Transcript for Valmet's Interim Review for January-March 2024 webcast, arranged on April 24, 2024

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00:00:00 - 00:00:25
Pekka Rouhiainen: Good afternoon, ladies and gentlemen, and welcome to Valmet's Q1 2024 results publication and webcast. My name is Pekka Rouhiainen. I'm the head of Investor Relations here at Valmet, and the presenters today are Pasi Laine, Valmet's President and CEO, as well as Katri Hokkanen, the CFO. After the presentations, as usual, you will have the chance to ask questions over the phone lines, but without further ado, Pasi, please.

00:00:26 - 00:02:20
Pasi Laine: Thank you. Welcome. The headline today is that orders received amounted to one billion and fifty million and comparable EBITA to 121 million in the first quarter. The content is like traditionally, first Q1 in brief then some words about the segments and business lines. Then I want to market our nice new fabulous Valmet DNA DCS system. Then Katri will go through financial development, and then I'll come back to say some words about guidance and short-term market outlook. First the quarter one in brief, as I said, our orders received ended at one billion and fifty million and net sales ended up being 1,212 million. The backlog ended at 3,790 million, and EBITA, as I said, was 121 million and was 10.0 percent, and gearing at the end of the period was 39 percent. Orders received were now heavily weighting on the stable business. Services were about almost 530 million and automation almost 330 million. Process technology is a little bit less than 200 million, so stable business has continued strong development which has been taking place for years already. In net sales, process technology was bigger, 400 to 500 million, services, about 400 million, and automation a little bit more than 300 million. An in comparable EBITA stable business contributed altogether 110 million,111 million, and process technologies 21 million.

00:02:20 - 00:04:02
Pasi Laine: At the end of the period, we employed 19,000 people. The company has grown over ten years from 10,000 people to 19,000 people. Comparable EBITA margin is one of the important targets we have had over the years, and now it's, of course, nice that we were at the end of the last year at 11 point two percent, and after the first quarter, we are still at 11 point two percent. Our target is as you all know to reach 12 to 14 percent as soon as possible, but nice development over the years, and it's good that we were able to keep the 11-point two also as the EBITA margin after the first quarter of '24. Orders received have been dropping to pre-COVID levels, so if you look at the graph, in 19-20, we were at 4.5 billion euro level and now we are at 4.5 billion euro level again. So we are now at the pre-COVID levels from an order intake perspective. Europe has contributed and continues to be strong in the first quarter, representing 46 percent. North America is strong at 28 percent and then South America, Asia Pacific and China hasn't been active in capital cases, and that's why the share of them has been now dropping compared to the normal situation. Stable business orders received over the last 12 months are almost three billion and that's, of course, the big change that has taken place in Valmet.

00:04:02 - 00:05:23
Pasi Laine: From a one billion euros services company to a three billion euros stable business company, so 1.7 billion has been coming in the last 12 months for services and almost 1.3 billion from automation. So, this is the part of the business that continues to develop well and has been developing well in the past as well. The backlog is now at 3,790 million. 55 percent of it is related to process technologies, 30 percent to services, and 15 from automation. We are saying that about 75 percent of the backlog is expected to be realized as net sales during '24. What it means is that now we are, in my mind, more at the normal level in our backlog. We had years when the order intake was big, and then Katri and I were saying that our delivery times have been getting long. Now we are in a situation where of course, we need new orders, but from the other perspective, we also have delivery capability at a normal level so we can deliver faster both process technology, but also services, automation products, and solutions to our customers.

00:05:25 - 00:06:43
Pasi Laine: I am still feeling comfortable with the current backlog level we have now. Then some words about

the segments and business line, first services, services order intake was a year ago 577 million. Then we had some extra extraordinary orders from Chile, but then also the market was extremely hot. Now our order intake was 527 million and I think it's a good order intake for services in the first quarter, so we are happy with the performance, so we have good activity in China, North America, EMEA, and South America, where we still have a little bit less activities is Asia Pacific, but generally, the order activity is good. In all the business lines the orders have been dropping compared to last year's extremely good order intake, but we have good activity levels in all the business units as well, so we are happy with that development. Then profitability dropped in the first quarter compared to last year and Katri will go through that more in detail.

00:06:43 - 00:08:57
Pasi Laine: However, LTM is at a 17.2 percent level so nothing dramatic has happened and of course, we continue to push both the orders and EBITA up during the latter part of the year. Then in automation orders last year were almost 391 million, now 328 million, so quite a big delta, but again, I'm happy with automation order intake as well. I'll come back to the reasoning why I'm happy with the two next slides. Net sales have been developing, or roughly at a par with last year's first quarter, and EBITA is at a good level, so last year we ended up at 18.6 and the LTM is now 18.7, so good development in the profitability of our automation segment as well. Then we first talk about flow controls, so order intake dropped from 217 million to 194 million. The LTM is now at 766 million, so some 23 million less than at the end of last year, and here the drop is mainly coming from pulp and paper capital. We have good activity levels in refining chemicals, energy, mining, and all the others, but then we have seen less activity in the pulp and paper capital business and that's where the drop is coming and it's logical then when we go through all the slides, what we have had, we are still at a good level and Simo and Simo's team are continuing to push the order intake up also in the coming quarters. Net sales have been at the same level as last year., nothing dramatic there and what is, of course, important is that order intake is still higher than the net sales which gives good momentum for the latter part of the year as well.

