

Transcription

Valmet Q3 2022 interim results webcast

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PRESENTATION

Pekka Rouhiainen

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q3 2022 result publication and webcast. My name is Pekka Rouhiainen, I'm the Head of Investor Relations at Valmet, and the speakers today will be the President and CEO Pasi Laine, as well as our new CFO Katri Hokkanen. After the presentations, you will have the chance to ask questions over the phone lines. But now, without further ado, Pasi, please, go ahead.

Pasi Laine

Thank you, Pekka, and welcome, Katri. So, headline today is that orders received increased to EUR 1.2 billion and Comparable EBITA to EUR 136 million in the third quarter.

So, first I'll go through the quarter in brief. Then, some words about segments and business lines. Katri will go through financial development and I'll summarize guidance and short-term market outlook.

First, the third quarter in brief. Like said, orders received increased to EUR 1.2 billion, net sales increased to EUR 1.3 billion, our backlog amounted to EUR 4.7 billion, and Comparable EBITA increased to EUR 136 million, and margin was 10.5%. Gearing in the end of the period was 18%.

About 47% of the orders came, net sales came from Process Technologies. Services contributed 30% and 23% came from Automation segment. So, roughly half and half. Geographically, Europe was 35, North America 20, the rest coming from the South America, China, Asia-Pacific, so, nothing abnormal here. And then, in the end of the period we employed about 17,500 people.

Orders increased, like I said, to about EUR 1.2 billion. And the trend is now such that the fourth, if you have the LTM, so, last 12 months, the trend is close to EUR 5 billion. Here we have, also, the geographical split of the orders in this year, and the split is quite traditional. Europe about 40%, North America 23%, Asia-Pacific has been active, 16, China, quite active, 14, and South America this time not as active, corresponding to 7% of the order intake.

Our stable business has been the topic for us. So, in the beginning of Valmet orders received in Services was about EUR 1 billion. Services order intake has been growing organically, and with some acquisition, from EUR 1 billion to EUR 1.7 billion. So, nice growth track record. Then, first we bought Automation Systems. Then, later on, we merged with Neles. And now, the order intake of Automation segment in last six months is EUR 877 million. So, meaning that the LTM for the stable business is about EUR 2.6 billion, and this includes only half year for Flow Control. And this is the big change that has taken place in Valmet, from EUR 1 billion to now EUR 2.6 billion. And then, if you calculate the Flow Control for the full year, then it's, of course, some hundred millions more. So, nice development.

Our backlog in the end of the period was almost EUR 4.7 billion. This time we are not telling how much we estimate to be recognized as revenue in this quarter, but all in all, the backlog is almost EUR 4.7 billion. 60% is related to Process Technologies, 25% to Services, and 15% to Automation.

Then, some words about the business lines and segments. First, Services. Orders received continued to grow nicely. So, our orders received in first three quarters have been EUR 1,338 million. Last year it was EUR 1,094 million, so nice growth. Net sales has been growing also, from EUR 947 million to EUR 1,101 million, so nice growth on both ones. Then, our EBITA percentage last year was 14.1% and this year 12.9%, so we still of course have lot of work to turn the EBITA percentage to the level where it was last year. Katri will come back to the quarterly numbers later on. But, cumulatively, we are now 1.2% behind last year. Euro-wise, we are ahead. So, last year we made EUR 133 million, and this year we have made EUR 142 million. So, nice growth in orders received, nice growth in net sales, and profitability, percent-wise, could have been better.

Automation segment. So, this includes now half a year Flow Control, and Automation Systems, of course, for the whole year. Orders received was -- in the segment has been EUR 758 million. Net sales EUR 676 million and our EBITA from the segment has been EUR 112 million. And last year profitability, cumulatively EBITA, and that included only Automation Systems, was 15.4% and now EBITA percentage has been 16.6%. And then, of course, during the coming six months we will have a full year here in the Automation segment numbers, as well, and then, this tells what the size of Automation segment is, and, what is the profitability. But good development in the Automation segment.

