Transcription

Valmet Financial Statements Review 2023 webcast

07 February 2024

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00:00:01 - 00:00:29
Pekka Rouhiainen: Good afternoon, ladies and gentlemen, and welcome to Valmet's fourth quarter 2023, as well as the full financial year 2023 results publication webcast. My name is Pekka Rouhiainen. I'm the head of Investor Relations here at Valmet, and the speakers today will be Valmet's President and CEO, Pasi Laine, and CFO Katri Hokkanen. After the presentations, you will have the chance to ask questions over the phone lines from the presenters. However, without further ado, Pasi, please go ahead.

00:00:30 - 00:01:37
Pasi Laine: Thank you, Pekka. Welcome. Ten years have gone and now it's time to look at how the numbers look for the 10th year of Valmet. We are saying that orders received remained at the previous year's level and amounted to close to five billion, and comparable EBITA increased to 619 million. First I'll go through the 2023 in brief. Then some words about segments and business lines. Then Katri will go through the financial development, and I will go through dividend proposal guidance and short-term market outlook. First '23 in brief, as I said, orders were close to five billion. Net sales increased to five point five billion, and the backlog at the end of the period was about four billion. Our comparable EBITA increased to 619 million and margin was eleven point two percent. So it's record net sales in Valmet’s history, and its record EBITA in euros.

00:01:37 - 00:02:48
Pasi Laine: It's also a record EBITA margin in Valmet's history. So good year. Now after we have made mergers and acquisitions, gearing was ---40 percent, so a little bit higher than it used to be before the acquisitions and mergers. 2ut all in all good numbers. Then a little bit more about them. Orders received were divided into services, automation and process technology so that about one point eight billion came from Process Technologies. Then Services and Automation altogether were about three point one billion, Services being one point seventy six billion, and Automation one point three four billion. Net sales by segments were such that the net sales from Process Technologies were two point four billion, net sales from services one point seven, and automation one point three. EBITA was such that our Process Technologies contributed 110 million, Services 312 million, and Automation 248 million.

00:02:49 - 00:03:54
Pasi Laine: Nice distribution of the business, orders received, revenues, and comparable EBITA. At the end of the period we employed about 19,000 people. Then here we have the graphs we have been proudly showing and continue to show proudly, so orders received were a little bit under five billion. There is a decline compared to last year. In net sales, we grew to five point five billion. It was, of course, nice growth. We started with two point five billion and now we have a five point five billion Euro company. We have over doubled our net sales over the years. Comparable EBITA was 619. We started from 50, and since then every year we have been able to improve our comparable EBITA in euros and comparable EBITA margin. We started from two percent. We ended up now in 11.2. Last year was an exception, but in all the other years we have been able to improve our EBITA margin as well.

00:03:54 - 00:04:57
Pasi Laine: All in all, I think all the Valmeteers who have been working here for ten years and last year can be proud of their achievements and I would like to thank all the Valmeteers now for the excellent work they have been doing over the years to develop the company further. You can be proud of your achievements.
Orders received, like I said, a little bit under four billion --- five billion, so 4,955,000,000. Then here you see also the geographical distribution. The Asia Pacific was almost 700 million. China was about 640 million. Europe declined as well to one point eight five billion. South America was growing to 500 million, and North America stayed at last year's level, being one point two seven billion.

00:04:57 - 00:06:07
Pasi Laine: We have seen a decline in capital markets, where I’ll come later back. And that's why some of the areas have had smaller order intake than a year ago. Then one thing we are also proud of is the development of our stable business. We started with a company where we had a Services order intake of a little bit over one billion, and now our Services on order intake is 1,760,000,000. Then we acquired systems, have been growing systems and then we merged with Neles. Therefore, we have been growing the automation business from

nothing to 1,340,000,000, and now stable business total orders received is three point one billion. This is, of course, the big change that has taken place in Valmet and we are very proud of the development. We have been calculating that organic growth over the years is roughly about seven percent on the businesses we have had and then the businesses we have been acquiring so good development.

00:06:10 - 00:07:28
Pasi Laine: The backlog is almost four billion. I would say that it starts to be on a more normal level. This end of last year's four point four billion was too high, so delivery times were getting too high in many of the businesses. Now the level roughly four billion is a good level. We remember all the good years '19 and '20 when we were at three point two billion euro level. Then we were happy with the backlog as well. We have to understand that we are now coming out of the exceptional years. That means that the backlog will be getting smaller as well and delivery time shorter. Now we are saying that about 85 percent of backlog is expected to realize as net sales during '24.
Then some words about the acquisitions in '23. We started the year by making NovaTech Automation's Process Solutions acquisition in the US, about 18 million dollar business. We completed that on January third. The idea was to get the so-called batch control system in our offering and that's what we achieved and the progress with NovaTech Automation has been good.

00:07:28 - 00:08:36
Pasi Laine: Then the big thing was, of course, the acquisition of Körber Business Area Tissue, which then became Tissue Converting business unit in Valmet. There we are saying that '23 net sales in the total business were about 300 million, and out of which, out of which net sales, we booked about 76 million in our books. We employ now about 1,170 specialists mainly in Italy, Brazil, the US, China, and Japan. The acquisition was completed in November the second. Integration has started well and the atmosphere inside Valmet and inside Tissue Converting is very good. Therefore, that has started in a very positive manner.
Then we have a process of finalizing the acquisition of Siemens process gas chromatography business. We are expecting now that the acquisition will be completed on April first at the earliest.

00:08:38 - 00:09:42
Pasi Laine: We have also made a contract to acquire Demuth, which would strengthen our Brazilian operation for wood handling, and there the annual revenue is about 20 to 30 million. Therefore, a lot of activity in acquisitions in '23, and of course, the work continues in '24 to make these acquisitions as successful as our early acquisitions have been. Good work by the organization again.