00:08:59 - 00:10:18
Pasi Laine: Automation systems 134 million, a drop by about 40 million compared to last year and here the biggest explanation is the pulp and paper combined offering, combined orders with process technology, and then less activity in pulp and paper capital side all in all. Energy and process is developing well and the very important part of us, so automation services have continued to develop well in the first quarter as well. Net sales have been developing favorably as well in automation, and again, order intake is higher than net sales in the first quarter. Then process technologies and that's where the biggest delta is coming. End of '21 order intake was almost 2.8 billion and now we at, LTM is at 1 point, a little bit less than 1.5 billion, so big delta. I'll come back a little bit later on how we have been preparing for that, but we have been, of course, saying all the time that there is volatility in capital process technology order intake.

00:10:18 - 00:11:54
Pasi Laine: Now we see that that's what we have been saying is also materializing, so the order intake was 195 million, which is of course in the long run too little and it's very important to focus on order intake in the coming quarters. Net sales also about 500 million and here the profitability end of last year was 4.5 percent and now it's 4.4 percent. So, of course, it's important that we start to get more orders, but we still have a healthy backlog for this year and the backlog will be, of course, delivered according to schedules to our customers. Then how we have been preparing ourselves for the volatility and cyclicality of process technology. We have been talking about capacity costs for the last ten years, and we have been saying that we haven't increased our capacity cost in pulp and energy, and paper to make sure that when a little bit less active years and periods come, we are prepared for it. Here you see that in 2023, our capacity cost against net sales was 28 percent and at the beginning of Valmet it was at 47 percent. The corresponding percentage is for pulp and energy at 24 and 21, so over the years we have made sure that we are not unnecessarily increasing our capacity cost.

00:11:54 - 00:13:13
Pasi Laine: That has been to prepare ourselves for periods when the volumes are not at a high level, then we have started to do some actions to find you our capacity cost. So, we had some actions in tissue machines earlier last year. This year Pulp and Energy and Paper Business line have had some cooperation discussions, and we have been reducing the headcount by about 40. Then we have been reducing the subcontractors a lot. In Finland, we have also the possibility to utilize temporary layoffs if we see in the future that is necessary, so there is good flexibility still on top of this capacity cost in our cost structure. Then of course, in this kind of situation, when the market is not very active, we have to be very active with our procurement actions to make sure that our profitability stays at the targeted level. That's why we have been very successful at the beginning of the year, so our supplier base is also having less volumes and it means that they are more eager to give us competitive prices than two years ago.

00:13:14 - 00:14:24
Pasi Laine: Then the two short-term market outlooks come later on at the end of the presentation, and then of course, now our LTM was 4.4 percent in EBITA and now the work continues. We are of course not starting, but the work continues that we will reach better profitability levels in our coming quarters. So we need orders, but we have flexibility and we have been preparing ourselves for lower volume quarters as well. Then I say some words about pulp and energy first, so order intake was only 57 million and LTM is now at seven, a little bit less than 700 million. In 2017 we were roughly at the same level as where we are currently. I'll come back to the outlook later on, but we are keeping the energy outlook as good. So we have many discussions ongoing with our customers.

00:14:24 - 00:15:23
Pasi Laine: None of them bigger one materialized as a contract in the first quarter, but there are several discussions ongoing with our customers and the long-term and mid-long-term situation in energy hasn't changed at all, even if the quarter is weak. Then if we talk about pulp, we have been saying that we have to focus now on small to medium-sized project in pulp. Here is the same situation nothing materialized in, or not that much materialized as an order in quarter one, but we still have good discussions and activities to continue the discussions with our customers in small and medium-sized pulp projects. Then again, if we go to a little bit longer-term view, the longer-term view hasn't changed anywhere, so more and more pulp is needed because of the megatrends we have been talking about.

00:15:23 - 00:16:11
Pasi Laine: So, when meeting with our customers, they all especially in Latin America, talk about future investments coming to increase the pulp capacity in the world. We have had two not that in good quarters, medium term, I see the activity level coming back to the improved levels. Then, paper business line is quite much the same story, but if we first go through in a way business by business. In tissue we have had satisfactory order intake at the end of last year and the beginning of the year as well and we see market activity at a satisfactory level.

00:16:12 - 00:17:29
Pasi Laine: In paper and board the board market is the one where we have seen the biggest hit, so actually, the paper machine market is now reasonably active. We have reasonably active compared to the board machine market. In tissue, we see, of course, that the long-term development is still there, so everybody needs more tissue both in developed countries but also in developing regions, so the long-term view is intact. In paper and board there is a situation that because of a lot of investments, especially in Europe, there is currently overcapacity, especially in carton board and it will take some time before this overcapacity is eaten out. However, then from the other perspective, there are areas where we already have discussions about increasing capacity and needing to increase capacity. Then we, of course, have to remember that one-third of the investments, also during the peak years we have such that they were to replace old machines with new machines.