Flow Control started well. Last year, in Neles times, orders were about EUR 300 million, now EUR 387 million, so nice growth. And also, net sales has been growing from EUR 308 million to EUR 360 million. So, we are happy with the merger, we are happy with the performance of Flow Control. Integration is going as planned, and the atmosphere in legacy Valmet and the new Valmet is very good, and supportive to Flow Control's business. So, we are happy with the progress and the attitude of the personnel and management in Flow Control.

Automation Systems business. Orders received increased to EUR 371 million in year-to-date numbers, last year it was EUR 347 million. And net sales has been increasing also, from EUR 252 to 317 million. So, nice growth in Automation numbers, as well.

Process Technologies. So this is the segment including Pulp and Energy, and Paper. Orders received was about EUR 1.7 billion, last year EUR 2.2 billion. So, there is fluctuation in the order intake of this segment. Net sales last year was about EUR 1.5 billion, this year about EUR 1.75 billion. So, I'll come back to the net sales development on business line numbers separately. Profitability last year was EUR 130 million or 8.5%, and this year EUR 107 million and 6.1%. We have some challenges in selected Pulp and Energy projects. Like we were saying in the end of last quarter as well. So, we have logistic costs overruns, we have inflation challenges. And, of course, we have some delays, also, on some of the projects due to the Covid. So, some challenges and in some selected, small projects in Pulp and Energy we have also, not performed as well as we should have been. And that's where from the

delta comes. So, Pulp and Energy and selected projects have been impacted. And, of course, we work on the topics to turn the trend to better direction.

Pulp and Energy. Order intake has been about EUR 792 million, last year EUR 922 million, so there is lumpiness in the order intake. Net sales this year EUR 798 million, last year EUR 720 million, so LTM revenues about EUR 1.1 billion. And LTM order intake is about EUR 1 billion. So, otherwise good development, but then, some challenges in some selected projects.

Paper business line. Orders EUR 921 million, last year almost EUR 1.3 billion, and like we were saying, last year was an exception, so the business activity was exceptional last year. We are happy with the order intake of this year, so EUR 921 million is very good order intake level for the unit. Net sales has been improving, as well. So, last year EUR 817 million and this year EUR 959 million. LTM net sales-wise is almost EUR 1.3 billion and LTM in order intake is almost EUR 1.3 billion, so we are very happy with the performance of Paper, taking into account that Paper's production unit, big one, had some challenges due to lockdown in second quarter in China. And that has, of course, impacted the operation. And we had also the fire in Rautpohja, which has impacted operations. So, Paper Business Line has been operating very well, taking into account all the challenges they have had.

Good, that was quick summary of segments and business lines. And now, I let Katri to come first time here to the stage. So, welcome, Katri!

Katri Hokkanen

Thank you, Pasi! My name is Katri Hokkanen. And, as Pasi said, first time here and really happy about it. I will now go through the financial development regarding the third quarter.

So, about the key figures. So, as you heard, the order intake for the second quarter was at EUR 1.2 billion level. Net sales was at the level of EUR 1.3 billion, and our Comparable EBITA was EUR 136 million. And all of these numbers increased compared to last year. But our comparable EBITA percentage was 10.5% for the quarter, and that was 0.9 percentage points lower than a year ago.

Then when looking at the year-to-date numbers, so order intake was at EUR 3.8 billion level. That is 4% ahead of last year. Our backlog is at the level of EUR 4.7 billion, being 11% higher than a year ago. And net sales is at the level of EUR 3.5 billion, and that is 29% ahead of last year. Our Comparable EBITA was EUR 337 million, and that was 20% higher than a year ago. But same story here than with the quarterly numbers, EBITA percentage is 9,5% and that is 0,8 percentage points lower than a year ago.

We also have now new performance measure now in the chart, called adjusted earnings per share. This we already had for the second quarter. And, we have taken the amount coming from the business combinations out and the adjusted EPS was EUR 1.56 year-to-date, and that is 11% higher than a year ago. And the traditional EPS was EUR 1.25.