Then some words about the segments and business lines, so first Services. Services order intake stayed at the last year's level, last year or '22 order intake was 1, 756 million, and now it is four million more, so 1,760 million. Roughly 20 million of that is coming from tissue converting. So, without tissue converting, we would have had a decline of one percent. With tissue converting the order intake stayed at last year's level and I think it's a good achievement.

00:09:42 - 00:10:33
Pasi Laine: You all know that our customers have faced quite a lot of challenges with their production volumes, and I think it's a very good achievement that we were able to keep our order intake at last year's level, which year was very good, like you here see when you compare between '21 and '22. There was a lot of growth in '22 and then we were able to keep that level last year, so that was good. Net sales were increasing as well. Then I'm very happy that the profitability grew to 17.5 percent, and eurowise, it was 312 million. Therefore, it's good profitability development in euros and EBITA marching as well, so well done by the areas and our Services business line.

00:10:35 - 00:12:23
Pasi Laine: Services like we have had a custom to do, so we give a little bit more data after all the full years. Here are some data about Services as well. Here you see what's the distribution of different business units. Orders received by business units. You see the orders received by area, and you see also the orders received by the customer segments. I don't have here the comparison numbers but you can analyze the numbers more in detail and compare them to last year. Then you can have maybe some questions, but this is to help you to understand how our services business have been developing last year, and you can compare that with the previous years as well.
Then in Automation, like I said, order intake ended up to 1,340,000,000 and net sales were a little bit lower. Comparable EBITA was 248 million and 18.6 percent, so we are happy with the performance in all respects. Orders received were developing well, net sales were developing well and EBITA euros were developing well

as well as EBITA margin, so good execution of business management by Flow Control and Automation Systems. In Flow Control order intake ended up at 789 million, growth from last year of 17 million, and net sales ended up at 777 million, so a growth of 60 million compared to last year.

00:12:23 - 00:13:35
Pasi Laine: We are very happy with the performance of Flow Control, and then we can now proudly say that we have completed the annual --- and reached the targeted annual synergies of 25 million on a run rate basis, so the Flow Control organization has been doing good work there. Of course legacy Valmet has been doing good work. Therefore, we have achieved the cost synergies and we have achieved the sales synergies one year before what we promised when we merged with Neles, so good development here as well. Then here we have the same distribution. You can see that about 64 percent of the order intake is coming from MRO and services, and projects are contributing to about 20 percent order intake. The valve controls and actuators are about 16 percent of the business. Industry-wise 28 percent is coming from pulp and paper. The biggest end market is refining and chemicals. Renewable energy and gases are about 10 percent.

00:13:35 - 00:14:54
Pasi Laine: Metals and mining has been developed well, being 10 percent and other industries nine percent, so nice distribution of customer segments here as well.
Then Automation Systems, nice growth. Order intake ended up at 551 million, so nice growth compared to last year. Net sales have been growing nicely as well compared to last year. Ended up with the same number 551 million. Our automation business has been, systems business has been developing well over the years. As you see here, we started from 337 million, and now with one small acquisition NovaTech, we are at 551 million. Then the journey continues here with the acquisition of Siemens gas chromatography business. Customers wise, about 70 percent is coming from pulp and paper, 30 percent from energy and process. Then distribution by-product is such that about 57 percent is coming from DCS or distributed control systems, the quality management systems is about 23 percent, and analysis and measurement about 20 percent.

00:14:54 - 00:16:17
Pasi Laine: Now, of course, these two graphs will change quite much when we complete the acquisition of the Siemens gas chromatography, so a lot more business from energy and process. Then one product group here is more on the analyzer side.
The Process Technologies. Order intake was a little bit over one point eight billion, so down quite much compared to last year's, 500 million. Here we have to look a little bit at a trend. When we go to 2018, '19, and '20 we are almost at the level where we were there with the order intake. Therefore, it's of course a lower order intake, but it's not nothing dramatic in order intake wise. I'll come back to years '21 and '22 in business line graphs. Net sales were two point four billion and we generated EBITA of 110 million, which was four point five percent. We still have some challenges in selected pulp projects. Then we had some issues and cost overruns, inflation, and cost overruns in some tissue projects. The positive side here is that now we can say that the energy project challenges are over.

00:16:17 - 00:17:33
Pasi Laine: We started to say that we had challenges then when the war in Ukraine started, now we can say that our energy projects are performing well and portfolio is also healthy. So one issue has been solved.
Then Pulp and Energy business line. Order intake was at 854 million, down compared to last years, but it was at the level where it has been for several years. As we have been saying, we have been preparing ourselves for this order intake level, so our capacity cost in Pulp and Energy is low compared to order intake and net sales. Net sales last year were 1,067,000,000. In Pulp and Energy, we could actually change the name now to Energy and Pulp because, for two years in a row, energy has been bigger. Therefore, 57 percent of the order intake came from energy and 43 percent came from pulp, so this biomass boiler market is an important market for us and has been performing well.

00:17:33 - 00:19:00
Pasi Laine: As I just said in an earlier slide now the execution of the project is also good and has overcome the challenges we got with the inflation coming from the sudden events events in the marketplace. So, a big part of the market is single-island products, so complete mills were 22 percent of the market. Quite often we talk quite a lot about complete mills, but like we have been saying this single island product so a little bit smaller projects, is very essential and a big part of the business.
Paper business line. Here you see very well what has happened. So our order intake was somewhere at 700 million euros level. Then it jumped to one billion. We were very proud of the one billion euro level. In '22 or '21, we were surprised that the order intake went to one point six billion and in '22 it continued to be at a good

level by almost a level of one point three billion. Now it's one billion. What we still – I'll come a little bit later to the outlook, but what I want to point out here is that two years, three years back, we were very proud of the one billion euro level.