00:17:29 - 00:18:46
Pasi Laine: So, we have a short-term challenge with order intake, but if I see now the activity with our customers, we continue to have good discussions about increasing capacity and need for new machines in board and paper segments as well. Tissue converting has started well and the activity has been good, so one of my messages is of course that in the paper business line we have a bigger variety of products currently compared to the past. We are active with tissue machines, we are active with tissue converting, we are active with paper machines and we are active with board machines. The dominance of board machines will be less than it was during the peak years. Good, then my favorite subject, I have waited for years to be able to talk about it. As you all know, I'm an old DCS engineer, I started my career in programming DCS with my own little hands. That was in 1988 and the product was called then Valmet Classic. The next one, which was then launched at the end of 80, was called Valmet XD and we have been now working with that system for over 40 years.

00:18:46 - 00:20:06
Pasi Laine: The core of the system is from the end of the '80s, the beginning of the '90s, and now over the last years, we have put a lot of effort into renewing the product, and it was launched to the market in April the ninth. So, it has taken ten years to develop, and now it's ready. Now it's available for the majority of our customers, it's the first in the market for maybe 30 years as a totally new DCS system. It's called Valmet DNAe to emphasize that it has full compatibility with our earlier Valmet DNA, and that's very important in our business. So, we have to be compatible with earlier generations and that's what we are. We have done a new user interface that is

totally web-based which means that the operator can use it over the normal screens or somebody can see the screen somewhere on mobile phones. Therefore, it's fully web based. We have new configuration tools, so the tools that I have been using are now totally renewed, and of course, they are web-based as well.

00:20:06 - 00:21:23
Pasi Laine: We now have new analytical tools to help customers improve the reporting and performance of their assets and then we also have new controllers for the system. So, actually, all the components have been redone, and so that it's compatible with earlier Valmet DNA systems, and what's very important is that it's totally built with built-in cyber security. So, all the customers are worried now about cyber security and this system has totally built-in cyber security. We are very happy that now we have the product on the market, we haven't capitalized R&D, so all the R&D has been spent in our profit and loss statement. Now I, of course, want to thank automation systems management and personnel for the excellent work and what they have been doing on improving the business, growing the business, improving profitability, and then at the same time investing into next-generation DNAe, so well done. Now after the long technical speech, I'll let Katri talk about financial numbers.

00:21:30 - 00:22:52
Katri Hokkanen: Thank you, Pasi, and hello everybody on my behalf as well, I will walk through the financial development next. Here are the key figures for the quarter, order intake was 1.05 billion and it was 32 percent lower than a year ago. Order backlog was 3.8 billion and that was roughly on the same level as what we had at the year's end. Net sales were one point two billion, which was eight percent lower, and comparable EBITA was 121 million and 10 percent of net sales. Adjusted earnings per share was 41 cents for the quarter which was 19 percent lower than the comparison quarter and this is due to lower EBITA and higher financial expenses. I will come back to the balance sheet numbers later in my presentation. Then moving on to the segment numbers starting from services. Orders received decreased to 527 million and as Pasi already mentioned, last year's orders were the highest ever for Valmet, and this was the second highest for us. Orders received from tissue converting which was integrated into our numbers at the beginning of November last year, amounted to 39 million in the first quarter.

00:22:53 - 00:24:13
Katri Hokkanen: Net sales remained at the previous year's level being at 406 million, and the tissue converting part here was 35 million. Comparable EBITA remained at the previous year's level at 60 million, and the margin decreased to 14 point six percent. Good to note that the organic net sales decrease and changes in the FX rate had a negative impact on the comparable EBITA. Moving to the automation next. The orders received decreased to 328 million, and on the automation systems side, orders remained at the previous year's level in the automation services and decreased in capital. Orders received increased in energy and process and decreased in pulp and paper. Then on the flow control side, the orders from the pulp and paper industry decreased and remained at the previous year's level from other customer industries. It's also good to note that the orders received in the comparison quarter were record high for both business lines. Net sales remained at the previous year's level at 309 million, and comparable EBITA also remained at the previous year's level at 51 million, and the margin was 16 point five.

00:24:14 - 00:25:21
Katri Hokkanen: Then lastly, Process Technologies, Pasi went through this already quite thoroughly, but just to summarize the main points here, orders received decreased to 195 million and there tissue converting orders amounted to 48 million. Net sales decreased to 497 million and tissue converting was 28 million in that number. Comparable EBITA amounted to 21 million for the quarter, and the margin was four point two percent, and this remained at the previous quarter's level. Here you can see a summary of the segment key numbers. I will not walk them through again, but it is worth mentioning that the other segment was 11 million for the quarter. Regarding the comparable gross profit which was 28 point three of net sales in the first quarter, and stable business represented 59 percent of the net sales. As you can see from the chart in the last 12 months, we were at 26 point six percent and gross-profit has been developing well over the years.

