could not have thought that it continue at the level where we had it for 1.5 years. So it's normal that it now goes down. I think a little bit longer term in China, the issue is maybe the availability of green energy. So the -- to get the environmental permit in China is a big challenge. And then if you have green energy available, then it's easier than if you are relying on coal or gas, and that's maybe the bigger energy-related question our customers have to deal with and the availability of electricity itself.

Operator^ (Operator Instructions) There are no further questions at this time. So I'll hand back over to our speakers.

Pekka Rouhiainen^ All right. Thank you then for the Q&A session. And next time, we will see each other then on the February 3 with the financial statement review. But thank you, everybody, for tuning in.

Kari Juhani Saarinen^ Thank you.