00:19:00 - 00:20:12
Pasi Laine: We were then saying that the level is good. We have been careful with capacity costs here as well. Then order intake last year doesn't include very much tissue converting. Maybe I remember correctly that it was 40 million, but Katri can correct me if I said the wrong number. Almost all of that one billion came from the existing businesses. Net sales were one point three billion, and it is of course the consequence of good years in '21 and '22. Business-wise, interesting is that half of the business came from the board. Last year it was a lot of higher percentage. We see good activity in paper machines, so 18 percent for printing paper machines. There are still markets where printing paper machines are needed. We have good offering there and we have a good engineering team. The same team is doing the board machines as well, and the same manufacturing units are doing the same machines, both machines.

00:20:12 – 00:21:37
Pasi Laine: So paper is also a good market for us. Tissue, I'll come back to outlook later on, but tissue order intake grew last year, and 33 percent of the order intake came from tissue. That includes also some part of tissue converting. 5ut in a way, this situation is now healthier. So we are not depending only on packaging material as much as earlier. The market was dominated by new installations. The rebuild market was not that strong and a single product was quite a small part as traditionally, so a big part of the business came from new markets or new installments.
Good. Then still one extra slide. Again, compared to ten years back, our orders received were then about two point two billion, 180, a little bit less than 200 million were coming from customers outside pulp and paper. Now the order intake outside pulp and paper was one point three billion. Our order intake from pulp and paper was less than two billion, and now it was over three point six billion.

00:21:37 - 00:22:50
Pasi Laine: The message here is that we have believed in pulp and paper, and we have been growing organically and supporting that with acquisitions as well. We believe that it has been a good market and continues to be a good market. At the same time, we have been expanding other customer industries with acquisitions. The first step was of course automation business. The big step was Flow Controls and then the organic growth of Energy as well. Therefore, now about one point three billion of the order intake is coming from businesses outside of pulp and paper, which then of course increases the diversity of our business portfolio. The boilers, which are located in paper mills and pulp mills, are calculated here in energy, but the amount of that varies from year to year. However, slowly Valmet is also becoming a company, integrated company with a more diversified customer base. Good. Now I let Katri talk. I didn't touch the water.

00:22:55 - 00:24:04
Katri Hokkanen: Hello everybody, on my behalf as well. Good to be here today. I also want to thank all the Valmeteers globally for last year and send my special thank you to the finance team for closing the year 2023. I will walk you through the financial development. I will start from the quarter, orders received decreased close to one point two billion. Net sales remained at the previous year's level and amounted to close to one point five billion, order backlog was close to four billion, comparable EBITA decreased to 183 million, and the margin was 12.2 percent. Gearing was 40 percent at the end of last year. I will highlight only the full-year numbers here since I had the quarterly numbers there, but as Pasi already said, order intake was close to five billion. Net sales record high of five point five billion, comparable EBITA record of 619 million, and percentage was 11.2, which was also a record. We are very proud of the result. I will come back to the other numbers later in my presentation.

00:24:05 - 00:25:29
Katri Hokkanen: We have made some adjustments to the presentation, so we have now segments in separate slides. I hope that you will find this useful and I will start with Services. In Q4, actually, the market was more active than in Q3 and orders received ended up at 404 million and there were 21 million of the tissue converting inside of this number. However, the changes in the FX rates decreased the orders by approximately 14 million. Net sales were 508 million, so that was flat compared to the comparison quarter and comparable EBITA was 91 million or 17.9 percent. When we look at the full-year, order intake was close to one point eight billion. That was at the same level as the comparison year. Net sales were also close to one point eight billion, and that was 11 percent higher than the comparison year. The comparable EBITA was the first time ever over 300 million at 312, and the margin was 17.5 percent, so very good development in the Services segment.

Moving to the Automation next and starting from the quarter, order intake was 319 million. Net sales were 375 million and comparable EBITA is 79 million.

00:25:29 - 00:26:34
Katri Hokkanen: Therefore, all of these numbers were on the same level as in the comparison quarter, and the margin was 21.1 percent for the quarter. If we look at the full year. So actually orders received net sales both reached this one point three billion level. Here it's good to remember that Flow Control has been in our numbers since the second quarter of 2022. Comparable EBITA was 248 million and the margin was 18.6 percent, so good development here as well.
Next Process Technologies, order intake for the quarter was 432 million. As Pasi said, Tissue Converting impacted this by 40 million. Net sales were 615 million, and the comparable EBITA was 25 million for the quarter, or four point one percent. As already mentioned, EBITA decreased as the margins in some pulp projects were impacted by cost inflation and also due to cost overruns in some tissue projects.

00:26:35 - 00:27:57
Katri Hokkanen: Then, for the full year, in Process Technologies, order intake was close to one point nine billion and that was 21 percent lower than the comparison year. Net sales were close to two point four billion and comparable EBITA was 110, or four point five percent. Of course, it was a disappointment for us that the profitability decreased.
We also have the traditional segment key figure slide on the presentation. I will not repeat the numbers anymore but want to highlight Other from here. It was minus 13 million for the quarter and for the full year, it was minus 50 million.
Then a few words also about comparable gross profit and SG&A and comparable gross profit was 26.4 percent in Q4, and stable business represented 59 percent of the volume. When you look at the chart on the left-hand side, the gross profit has been developing over the years. Last year we were at 25.8 percent or one point four billion. On the SG&A side, the comparable SG&A was 901 million for the full year, and that represents 16.3 percent of the volume. As you can see from the chart, we have been managing SG&A costs well over the years.