00:25:22 - 00:26:48
Katri Hokkanen: Comparable SG&A expenses were 14 million higher in the first quarter compared with the comparison quarter, and tissue converting comparable SG&A amounted to 19 million in the first quarter. When you look at the chart, 915 million is the last 12 months comparable SG&A, and it represents 16 point nine percent of the net sales and also SG&A, we have been managing well over the years. Regarding cash flow provided by operating activities, it amounted to 138 million in the first quarter. For the last 12 months, we were at 282 million. CAPEX amounted to 29 million in the first quarter. Moving to the net working capital, which

amounted to 173 million at the end of Q1 and that is four percent of the last 12 months' orders received. Here, good to note that this number is now without the dividend liability and the acquisition of tissue converting increased the net working capital by approximately 79 million if we compare it with the comparison quarter. With the longer trend, if we compare to 2021, the net working capital has increased mainly in the capital business and due to the integration of flow control and tissue converting.

00:26:49 - 00:28:16
Katri Hokkanen: Today, our business mix contains much more stable business which typically ties up more net working capital than capital business. Net debt decreased compared to year-end, and it was 939 million, and gearing amounted to 39 percent. The increase in the net debt and gearing in the fourth quarter was related to tissue converting, and second quarter in 2022 was related to flow control. Net debt to EBITA ratio decreased to one point thirty-six, and the average interest rate of our total debt was four point six percent at the end of Q1, and worth mentioning that during the first quarter of this year, we successfully issued 200 million green bond with four percent fixed annual coupon and net financial expenses amounted to 13 million in the first quarter. Capital employed was four point one billion at the end of Q1, and comparable return on capital employed was 15 percent. In Q1 last 12 months, adjusted earnings per share decreased to €2.18, and this was due to lower EBITA and higher financial expenses. This was my part. I will give the floor back to Pasi. Thank you.

00:28:27 - 00:29:41
Pasi Laine: Thank you, Katri. Then still guidance and short-term market outlook. If I start with guidance, we keep the guidance the same as we have had, so we are saying that Valmet estimates that net sales in '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. So, we keep the same. Then about the short-term market outlook. I start with the process technology part where I spent more time, so in tissue we have had a satisfactory situation now for a while. We estimate that the market activity continues also at the same level. In board and paper, we have had a quite weak order intake in one quarter. That's why we changed the market outlook and market activity to weak, but we still have a satisfactory workload in our factories and organization. As I said, the long to medium-term market demands have not changed anyway.

00:29:41 - 00:31:00
Pasi Laine: In energy, we had a low order intake in this quarter but it's more timing issue, so we have had a good order intake. We have a good workload and we have good market activity in energy. In pulp, it's the same story as with board and paper, so we had a low order intake for the year. We have, of course, a few challenges with the workload as well coming, but then the medium to long-term demand picture in pulp hasn't changed as well. But, we have sometimes not that strong quarters, and now we have had one of them. So, that’s about process technology. Then if we talk about the stable business where about three billion euros of our business is, in automation systems, we have good market activity and a good workload. In flow control, we have good market activity and a good workload as well, and in services, we are now saying that the market outlook has improved from a satisfactory level to a good level. So, all the stable businesses have now a good market outlook. So that's the summary and now it's Pekka's turn.

00:31:05 - 00:31:18
Pekka Rouhiainen: All right, thank you Pasi and Katri for the presentations. We are now moving on to the Q&A session. I welcome Katri also behind the table here. All right. Operator I hand over to you now.

00:31:25 - 00:31:49
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.

00:31:54 - 00:32:38
Antti Kansanen: Hi. Good afternoon. It's Antti from SEB. A couple of questions and I'll start with automation systems and flow. Obviously, it's one quarter, but surprisingly big order contraction for a business that the outlook is good and if we look forward this year, you don't have a great outlook on the pulp and paper segments. That's still a fairly sizable portion of both flow and systems and I guess that was driving the decline in Q1, so how should we think about the demand going forward? I mean, can the other businesses compensate for the weaker demand for pulp and paper, which you clearly flag on the PT side.

00:32:39 - 00:34:27
Pasi Laine: Our target is, of course, to grow organically, automation system and flow controls. The first quarter

was not that strong if you compare that with last year, last year we had extra, not extraordinary, but all things went very favorably at the beginning of last year, and that, of course, impacted the order intake both in the systems business and in flow controls business. Now with this order intake and flow controls first with 194 million, so it's a good order intake for the first quarter. We have a good customer activity. Of course, we have to compensate for the pulp and paper activity with other customer segments, but then there is, of course, a possibility that more and more pulp and paper activity becomes active during the year when the customers start to have more normal production rates and normal profitability as well. So, I'm not giving up the pulp and paper activity in flow control or systems side either. In systems, sorry, 134 million is a reasonably good order intake for the beginning of the year. Of course, last year we had a lot of package orders, which is impacting the order intake here or was impacting last year the order intake, there is good activity in services, and there's a good activity in energy and process. I'm not giving up on pulp and paper here either and then of course, now we have the new system on the market.

00:34:28 - 00:34:54
Pasi Laine: Now it's a little bit easier to explain to customers what kind of roadmap we have for the DCS and that should also a little bit free up the demand what we have had for DCS systems. So we have good management in both organizations and we have good organization in flow controls and systems, so those are the reasons why we keep the outlook as good.

00:34:56 - 00:35:10
Antti Kansanen: Yes. Maybe a reminder of last year, did you see similar trends on the pulp and paper side in flow and automation systems, as you did, for example, on the services side that the demand actually started to decrease already during last year.