Then, a few words about segment key figures. So, as said, year-to-date we are at EUR 3.8 billion and 4% ahead of last year. Services is at the level of EUR 1.3 billion, and that is 22%

higher than a year ago. And if we take FX impact out, Services growth is roughly 16%. And our estimation is that roughly half of that is related to cost inflation, and half is related to organic growth.

Then Automation segment. Order intake was at the level of EUR 760 million, so that has doubled compared to last year. And that is because we have now two quarters of Flow Control in our numbers. Then Process Technologies, year-to-date EUR 1.7 billion. And that is some 20% behind last year.

So, that was the order intake, then moving to the net sales. So, starting from Services, Services was at the level of EUR 1.1 billion. Automation is roughly on the EUR 680 million level. And Process Technologies close to EUR 1.8 billion. And all of these have increased compared to last year.

Then few words about the Comparable EBITA. For the quarter first, so, Services was at the level of 14.3%. And you all remember that the first quarter was low, it was 9.6%, and then the second quarter was 14.2%. And when we look at the full-year numbers, Services is now at the level of 12.9%. And that is 1.1 percentage points below last year.

Then Automation segment. The EBITA percentage for the quarter was 17.6%. And year-to-date we are at 16.6%, and that is 1.2 percentage points higher than a year ago.

Then on the Process Technologies, so, the quarter was 5.8%. Year-to-date we are at 6.1%, and that is 2.4 percentage points behind last year. So, even if the net sales has increased and the EBITA in millions of euros have increased, unfortunately, our profitability in terms of EBITA is below last year's numbers.

Then, regarding gross profit and SG&A. So, our gross profit was at the level of EUR 1.1 billion, when looking at the last twelve months. And the percentage has gone down from last year's 25% to 24%. Our SG&A's have increased. So, last year we were at the level of EUR 600 million, and now when looking at the last twelve months, we are at EUR 774 million or 16%. And, of course, here the biggest reason is coming from Flow Control. But also, on top of that, we are impacted by FX, we have more travel expenses, and we also have more people in SG&A.

Then, regarding the Comparable margin development, so the trends have been looking really nice over the years. And, last year our net sales was at the level of EUR 3.9 billion. And now, when looking at the last twelve months, so we are at EUR 4.7 billion. So, there has been growth in the net sales. But when we look at the Comparable EBITA margin, so, last year from 10.9% we are now down to 10.2%. And, of course, this is going to the wrong direction. And we have to continue to work really hard to get this back on track. And to be aligned with our financial target, which is to be between 12 to 14% in Comparable EBITA.

Then cash flow. So, for the quarter, the cash flow was EUR 115 million. And when looking at the last twelve months we are at the level of EUR 146 million, and that has decreased from last year. And the reason for that is coming from the Flow Control, and also, we have increased our inventories. And net working capital at the end of Q3 was EUR -265 million, or 5% of the rolling twelve months' orders. And it's really important to understand that the

whole profile of our net working capital has now changed after Flow Control became part of us. In the past we have been saying that net working capital is roughly -11% of our rolling twelve months' orders, and now, we have estimated that together with Flow Control, the number is -7%.

Our net debt came down from the second quarter and now it was EUR 428 million, and our gearing was 18%. Our equity-to-asset ratio is 47%.

Capital employed, also this number has changed quite a lot from last year. So, when looking at the last twelve months, our Capital employed is at the level of EUR 3.3 billion. And our Comparable return on capital employed was at the level of 16%. And even if it has come down from previous years' levels, it's important to remember that this is aligned with our financial targets. There we say that the Comparable ROCE should be at least 15%.

Then few words about the Adjusted EPS still, so as mentioned earlier we have now this new metrics second time in our numbers. And when looking at the last twelve months, the Adjusted EPS was EUR 2.23 and that has increased compared to last year's EUR 2.09.

That was the financials, so, I will give the floor back to Pasi. Thank you!

Pasi Laine

Thank you, Katri!

So, now it's time for guidance and short-term market outlook. So, the guidance we keep as it has been, so, we estimate that including the merger with Neles, net sales in 2022 will increase in comparison with 2021, and Comparable EBITA in 2022 will increase in comparison with 2021. So, no change in guidance.