00:28:00 - 00:29:07
Katri Hokkanen: Cash flow from operating activities was 352 million and capital expenditure amounted to 125 million. Net working capital was 191 million, and that was four percent of the orders. The acquisition of tissue converting increased net working capital by approximately 92 million in the fourth quarter. If we compare the net working capital to the year 2021, it has increased mainly in capital business, and also flow control and tissue converting have been impacting it. Today, our mix contains much more stable business which typically ties up more net working capital.
Net debt was one billion at the end of last year and gearing was 40 percent. The increase here is related to the acquisition of the tissue converting business. Our net debt to EBITDA ratio increased compared to 2022 and was one point four six.

00:29:08 - 00:29:53
Katri Hokkanen: The average interest rate of our total debt was four point five percent, and net financial expenses amounted to 34 million. Capital employed was close to four point one billion, and integration of Flow Control, as well as Tissue Converting, has increased this number. And the comparable return on capital employed was 15 percent. Then adjusted earnings per share decreased to two euros and twenty-eight cents, and this was due to higher net financial expenses as well as lower items affecting comparability. This was my part of the presentation. I will give the floor back to Pasi. Thank you.

00:30:03 – 00:31:22
Pasi Laine: Thank you, Katri. Now it’s time for dividend proposal, guidance and short-term market outlook. Here's the... Now I'll start with the dividend proposal. Policy. So we - - policy is saying that we should pay at least 50 percent of the net profit, and our Board of Directors’ proposal to the annual general meeting is that we would be paying or the company would be paying one euro and thirty-five cents dividend per share, which then would represent about 70 percent payout ratio. The dividend shall be paid in two installments, and here you see the graph. Since 2013 or the year 2013 we paid 50 cents. Then every year we have been able to increase our dividend payout. Now if the proposal is approved by the AGM then the dividend from last year is one euro and 35 cents. Therefore, we are of course very proud of being able to propose again an increasing dividend to be paid to our shareholders.
The guidance and short-term market outlook.

00:31:22 - 00:32:46

Pasi Laine: So, if I start from the short-term market outlook. In services, the market is quite much the same what we said after quarter three. We see more sales activity now compared to the third quarter. Yes, after what --- we see more sales activity than at the end of the year, the end of the summertime. Markets are more stable in a way that all the markets are having activity. However, it's not at the level where it used to be. That's why we are saying that the okay, this I have to take a little bit another way because the market is at the level, order intake was at the level of '22. Now we have some units where we have a little bit of challenges with capacity utilization, so we have overcapacity in some of the units. We are there on the borderline of whether it's good or satisfactory, but the market itself has shown more activity in the fourth quarter than we saw in the third quarter. As we said after the third quarter, flow controls, the market continues to be active, so it's a good market.

00:32:46 - 00:33:43
Pasi Laine: We are a niche player, and quite much of the order intake development depends on our own activity. Therefore, we have still a big market to serve and order intake was at a good level for the whole year, so it continues to be in the systems business. You saw that order intake has been growing and the market continues to play the same, and we keep the outlook good.
In pulp you saw order intake in pulp was about 45 percent of the Pulp and Energy. Therefore, we have the same situation as earlier in that customers are investing in single island modifications, but we are not seeing big projects moving ahead quickly at the beginning of this year. In the energy market last year was good and it continues to be good. In paper and board, the market continues to be satisfactory.

00:33:44 - 00:35:15
Pasi Laine: As I said, more paper activity than in a couple of previous years, but then board activity continues at a satisfactory level as well. Tissue we still kept at a satisfactory level, even if the order intake was growing compared to the previous year. Then we are saying the guidance for '24, that Valmet estimates that net sales '24 will remain at the previous year's level in comparison with '23, and comparable EBITA in '24 will remain at the previous year's level or increase in comparison with '23. Therefore, first, if we talk about the net sales, of course, our order intake was lower than the net sales last year. However, then we have to remember that we made a sizable acquisition of tissue converting, and of course, now we will have the full year's net sales recognition from tissue converting for '24. Last year we had only two months, so that will impact the net sales. In EBITA, we are saying that it's either on a previous year's level, so flat or increasing. Our track record is that we have been improving our EBITA year after year and that's of course the target setting.

00:35:15 - 00:36:00
Pasi Laine: We are now guiding that with the backlog and with the business portfolio, what we currently have, we are having EBITA either at that flat or increasing. Of course, the tissue converting will have an impact as well in EBITA euros. I'm sure that there will be some questions about it later on, but this is the guidance that we have now. Net sales on last year's level and comparable EBITA either at the previous year's level or increase in comparison to the previous year. Good. Thank you, and now Pekka.

00:36:03 - 00:36:26
Pekka Rouhiainen: Thank you, Pasi. It's now time to move on to the Q&A session. I asked Katri also to join us here in the front. I was reported that there were some technical issues during the call, but they should now have been resolved. Hopefully, everything is working well from here on, but let's now move on to the questions. Operator, I hand over to you.

00:36:29 - 00:36:53
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Antti Kansanen from SEB, please go ahead.

00:36:57 - 00:37:35
Antti Kansanen: Yes. Hi, guys. It's Antti from SEB, a couple of questions. I'll take them one by one. First is coming back to the sales guidance for '24. You referred to your orders being down, but you still expect a fairly similar contribution from the year-end backlog. You also should benefit from M&A. I guess you have a couple of them that have not yet closed, but you expect to close them in during '24. Therefore, they suggest that you don't expect that much from the business that you usually book during the year, which is largely on services and automation, so could you comment a little bit on that one?

00:37:35 - 00:38:58
Pasi Laine: First, I think in guidance, I'm not a lawyer, but I think we can guide only the businesses that are now

part of Valmet. We can't in guidance, take into account the businesses which in the future will be part of Valmet. Like Siemens gas chromatograph impact cannot be guided now, it can be guided only after. So we have our backlog, we have now told you how big part of the backlog will be recognized as revenue this year. You can calculate from there the book to pay what is needed, but then of course, in the business portfolio itself, we target to grow services like we have been growing all the years. We target to grow flow controls like we have been growing automation systems the same. Then of course, on top of that will come the revenue recognition from tissue converting as well. Then I think it's clear to everybody that the process technology revenue without the tissue converting most probably will go down, so in Pulp and Energy total intake was 850, and in earlier years it has been higher.