00:35:11 - 00:36:18
Pasi Laine: I think we were saying that the order intake was not that good in the second and third quarters if I remember correctly. Then, of course, one which I forgot to say in my presentation and now as well, then Katri reminded me, maybe you noticed that, we, of course, completed the acquisition of Siemens gas chromatography which nowadays it's called API in our terminology. So, analyzer products and integration and that’s, of course, giving an extra boost for automation order intake just by the volumes that they are bringing, but then also a possibility later on with synergy order intake. So, that's giving a new boost to the system business, so last time when we made that size of acquisition, not even that size, but that remarkable acquisition in systems business was maybe 1987.

00:36:21 - 00:37:11
Antti Kansanen: Okay. Then on the process tech side and especially on the containerboard and paper machine outlook. I don't know exactly what you mean when you talk about the midterm outlook, but I was just wondering how worried should we be about the earnings impact of Containerboard and paper going into the back half of this year and in the next year. I mean, your backlog is still solid for this year, but looking quite thin for '25 and I'd assume that the containerboard and segment have been a sizable chunk of your PT's earnings historically. What do you think is needed for those client discussions that you have with the client actually kind of starting to realize into orders and perhaps supporting 24 sales and earnings.

00:37:12 - 00:37:17
Pasi Laine: Maybe '25. Did you mean '25 or '24.

00:37:17 - 00:37:18
Antti Kansanen: '25.

00:37:18 - 00:38:54
Pasi Laine: You are right that we have still a solid backlog and now we need orders to make sure that '25 will be a successful year for Valmet as well. In Europe, and mid-term, I meant that we have been talking about a six-month market outlook. Then we have been talking about the long term and there is something between, mid-term, that may not happen in six months, but are still in active discussion. In Europe, I'm not expecting too much from the paper and board machine market. There might be some rebuilds but otherwise, not that much activity because of the overcapacity. But then China is still a growth market. China was last year producing pulp and paper and board more than ever and the demand growth continues there. South America has less board production than consumption. Then in North America, the fleets are getting old all the time and we have been saying that we have been replacing old machines one to two machines a year, or actually more machines, but we

have been selling one to two machines a year to replace the old machines. Those market drivers continue and when a little bit economic situation is clarified, then I would be hopeful that customers continue to invest.

00:38:56 - 00:39:13
Antti Kansanen: Okay. Then lastly, on PT margins, there wasn't any mention of those project issues on tissue or pulp or energy, maybe, or just to have talked about them enough, but does it mean that those projects are starting to fade from the backlog?

00:39:14 - 00:39:49
Pasi Laine: I think in project business, you have always a portfolio of projects and some are successful and some are not successful, and then somehow it's not any more adding value that we are too much focusing on individual projects. That's why we are now saying that the profitability of the business is about four point four percent and now we have to work towards improving the profitability. But, it's not any more adding value to you or us to talk about individual or segmented projects.

00:39:52 - 00:39:53
Antti Kansanen: All right. Thank you.

00:40:01 - 00:40:08
Operator: The next question comes from Johan Eliason, from Kepler Cheuvreux. Please go ahead.

00:40:08 - 00:40:42
Johan Eliason: Hi. It’s Johan from Kepler Cheuvreux. Just following up on this question here on the sort of backlog in process tech. When do you need to see orders improving again before you will need to announce some more cost-cutting activities in the pulp or on the board side? Is it late this year or is it later than that?

00:40:42 - 00:41:01
Pasi Laine: No. Of course, we need orders all the time, but as I said, we have a reasonable backlog for this year. Then it would be good to have order intake improving in quarter three latest.

00:41:02 - 00:41:19
Johan Eliason: You talked about these capacity costs obviously much lower on the pulp side than on the board side. Should we be more worried about the board's potential impact on your profitability going forward than pulp if these orders don’t come.

00:41:21 - 00:42:03
Pasi Laine: Yes. We have been saying that in pulp and energy, it's easier to subcontract some of the production, and in paper, we have products that we can't outsource except to our competition. That's why we have higher capacity costs in our production, but besides that, we have been outsourcing some of that not that core production to our subcontractors and we can, of course, insource it. Then, of course, if that's not enough, then we have to plan some other actions, but currently, we don't have that kind of plans in place.

00:42:04 - 00:42:26
Johan Eliason: Okay. Then on services, you upgraded the short-term outlook to good. You talked about the improved customer activity, it's not visible in the order intake in this quarter, but how should we interpret this? Is it sort of something you're seeing in the pipeline now?

00:42:26 - 00:43:19
Pasi Laine: Actually, like Katri was saying the services order intake was the second quarter ever. Last year we had extraordinarily good order intake, so we had some orders that were postponed by customers from '22 to '23, and that happened at the beginning of the year. Then we had one big order in Chile and everything was booming. Actually, I'm happy with the order intake of 527 million for the first quarter and as you said, we have good activity in North America, in Europe, in China, and in South America. The activity level hasn't been that good in Asia-Pacific, but four out of five areas have good activity levels.

00:43:20 - 00:43:52
Johan Eliason: Yes. Good. Then finally, maybe a question for Katri here. Historically, you talked about your net working capital in relation to orders received should be, if I remember it, negative eight percent. Now obviously you have a different business mix. Do you have any targets for your net working capital ratios going forward, or is it just what they turn out to be basically?