Then short-term market outlook. In Services, like we have seen, order intake has been good, so, we have all the reasons to keep the outlook as 'Good'. And like you remember, about half comes from market activity, half from the work utilization what we have. In Automation, in Flow Control, all the reasons to say that market is good, or the outlook is 'Good'. Systems' outlook is 'Good', like it has been previously as well. In Pulp we keep the same as earlier, so 'Good / Satisfactory'. So, we have units which have very heavy work load and good market activity, and then couple of business units or one business unit where the market activity hasn't been that good, or we haven't been successful enough in getting the orders. So, 'Good / Satisfactory' continues to be our market outlook for Pulp. In Energy, market has been good and market activity continues to be good. Board and Paper the same, like you have seen, order intake is at good level. Not as good as last year, but still, comparing to our capability to deliver, it's a good level. And Tissue continues to be at the 'Satisfactory' level like it has been the whole year. So, that's the summary of guidance and short-term market outlook.

Q&A

Pekka Rouhiainen

All right, thank you Pasi, and now we are ready to move on to the questions and answers session. So, if Katri will also move here behind the table.

Moderator

If you wish to ask a question, please dial *five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial *5 again on your telephone keypad.

The next question comes from Antti Kansanen, from SEB. Please, go ahead.

Antti Kansanen

Yeah, hi guys, it's Antti from SEB. Couple of questions from me. Firstly on Europe and the energy situation over there. So, what are you seeing through your Service business regarding your clients taking potential downtime. Any impacts or any risks that you would like to flag? And also, what are you seeing through your suppliers? Any signs of them struggling, or raising prices that you need to pay?

Pasi Laine

That's Antti very good questions. So, like we all know of course, the energy prices are now high especially in middle of Europe. Some of our customers, the ones who are relying on gas on their energy supply, they suffer with the cost. Some of them have taken downtime because of the costs. Some, of course, the ones who are relying on biomass or waste-to-energy, they don't have the same price pressure, so actually they can continue to produce with the normal levels. We haven't seen any change in our Service order intake yet because of that. So, no impact yet.

Then, what kind of impact it can have? It can have, of course, two-way impact. So, if the production volume stays at low level, then the demand from consumables starts to decline. But then, from the other perspective, the demand for our customers has been quite good for some time, so, it can be also that customers are using now the downtime to make some modifications to their production assets. But we haven't seen yet what's the full impact.

Then our suppliers, we of course are monitoring it very carefully. We haven't seen yet any impact on pricing. And then, of course, like everybody else, we are also looking for supplies which would be coming from somewhere else than middle Europe, if possible.

Antti Kansanen

All right, fair enough. And then, second question to Katri and also, welcome to this call from my behalf. So if you look at your balance sheet, and it's obviously changed a little bit after the Neles transaction, but your earnings generation should be more stable as well, so, how should we think about sustainable net debt or leverage levels that you are comfortable with your balance sheet?

Katri Hokkanen

Yes. So, if I start with the balance sheet. So, of course, now after Neles became part of us, the balance sheet value has increased. So, the sum is EUR 6.55 billion, so it has increased. And we had debt now after the Neles merger, so, our gearing went from 22 to 18%. So, of course, we are carefully looking at the situation. We have been discussing about the topic and I think it's really important to be alert, and with the rising interest situation and those kind of things. So, our treasury organisation is working hard on the topic, or keeping it under control.

Antti Kansanen

Yeah sure, but you don't have any kind of, say, net debt to EBITA or gearing percentage in mind that would be kind of the limit that you wouldn't like to go over?

Katri Hokkanen

I think we are now on a very good level. I think that's fair to say. So, we don't have any limits or we haven't set any limit for that.

Pasi Laine

Like you Antti know, our gearing before the merger was sometimes -20% and sometimes almost +30%. And we have been comfortable in changing the gearing between those numbers. And now, of course, one could think of that gearing numbers could be little bit more aggressive, but we still think that it's good to have good balance sheet and good, strong company, because you never know what kind of disturbances there are in front of us in the future.