00:38:59 - 00:39:27
Pasi Laine: Therefore, then most probably the revenue recognition in '24 will be less. The same applies to Paper without tissue converting. What I am saying is that we are actually confident in stable business contribution. Then revenue recognition from process technologies will be smaller now because the order intake last year was less than in previous years.

00:39:30 - 00:39:58
Antti Kansanen: Okay, that makes sense. Then the second question is on the Process Tech margins in Q4 and it was a bit weaker trend again. Could you comment a little bit about the issues you had with the tissue project execution? Is this something that we should take into account going forward? I mean, the Pulp and Energy issues have lasted for a while, or was this more like a Q4 isolated impact?

00:39:59 - 00:40:22
Katri Hokkanen: Yes, I can start and you can complement. I mean, what is a fact that the project management in some of the tissue projects hasn't been good enough and the inflation has now impacted the tissue profitability with the delay and you could see it in our numbers. Of course, we are taking all the measures needed and we always recognize the project revenue with the most probable outcome.

00:40:23 - 00:40:50
Pasi Laine: Then if you compare a little bit of pulp and then tissue, so pulp project lasts two and a half three years, and tissue projects go through the delivery in six to nine months. Last year's order intake was reasonably good, so from there, you can add one line, which I'm not saying.

00:40:53 - 00:41:01
Antti Kansanen: Okay, any comment on how much of those pulp projects still last in '24, size or length or...

00:41:02 - 00:41:10
Pasi Laine: No comments on that, we haven't given the backlog figures for business lines and of course, not for business units either.

00:41:11 - 00:41:16
Katri Hokkanen: However, we are doing the best we can, of course, to improve as soon as possible. Yes.

00:41:18 - 00:41:35
Antti Kansanen: Okay, then the last one for me is on the working capital. Katri, could you remind us going forward what is kind with the new business structure, reasonable working capital to sales levels in a few years time, that's your ambition or how should we think about '24?

00:41:35 - 00:42:27
Katri Hokkanen: Yes, so we don't have a target for any specific balance sheet items, as you know, but of course, it being positive at 191 million, it's a big change compared the levels that it has historically been. Of course, the tissue of converting had an impact of 92 million. That was one reason, but the mix has changed. We have much more stable business nowadays and capital project advanced payments can have a really big impact even between the months and the quarters, so of course all of those elements have to be taken into account. However, we have been also saying in the past that the inventories have been on an elevated level and that's the situation still today. We have many actions ongoing in the organization on all fronts, but the fact is that it takes some time to get that visible also in the numbers, so the work continues there.

00:42:30 - 00:42:31
Antti Kansanen: Okay. Thank you.

00:42:38 - 00:42:44
Operator: The next question comes from Sven Weier from UBS, please go ahead.

00:42:47 - 00:43:15
Sven Weier: Yes. Good afternoon and thanks for taking my questions. I also go one by one. The first one is on service. Pasi, in the last call, you were so kind to give some regional color because I think you said that North America and China were showing signs of improvement during Q4. I was just wondering if you have that continuing or how you see the current situation. That's the first one. Thank you.

00:43:16 - 00:44:28
Pasi Laine: Thank you. I started to feel time pressure in my presentation and I skipped that one. Thanks for coming back to that Sven. China was doing well, so they almost reached the numbers they had in '23 and '23 was good. We still see more activity in China. Asia-Pacific was flat compared to last year, so also an improvement in the latter part of the year. Europe was flat as well compared to last year, which was positive. Then North America. There was activity but not enough decisions. There I was, a little bit too optimistic in - - after third quarter. And South America had so a good year last year that it can't --- and there was one extraordinary order. Therefore, they can't continue at the same level this year, but activity is in a way quite uniform currently in all the market areas, so I wouldn't say that any of the market areas are less active than the other one compared to a normal situation.

00:44:31 - 00:44:46
Sven Weier: Yes. Thanks for the color, because I'm also asking because you said you're aiming to grow service revenues, but your book-to-bill was negative last year. Therefore, I was just wondering do you see that more second half loaded or a more steady development.

00:44:47 - 00:45:22
Pasi Laine: There are many things which are moving and one thing which is moving is the delivery time. In '22 customers were ordering earlier because there were longer delivery times. Now when the delivery times are getting short, the customers are learning that as well. Then our book to bill in a year will increase compared to most probably increase compared to previous years or will be more in a normal situation.

00:45:25 - 00:45:57
Sven Weier: The other question I had was just on the capital equipment business, obviously, sales will decrease this year, but I was just wondering in terms of the load of the factories. For now, I think you can handle this well, you mentioned capacity costs as well under control, but is there a kind of timing when the new orders need to start to improve so that the utilization issues don't become even worse or are you fine with the current order intake?

00:45:57 - 00:46:59
Pasi Laine: No. We have done some measures already in tissue machines, pulp and energy to save and that capacity cost is well managed. Therefore, a big part of our capacity is in Finland and here is actually very easy to adjust the capacity cost because we have that kind of a temporary lay-off system. Currently, we have a good workload in most of the units. Then, of course, it means that there needs to be a good focus on getting new orders, but in a way that's normal as well, that all the time you have to win new orders in capital business. As I said, in paper side, we have to now adjust back to the years before the extraordinary year, so one billion euros order intake is good level for paper business line.

00:47:02 - 00:47:16
Sven Weier: Then maybe on the cost overruns in pulp and the tissue. I know you don't give any more details in general, but I was just wondering, should we at least assume that the headwind to earnings will be lower this year than last year?