00:43:52 - 00:44:36
Katri Hokkanen: Yes, maybe if I answer what we are most actively working with is clearly the inventories, so we brought them after the Covid level. Of course, we are still optimizing the inventory levels and it goes by different businesses. I said also earlier that capital prepayments can have a big impact. We haven't seen any fast improvements in the net working capital, but also the business mix, as you said, has changed. Therefore, stable business is almost 70 percent of the volume, and in the past, it was a little bit over 30 percent. That is also good to understand that it is different. The business mix is different nowadays than what it was back in the day.

00:44:37 - 00:44:47
Johan Eliason: Right. Are you seeing any changes in the payment terms of projects now when demand is weaker, or should we expect that going forward?

00:44:49 - 00:45:01
Katri Hokkanen: We haven't had any changes in the payment terms. Of course, every project is negotiated separately, but we continue to be tough on those ones as well and our project business is cash flow positive.

00:45:02 - 00:45:04
Johan Eliason: Okay. Thank you very much.

00:45:12 - 00:45:18
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:45:20 - 00:45:44
Panu Laitinmäki: Yes. Thank you. I have a few questions. Firstly, starting on the guidance that is unchanged and then the market outlooks that have been revised mainly the service outlook, is now better than it was three months ago, and shouldn't that have an upside to your earnings guidance given that it's this business that has a short cycle?

00:45:45 - 00:46:01
Pasi Laine: Now we are not guiding to the profitability of different businesses, so a little bit difficult to answer that but our guidance is currently flat or increase and we are still in that range of flat or increase.

00:46:04 - 00:46:20
Panu Laitinmäki: Yes, what I meant was that when you gave the guidance after Q4, what kind of market outlook were you assuming, so the terrain already includes some potential changes in this segment outlooks.

00:46:20 - 00:46:36
Pasi Laine: Of course, the guidance and outlook, what we came after Q4 was the way and that was our best understanding then, and now we are giving the best understanding of the market in regards to the guidance and the outlook as well.

00:46:38 - 00:47:01
Panu Laitinmäki: Okay. Thanks. On services, in the previous quarters, you mentioned that customers have been postponing some non-critical maintenance work during their shutdowns. Does this create pent-up demand in the market and do you see that this could materialize in the coming quarters?

00:47:02 - 00:47:47
Pasi Laine: To this pent-up demand, I've been usually answering and now I am answering the same way that customers have limited resources to execute the services from their side, and we have, of course, limited resources as well. Therefore, I wouldn't be saying that there's that kind of pent-up demand, but of course, now when the customers see better how the volumes are developing, how the prices are developing now, of course, they have a more stable situation to decide what kind of upgrades and services they are going ahead with, so I wouldn't say that it's pent up, it's more that when the market has stabilized.

00:47:49 - 00:48:13
Panu Laitinmäki: Okay. Thank you. Then on the M&A contribution, I think it was like four percent on revenue in Q1 and it was six percent in Q4 even though you didn't have the Körber acquisition for the full quarter in Q4, so I wonder why is that? Is this seasonality or was it due to a decline in the revenue of the acquired business?

00:48:16 - 00:48:25
Katri Hokkanen: You answer first. You were asking about the tissue converting business is something that we recognized point in time. If you were asking about the net sales development.

00:48:26 - 00:48:37
Panu Laitinmäki: Yes, I was asking that the absolute kind of contribution from M&A was similar in Q1 and Q4, but then in Q4 you only had this for like two months.

00:48:38 - 00:48:41
Katri Hokkanen: Yes, but we are happy with how the tissue conversion has started.

00:48:41 - 00:49:30
Pasi Laine: I think the first month's revenue is a little bit, it's always varying. It's because the organization is in the middle of a transformation, so I would draw two big conclusions from that. As Katri said, first quarter order intake was at a good level and net sales were at a good level as well, but we haven't seen any negative trends in the tissue converting business, more actually the other way around we are happy with the performance and we are happy with the team we have been getting and we are happy how well engaged and energized the team in tissue converting is as a part of Valmet.

00:49:33 - 00:49:57
Panu Laitinmäki: Okay. Thank you. My final question is about the automation systems and this product that you launched, did you expect it to have any kind of near-term impacts on your numbers? You indicated that it probably helps in winning new orders, but anything on the margin side if you have kind of completed the R&D and then didn’t capitalized that. Is that positive for the profitability?

00:49:57 - 00:50:47
Pasi Laine: No. We will continue to develop DNAe further, so it's always a possibility to continue to develop and then we also upkeep the DNA to make sure that the customers who are running at the DNA are happy with our performance. Therefore, we can't cut too much R&D spending because we want to keep our customers happy. In the long run, of course, DNAe will improve our competitiveness, so it has a more effective network structure, it has more effective engineering tools, and it has also a more effective hardware structure. So, it will improve our competitiveness in, again, I say medium to long-term, it's not affecting short-term.

00:50:49 - 00:50:52
Panu Laitinmäki: All right. That's all for me. Thank you.