Antti Kansanen

Yeah, absolutely. And then kind of continuing at that theme, if we think about dividends and your pay out rates, is the new, kind of adjusted EPS something that we should look when we assess the pay out ratio? Or just the reported net profit?

Pasi Laine

We have had the policy to pay over 50%. And like you know, our track record has been to pay a little bit more. But, of course, we can't give any guidance yet, what kind of thoughts we have. But track record has been that we have been paying little bit more than the policy is saying.

Antti Kansanen

All right, thank you!

Moderator

The next question comes from Panu Laitinmäki from Danske Bank. Please, go ahead!

Panu Laitinmäki

Yes, thank you! It's Panu Laitinmäki from Danske. I have two questions, both on margins. So firstly, on the Services business. It kind of went down again after Q2 where you went back to normal. So can you explain what is going on there and kind of, what do you see going forward, when can you mitigate the inflation? And then secondly, on the Process Technologies, we saw a sequential improvement from Q2, is this the way to go for the coming quarters, or how do you see this developing with the problem projects that you have mentioned? Thanks!

Pasi Laine

I think in Services, like Katri said, first quarter was not that good. Second quarter was little bit better, but then I think we tried to communicate that the actual was one percent below last year. And now we are 1.2 percent below last year, so in a way third quarter continued the trend where we were after the second quarter. Of course, we -- so, like Katri said also, we are not happy with the profitability development. So, our Head of Business Line, Aki, is working very hard on the topic together with the area colleagues. And we have had too much delay in pushing the increasing inflation to our sales prices. And that has taken little bit too long time, but I'm sure that Aki is working on the topic. Of course, we can't give any estimates when we will see a positive change, but we work on the topic.

Then on Process Technologies, if you look the Process Technologies segment profitability numbers last year, you will see that there is some fluctuation. So, there is still, and there will be always, some fluctuation in the EBITA percentage, so it's not like a train that stays all the time the same level. So, we have been low in the profitability and we are below of last

year's profitability due to some selected projects in Pulp and Energy, like we have been saying. But there the same, you can't take one quarter and think that it's a trend, so we have to look little bit longer terms when analyzing the numbers.

Panu Laitinmäki

Thanks! Can I ask on the Process Technologies, so, would you think that going into next year you would have kind of digested the impact from these projects? Or is it something that will burden for a longer time?

Pasi Laine

We haven't given estimates for the segment, so, it's very difficult to answer to your question. But of course, we work hard on... if I start from that level that our target is to make 12 points and we are not at the 12 points, so, then of course, Process Technologies, Automation, Services segments all have to improve for us to reach the target.

Panu Laitinmäki

All right, thanks!

Moderator

The next question comes from Weier from UBS. Please, go ahead!

Sven Weier

Yes, good afternoon! It's Sven from UBS. I have a few questions if I may. The first one is on the Pulp business. I was wondering if you could go in little bit more detail into the leadership changes you've made over the last coming months? And, whether that also implies a general strategy change of Pulp? I'm just wondering, especially with regards to your strategy on green field mills? Given that, I mean, it looks quite likely that also in the future these projects will be quite quite sizeable, and whether you deem them in general a bit too risky? That's the first one, thank you!

Pasi Laine

So, we have been developing the leadership team all the time. And now we had a... first of all Bertel has been doing good work seven years in running Pulp and Energy. It's a tough place to be in. And then, we have at the same time been developing Sami, who has very good track record in Automation. And then we saw the possibility that Bertel would focus on the topics where he's very strong. So, customer contacts, and customer care of big

customers. And then, at the same time, have a smooth transition then, so that Sami will take over the business line leadership. The change has gone well. Bertel is doing very good work, Sami is doing good work. So, I'm happy with the change.

We are not, that has nothing to do with a strategy change. So, we keep the same strategy and now we have fresh blood in executing the strategy. Green field, I have been careful with very big green field projects in South America. Like I have been saying earlier, that might be that now when Valmet is strong company, having so big stable business, we have very good track record in executing the projects in South America. So, might be that we are willing in coming years to take little bit more risk than what we have had earlier.