00:47:19 - 00:47:33
Pasi Laine: --- Of course, the backlog that we inherited from the years before and decisions before the Ukraine war and inflation is becoming smaller.

00:47:37 - 00:47:49
Sven Weier: Very finely, if I may, just a question for Katri on PPA. I was just wondering if you could give us a guidance on the PPA for the acquisitions that you've done so far.

00:47:49 - 00:48:03
Katri Hokkanen: Yes, so amortization was probably 25 million in the fourth quarter and this was impacted already a little bit by tissue converting and the amortization going forward is roughly 28 million in the coming quarters.

00:48:05 - 00:48:07
Sven Weier: Okay. Thank you both. I go back in line.

00:48:15 - 00:48:21
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:48:23 - 00:48:44
Panu Laitinmäki: Thank you. I have two questions. Firstly, on the comment that you saw higher activity in Q4 compared to Q3. In which businesses was that and are you now more optimistic on the demand outlook for the next six months than you were at the time of the Q3 report?

00:48:45 - 00:49:38
Pasi Laine: No--- We saw more activity in services and in automation order intake in the third quarter was quite low and it rebounded. Then for coming quarters, we gave the guidance that we gave and then one has to be careful now with the first quarter expectations because in Services we had an extra ordinary good quarter one in year '23. Therefore, don't expect miracles in quarter one, but the guidance we gave is for the coming six months that we see good to satisfactory demand for services. Then we see also a good outlook for automation systems and flow controls.

00:49:41 - 00:50:25
Panu Laitinmäki: Okay. Thank you. The second question is on the Process Technologies outlook, where you have a satisfactory outlook for both board and pulp, so just thinking about what order levels could we expect going forward. Would you think that on Paper the kind of 800 million annual run rate that we saw in the second half would be kind of bottom, and it could get better over time? Same question for pulp and energy. I mean, you had 850 last year, energy looks stable or growing, and then pulp was at the lowest level in ten years. Is this the floor and it gets better? How should we think about that?

00:50:25 - 00:51:42
Pasi Laine: No. First, if I start from Energy. There, outlook --- last year and the previous year order intake has been good and we continue to have the outlook as good. Then in board and paper, we have reduced the order intake or the outlook to satisfactory. There is the dilemma that with the same volume that we have now three years back, we were saying actually that it was a good level. Therefore, it's not very logical now, but there were these two extraordinary years. In order intake, we can of course give guidance on what kind of expectations we have for the year, but the only thing I want to remind is that there is always quarterly variation in the process technology business. Therefore, some quarters are a little bit lower in order intake and some then higher. Then I would, or at least what I'm doing, I'm following the six-month and 12-month trends and not only one quarter, but unluckily, I can't give guidance on what kind of expectations we have, the order intake for the process technology businesses.

00:51:44 - 00:51:45
Panu Laitinmäki: Okay. Thank you.

00:51:50 - 00:51:56
Operator: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

00:52:01 - 00:52:44
Johan Eliason: Yes. Hi. It's Johan from Kepler. I was wondering a little bit about the competitive landscape going forward. I think your Austrian competitor talked about being a margin focus for the pulp and paper business going forward, which I guess is positive in a way. However, they also talked about gaining market share in board and paper. Where would you see that you face in the competition? Is it board in some geographies or is it tissue and how do you how confident are you on your position in those segments? Thanks.

00:52:44 - 00:54:03
Pasi Laine: How would I say? Of course, we have to work with our competitiveness all the time in an... Now,

what I have been saying to our organization is that of course we have to take care now of competitiveness, but luckily we don't have any extra other topics. We have a normal supply chain situation. We have inflation which we can foresee. We hope that there are no extra wars coming and so on. So the whole management can focus on improving our daily, weekly, and monthly operations, so that's where the competitiveness will start from. In board and paper we are competing against Voith, so there is one competitor. When discussing with customers it's clear that it's Voith and us, but I'm not commenting anything about Andritz on that market. Then in tissue. As we have been saying earlier, there are several players. There is Voith and Andritz, ourselves and some others as well.

00:54:03 - 00:54:49
Pasi Laine: There the market is more dynamic and we are one of the suppliers. We are the biggest supplier but not as dominant as us in the paper and board side. But we continue to believe that we have good technology, we have the best R&D centers. We have cost competitive delivery chain. We have very good engineers, we have very good startup engineers, and we have good customer relations. That's on those ones and the advantage that those give in our competitive position we believe in the future as well. It's not only one or two topics.

00:54:49 - 00:54:59
Johan Eliason: In terms of pricing I mean it's always a bit cyclical in this fairly concentrated market, but how do you see that going forward?

00:55:00 - 00:55:43
Pasi Laine: We have been saying that personally in pulp and paper or when the market gets not that active, then customers are focused on implementing smaller projects and it's easier to differentiate with the technology and supply. The bigger the project is, the more it's a commodity. Actually, the projects are getting smaller, but it's easier to differentiate. On the paper side, we are competing with Voith, and we are of course try to keep our profitability at the level with which we have been targeting.

00:55:45 - 00:55:53
Johan Eliason: Good. Finally, you have planned to retire. Any news on the replacement process you want to share?

00:55:54 - 00:56:21
Pasi Laine: Retirement happens in Finland when you are 65, so I'm getting only 61, so I have to find four years something to do before I can retire. I'm not in a position to say anything. I'm sure that our board is actively looking for my successor and I'm sure that immediately when they have found find a good candidate, they will come out with with the nomination.

00:56:24 - 00:56:25
Johan Eliason: Okay. Thank you very much.

00:56:31 - 00:56:37
Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:56:40 - 00:57:16
Mikael Doepel: Thank you. Good afternoon everybody. Just a quick follow-up on the service side. I'm listening to your earlier answers, and if I understand you correctly, you are mainly referring to what happened basically in Q4 compared to Q3 and how the year ended. However, I was wondering if you could say anything about what you're seeing now in the early parts of this year. You mentioned North America not delivering as you expected. Has that improved now? As the destocking or the restocking, any call you give on the early parts of the year of the service business, which would be helpful.