00:50:56 - 00:51:01
Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:51:04 - 00:51:33
Mikael Doepel: Yes, thank you and good afternoon everybody. I wanted to come back to the guidance here. Given the trends we saw in Q1 with both revenues and earnings clearly down, I guess your guidance is more back-end loaded for the year, so I'm just wondering what your level of confidence and how the visibility is now for the full year? Also, should we expect that the trends here already in Q2?

00:51:36 - 00:51:44
Pasi Laine: Katri can give another answer. I’m as confident as when we launched the guidance after Q4.

00:51:45 - 00:52:08
Katri Hokkanen: Yes, we have a backlog of three point eight billion and 75 percent that will materialize as net sales this year, and as Pasi said earlier, the delivery times in our businesses have improved compared to what they have been in the past so we are back in the pre-COVID level. Then, of course, we have also the new businesses supporting us.

00:52:09 - 00:52:57
Pasi Laine: Then we also have to, I think I have been saying earlier as well that if you think about the last years, the organization has gone through Covid, the Ukrainian war, supply challenges, logistic challenges, fire in Rautpohja, and starting of inflation, very high inflation in raw materials. Now all those kinds of disturbances are actually away, so we can focus on taking care of our customers and taking care of our business. So, there's a lot

more management manpower now available for normal business management and that, of course, gives more confidence also for business execution.

00:53:00 - 00:53:22
Mikael Doepel: Okay. I guess in addition to that increased focus and management capacity. In your presentation, you talked about the service business earnings and margins that you aim to push up those in the second half of this year. I was just wondering if any specific drivers behind that that you could mention.

00:53:22 - 00:53:51
Pasi Laine: I think you are a little bit twisting because I have been saying all the time that we are pushing all the business's profitability up, so not specifically services and not specifically the latter part of the year. But, we have been saying that now we are at 11 point two percent. Our target is to get 12 to 14 percent and we are not reaching it if not all businesses are improving and services is one of them, who has to improve.

00:53:56 - 00:54:20
Mikael Doepel: Okay, and then finally on automation systems and flow control again in your presentation, you mentioned that a bit slow on the pulp and paper project-related side of the business. I'm just wondering if you could just recall or recap for these businesses how big the exposure is to the capital business.

00:54:21 - 00:54:43
Pasi Laine: So, flow controls the total pulp and paper exposure is a little bit less than 30 percent, and in the automation system, it is about 70 percent and then in automation systems, we haven't been telling, and in flow controls, we haven't been telling how much of those are capital business related.

00:54:47 - 00:54:50
Mikael Doepel: Okay. Got it. Thank you very much.

00:54:57 - 00:55:03
Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

00:55:05 - 00:55:36
Tomi Railo: Tomi Railo from the DNB. Two questions, firstly, service profitability. In the first quarter was down 130 basis points despite the sales growth. Just wondering if you could give any reasons. Is it the price mix or is there structural reasons that we should also read into the second or latter part of the quarters?

00:55:37 - 00:55:56
Katri Hokkanen: Yes, so services comparable EBITA was flat at the level of 60 million for the first quarter. The margin dropped, as you said, and from the legacy Valmet, the volumes dropped and then there was an impact also related to FX rates. Then on top of that, there was some under-absorption also impacting services profitability.

00:55:56 - 00:55:58
Pasi Laine: Which is quarter one related...

00:55:58 - 00:56:00
Katri Hokkanen: Exactly. Yes.

00:56:00 - 00:56:05
Pasi Laine: Can you open that a little bit, that it’s field services…

00:56:05 - 00:56:19
Katri Hokkanen: Yes, it's partially timing but it has been slow and we have been saying earlier also that even if the workload has been good, the market has been satisfactory and now we are saying that it is good. Therefore, it should also support this angle. Yes.

00:56:21 - 00:56:34
Tomi Railo: Maybe just a follow-up on the service orders in the first quarter was the particularly strong individual order you booked or was there anything special there?

00:56:37 - 00:56:37
Pasi Laine: No.

00:56:37 - 00:56:39
Katri Hokkanen: Normal quarter in that sense that...

00:56:40 - 00:56:59
Tomi Railo: Okay. Then the second question is really on pricing generally, where do you see pricing developing? Do you see pricing pressure or active client talks requesting price reductions? I understand it varies, of course, quite a lot, but any comments on pricing?

00:57:01 - 00:58:18
Pasi Laine: We have to think that now, according to me, life is normal, so there's inflation and interest rates and there is enough supply. Therefore, nobody is any more supply limited, then it means that there is cost competition and customers try to push our prices down and we have to push it back. We are back to the normal days and not into extraordinary Covid years and then it means, of course, that we had to push prices up and try to keep the levels where customers easily understand the price pressure is the salary inflation because they are facing it themselves as well and it's easy to understand in engineering type of services that the prices should go up. Then, of course, we have to be improving our efficiency all the time. Now it's time for the organization to make sure that our procurement is more effective than it used to be, even if it's already good, but it has to improve internal efficiency as well. So, we are back in normal times where the efficiency improvement has to be taking place in all parts of the organization, not only services but in all parts of the organization.

00:58:22 - 00:58:23
Tomi Railo: Thank you.

00:58:33 - 00:58:38
Operator: The next question comes from Sven Weier from UBS. Please go ahead.