Sven Weier

Okay, thank you for that Pasi! The second question is on the board side please, I mean, obviously we saw now two quarters where the order intake was a bit weak. Of course, the comp[arison] is tough. The outlook is still good. I was just wondering, is the unchanged outlook with the "good" predominantly because you still have a very high load for the quarters and maybe years to come, whereas, you know, the new order activity continues to be slow? Or how should we look at that situation?

Pasi Laine

I think first of all, the Paper business line order intake has been now EUR 921 million. And then, when we had -- order intake was EUR 1 billion, we said that it's very good level. And the whole year last year we were saying that this level of orders coming in was extraordinary. So, this EUR 1.6 [billion] was something which in a way is even too high comparing to our capacity. So, now if you see that our net sales is somewhere at EUR 1.3 billion level, so EUR 1.6 [billion] means almost 3 months more backlog in a year. So, of course, that kind of situation can not continue. I see that the market activity and our order intake in the beginning of the year has been actually good. The comparison period was extremely good, but this EUR 921 million is good level for the Paper business line.

Sven Weier

Okay, good, thank you, Pasi! And maybe one for Katri, and also welcome from my side. It's just on the receivables. Because we saw a bit of a sequential drop from over 800 to below 700, which I think seasonally is a little bit unusual. Could you just walk us through, what happened on the receivables? Thank you!

Katri Hokkanen

In my opinion, the receivable, it varies between the quarters and it varies between the months. So, there was nothing extraordinary in that change.

Sven Weier

But still a normal receivable collection, not factoring or something like that...?

Katri Hokkanen

I would say that we are doing good job with the receivable collection overall, so, that's how we are working all the time, in all the businesses.

Sven Weier

Okay, sounds good. Thank you both!

Pasi Laine

Thank you, Sven!

Katri Hokkanen

Thank you!

Moderator

The next question comes from Johan Eliason from Kepler Cheuvreux. Please, go ahead!

Johan Eliason

Hi, this is Johan at Kepler Cheuvreux, Hi Pasi!

I had a question really to Katri actually, on this comment about Services order intake 16% currency adjusted, roughly half on price. What was the price in the sales in the quarter, so we can get the feeling for how the prices are catching up with the inflation and how will it plan out in the coming quarter. Thank you!

Katri Hokkanen

Well, the trend, of course, if you... I think it's very positive, first of all, that we have been able to increase the prices, and of course, that there has been the organic growth, so, eventually you will see also that trend in the net sales, as well. So, I would say that it goes both ways.

Johan Eliason

Yes, but didn't you have any price hikes in the sales?

Katri Hokkanen

As said, so, we have, of course, increased the prices. So, that comes then through also in the net sales when Services is doing the invoicing and sending the goods. So, when we increase the prices and when we deliver, then that is visible there, as well. So, both order intake and net sales, there was a good increase.

Johan Eliason

At this 8 percent level for both?

Katri Hokkanen

We now commented only for the order intake, but you can calculate it from that.

Johan Eliason

Okay, excellent! That's all I have, thank you very much!

Moderator

As a reminder, if you wish to ask a question, please dial *five on your telephone keypad.

There are no more questions at this time. So, I hand the conference back to the speakers for any closing comments.

Pasi Laine

I assume it was a robot and not a lady this time.

Pekka Rouhiainen

Yes, Pasi. That's a correct observation!

So, we're now ready to conclude the event. And I'd like to remind everybody about our upcoming events. So, of course, the financial statements i.e the Q4 will be released on the 2nd of February. But before that we will have a site visit to Flow Control's site in Hakkila, Finland. So, hopefully everybody who are interested are already registered to that event. So, if not, please remember to do it.

And then, save the date also for the Capital Market's Day. So, that's gonna take place on the 8th of March 2023 here in Espoo, Finland.

But yeah, I guess that's all from our side, so, thank you Pasi and Katri, and everybody for the questions, and have a nice rest of the day!