00:57:17 - 00:58:22
Pasi Laine: I tried to give a color that earlier in the third quarter, we were saying that we see more activity improvement in China and North America. Now I tried to say that actually the activity level is uniform in all the units, and it's very difficult for me to say that one would be more active and the other less active. Then we of course, all know that the utilization rates of the customer assets have been improving, and some of our customers have been saying that they see in a way, a little bit of improving demand for their end products, which might in the end, the latter part of the year will have a positive impact to us. However, currently, I can't distinguish between the areas. They have quite much the same kind of activity level and then I was saying that that be careful that last year, quarter one was exceptionally good.

00:58:23 - 00:58:55
Mikael Doepel: Yes, absolutely. That's understandable. Then a question on the guidance. Basically you're saying revenues flattish overall. Then I guess your aim to to improve the margins basically across all business areas. I'm just wondering if you could talk a bit about the building blocks to be able to do that, what would drive your margins higher than what I assume you are in now?

00:58:55 - 01:00:14
Pasi Laine: It's the same building blocks we have had up to now. EBITA margin was only 12... Okay. I should not maybe say only it was 11.2, but our target is 12. We need to improve profitability margin in all the businesses,. So we have to improve it in Automation. We have to improve it in Services and Process Technologies to reach that 12, which is the minimum of our target setting. We have been saying earlier as well that it's not one or two miracles we have to implement. It's a lot of things, thousands of small actions trying to push the sales prices up, develop new products with better competitiveness and then reduce cost base on the existing -- products and then improve our internal processes from product management sales to delivery, improve procurement, reduce quality costs. Therefore, all those things have to happen for us to improve profitability. Then, of course, one important topic is SG&A management, which was mentioned earlier.

01:00:16 - 01:00:43
Mikael Doepel: Right. Just on that point, finally from my side, just wondering how you're seeing the price-cost equation overall going into 2024. Do you see a need to still raise prices in certain segments or would you say that you are well covered, given the cost inflation that you're seeing now in terms of the pricing of your products or services?

01:00:43 - 01:01:21
Pasi Laine: Now we see that the salary inflation continues and of course, a big part of our costs are in salaries. Then there might be deflation in some of the materials, but it might be that that's been actually compensated by the inflation or in the work what we buy. Therefore, we have to be very careful with all our cost actions to try to find more cost-effective supplies and companies to work with, and then, of course, be very careful with our internal costs.

01:01:24 - 01:01:26
Mikael Doepel: Right. Okay. Thank you very much.

01:01:33 - 01:01:38
Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

01:01:43 - 01:02:16
Tom Skogman : Yes. Hi. Good afternoon. I have a couple of questions. I'll take them one at a time. First of all, I just noticed in the pulp and paper segment your customers. Some are still doing okay. Well, someone is really struggling. Do you see different behaviors among them that for instance decision making is moved to the head office making it more difficult to close also and a smaller let's say automation deals or something. Do you see any kind of worrying sign among certain customers that are really struggling now?

01:02:16 - 01:03:08
Pasi Laine: We saw it actually happening in quarter two, the beginning of quarter three. Then we saw that also in our services order intake and automation order intake. However, that was the kind of action customers implemented to make sure that the cash flows were good for year '23. Then generally we have so vast customer base that always we have customers who have who are centralizing decision making, and then some are decentralizing. I don't see there actually any change in the whole portfolio of customers. Therefore, we have a huge amount of customers and some might be centralizing currently, some not.

01:03:11 - 01:03:46
Tom Skogman : Okay. Then Pasi, of course, now we have seen that profitability has been hurt for already quite some time and you have at least not gained market share in this business. What can you do to improve the competitiveness in pulp? Is it mainly just about project execution or do you need to bring new innovations to the market, or what do you think you need to do to regain or to go back to number one position in pulp?

01:03:47 - 01:04:24
Pasi Laine: I want to do that. Okay. Actually, our market, according our statistics market share was roughly

50/50 last year. We have been gaining market share from last year. As I've been earlier saying when the market is very active in South America, where the Austrians want to do big EPC projects then we are suffering on market share. However, currently, at least according to our statistics, we are roughly on par with them which then means that we gained market share last year.

01:04:28 - 01:04:33
Tom Skogman : On the the way of doing business and to improve profitability.

01:04:33 - 01:04:48
Pasi Laine: No, we are executing small to medium sized projects more than bigger mill-wide projects.

01:04:53 - 01:05:05
Tom Skogman : However, do you need to bring new products like you did in board machine some ten years ago to improve competitiveness or is it just about project management to avoid cost overruns to improve model.

01:05:05 - 01:05:38
Pasi Laine: We are of course all the time developing offering also for all the process technologies. We have R&D centers and pilot machines for all the parts of pulp mill and we will bring some new things on the market as well, but we haven't launched them yet. Therefore, I'm not saying anything, but of course we all the time work on our competitiveness and and also on the performance of the product offering, that we have on pulp.

01:05:41 - 01:06:04
Tom Skogman : Then a question to Katri, if all these acquisitions that you have presented but not closed, what would the kind of rolling PPA and let's say your net financial costs and taxes be by the end of this year and on a quarterly level, how much will they grow? It's a bit hard to estimate PPA for us.

01:06:05 - 01:06:21
Katri Hokkanen: It's too early to say though. Currently, we are focusing of course completing these acquisitions and I already mentioned that Tissue Converting is now in our numbers and amortization will be 28 million for the coming quarters, but for the others, it's way too early to say.

01:06:23 - 01:06:48
Tom Skogman : Finally then on acquisitions. You have done a lot of acquisitions last year. Now you have in your kind of history quite a high net debt EBITDA ratio. Are you still looking for more acquisitions to ensure that the earnings can grow even during this tougher period on the EBITDA level or are you now waiting to strengthen the balance sheet a bit before looking for more acquisitions?

01:06:49 - 01:07:35
Pasi Laine: I think when we started, our gearing was zero. Then it went to minus 20 and then we made acquisitions, and went below to plus 20. Now it's at 40. I think we have to work a little bit and pay our debt debts back and then we have room for acquisitions. Therefore, our track record is such that we are better in making big enough acquisitions. Then it means that first we have to work with our debt level and then there's room for acquisitions. Currently, we are, of course actively following all the time markets, but the main focus is now on making sure that there is good payback of of the acquisitions we have done.

01:07:36 - 01:07:51
Katri Hokkanen: If I may add also, the integration of the acquisitions takes a lot of effort and we historically have been really good at that. Of course, we want to do all the acquisitions the same way and it requires a lot of work and the organization is very busy.

01:07:54 - 01:07:54
Tom Skogman : Okay. Thank you.

01:08:02 - 01:08:07
Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

01:08:10 - 01:08:38
Tomi Railo: Hi, it's Tomi from DNB. Feeling a bit desperate, but I try. 23 cost overruns or inflation impacts. It would be very helpful if you could give any comment on the tissue impact in the fourth quarter. We're talking about some millions or next levels and maybe also for the full year, just to get any feeling.

01:08:40 - 01:08:43
Pasi Laine: This is so difficult that I put you on the ice.

01:08:43 - 01:08:58
Katri Hokkanen: What we can say, of course, is that you see the impact in the numbers, so for the quarter, the profitability or the margin was four point one percent, and for the full year, four point five percent. Therefore, of course, you can see the numbers there, but I cannot give you more exact comments on that.

01:09:01 - 01:09:37
Tomi Railo: I tried a little bit the other way around. Some years ago, there was a lot of talk about quality costs and Valmet's aim and ability to reduce the quality costs. Would you say that the quality costs over the past years have gone up significantly? Can you help if you could give a number in terms of percentage of sales, how much quality costs are these days and maybe thirdly, if and what kind of actions have you taken to reduce the quality costs?

01:09:38 – 01:10:58
Pasi Laine: Quality costs, we haven't announced it now. In CMD, I think we had the number I don't remember by heart the number we announced. The quality costs went by percent a little bit up last year but not even close to the levels where they were earlier. We have quite a lot of work ongoing with the quality and have been having it all the time. The quality costs, which happened in '22 and '23, were quite Covid-related, so it was impossible to travel to make quality checks at our sub-suppliers all over the globe. Then some mistakes happened. Then the other Covid-related quality cost, the source was that when people are working remotely, then sometimes the quality of the teamwork is not as good as when they are in the office. Now when we are back more in a normal situation, then I assume that the quality, what we see will reach the levels which we had before Covid impacted the quality numbers.

01:11:01 - 01:11:02
Tomi Railo: Right.

01:11:02 - 01:11:04
Pasi Laine: I am not a fan of remote work.

01:11:15 - 01:11:21
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

01:11:24 - 01:12:08
Antti Kansanen: Yes. Hi. Thanks for taking the follow-up. You mentioned earlier that the backlog has kind of normalized, and the lead times are now back to normal. However, when I kind of look at your backlog that stretches beyond the next 12 months, it's basically the similar levels that it was five, six years ago. Obviously, there's a lot of inflation in between, you're a much bigger company. So is this a concern in a sense that there's increasing pressure to get new business during a '24? To maintain the workload situation and so forth. Also in this kind of a demand environment, is it helpful for you guys that the delivery times are shorter? Does it really matter when many of your clients are quite hesitant to invest right now?

01:12:09 - 01:13:11
Pasi Laine: Of course, the delivery times matter all the time. When discussing with customers, once they make the decision to build something, then of course they want to have the machine up and running as quickly as possible because then they start to generate cash again, so, of course, it's important. It was a little bit challenging and not only a little bit challenging to explain that it takes three years to deliver a board machine. Now we are talking about normal delivery times. And then backlog otherwise. I am still confident with the backlog and of course, we have to get new orders in. However, we still have the workload situation, that we described in the market outlook, which has 50 percent from the capacity utilization factor and then 50 from the market activity point of view. Therefore, that's the outlook that we have.

01:13:13 - 01:13:26
Antti Kansanen: Okay. Maybe a quick detailed one on the backlog on the services and automation backlog. You probably don't have much that stretches beyond 24 or what do you include in the service's backlog.

01:13:29 - 01:13:35
Pasi Laine: If we are having a long-term contract then remind me, is it six months?

01:13:35 - 01:13:37
Katri Hokkanen: Yes, six months, depending on the contract.

01:13:37 - 01:13:55
Pasi Laine: Yes, so we are not booking the whole contract. You are right that a big part of the services delivered from the backlog of services are delivered this year and the same course with automation.

01:13:58 - 01:14:15
Antti Kansanen: Okay. I mean, if I just do the numbers, it appears that actually, the backlog shouldn't imply much sales decline this year, but there should be a big step down perhaps in '25. However, perhaps this is reading too much into something.

01:14:16 - 01:14:18
Pasi Laine: Difficult to comment on your Excel.

01:14:20 - 01:14:21
Antti Kansanen: Okay. Thank you.

01:14:24 - 01:14:31
Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

01:14:34 - 01:14:56
Pekka Rouhiainen: All right. Thank you for the lively Q&A. The next event for Valmet will be the AGM on March 21st. Then the first quarter results of '24 will be published on April 24. Those are the next events. Thank you for the presentations and everybody for the questions. It's now time to wrap up this event. Goodbye for now.