00:58:40 - 00:59:17
Sven Weier: Yes. Good afternoon. Thanks for taking two my follow-up questions. The first one is again on service, if I may. I was just wondering how much of the business is actually exposed to restocking and destocking of your clients on the individual components. Does that play a major role, I'd imagine when the cycle was weakening, they've probably gone through quite a bit of a destocking and you had some weak service order quarters and now maybe activities going back to more normal, which is helping you, or does that not really have an impact? That's the first one. Thank you.

00:59:19 - 00:59:40
Pasi Laine: Okay. She decided that I'll take it. Yes, I think you are quite right that in the middle part of last year there was a destocking happening and then also otherwise customers were unsure how the world continues to develop. Now we are saying that we are back to normal and the outlook is good.

00:59:43 - 00:59:58
Sven Weier: In a way that's now a more sustainable normal level than maybe the extremes we had. Q1 last year was maybe an extreme in the order intake, but then the quarters after may be a low extreme, so now we're in the middle of that.

01:00:00 - 01:00:22
Pasi Laine: I think we were... I'm not sure if we were saying roughly in the words what you were saying that the first quarter was extremely good, and then after second quarter, we were still on positive growth numbers, and after the third, we were a little bit on the negative side, because there was very good quarter one and then not that normal quarter two and quarter three.

01:00:25 - 01:01:27
Sven Weier: Yes. Got you. The second point was just coming back to what you mentioned earlier I think you said orders should improve by Q3, at the latest, if I understood you correctly in terms of getting the load in for later. I mean, it sounds like when I look at the pulp downgrades, that probably refers to the next six months of maybe lower activity and on board it didn't sound like there would be an uptick, so isn't that meaning that a reduction is something that is relatively safe to happen? I was just wondering on the measures you can take

about these short-term measures. Sorry, not so familiar with the Finnish rules, but I was just wondering how long can you take these short-term measures? What extent can they have? Is there something to bridge maybe also half a year to 12 months or would that have to be then real proper restructuring instead?

01:01:27 - 01:02:10
Pasi Laine: We have negotiated, and if I now remember correctly. I hope our union members are not critical, they understand that I can't remember all the numbers correctly, but we have negotiated now so that we have the possibility to lay off in pulp and energy and paper side temporarily for 90 days per person. Then if that's used then we can renegotiate it, so there's no limit for that, but currently, we have negotiated with our unions the possibility of up to 90 days per person, which is already quite a long time.

01:02:12 - 01:02:23
Sven Weier: There is no limit in terms of you can only do it with five percent of staff saying you can do it with the... Which means there is quite some flexibility for you guys.

01:02:23 - 01:02:42
Pasi Laine: There is quite some flexibility, and of course, it's very important, but as I said, the long-term market is there and now it's very critical that we take good care of our highly professional personnel.

01:02:43 - 01:02:57
Sven Weier: How does the payment then work for the employees during those short-term measures? Are they still receiving some money from you, or from the state, or how does the compensation work for the employees?

01:02:57 - 01:03:21
Pasi Laine: Again, somebody might know it better, but we all have to pay for that kind of insurance, unemployment insurance, and then once we are unemployed temporarily, then we are getting the money from that fund. It's not coming from the state. It's not coming from the employee. It's coming from the fund where we all have to contribute a little bit every month.

01:03:22 - 01:03:24
Sven Weier: Understood. Very clear. Thank you Pasi.

01:03:24 - 01:03:26
Pasi Laine: Okay. Thank you Sven.

01:03:30 - 01:03:36
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

01:03:41 - 01:03:44
Antti Kansanen: Sorry, no questions from me. Sven already asked them.

01:03:50 - 01:03:56
Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

01:04:00 - 01:04:18
Tom Skogman: Hi, this is Tom from Carnegie. Pasi, you have been a long time in the industry, so perhaps, you're still working for Valmet. You can talk about the general mood among customers and how you see the big picture compared to earlier challenging times for customers a bit more.

01:04:20 - 01:05:29
Pasi Laine: Thank you, Tom. That was a good question. I have been visiting some customers here in Europe, in North America, in South America lately, and maybe we all are old men and women, but we all said that life is normal. Actually, there was quite a lot of confidence in South America in the medium to long-term development of the industry. Last week I was in North America, and our customers were saying that we can, of course, compare the years to the extraordinary Covid years. However, if we stop that and compare that to 2019, then the market is normal and then if the European customers, they all are of course saying the ones who are in cartonboard are saying that there is overcapacity, but the demand continues to grow with the GDP growth as well. Then we have to exclude the extraordinary Covid year. I haven't met anybody who wouldn't be trusting to the future of the industry.

01:05:31 - 01:05:50
Tom Skogman: Zooming in on North America, consumption is growing, the consumer is stron, population is growing, but they have hardly seen new equipment orders for Valmet in North America in the last ten years and the installed base is very old. Could that be the place where we will see strong orders in the next years?

01:05:50 - 01:06:25
Pasi Laine: We have been actually selling one to two new board machines every year, last year to North America. We have customers who have been buying from us and then they have been closing three, four old machines and that market continues, so the thing you said has happened in board machines side already, tissue market has been active and where we haven't seen yet activity is pulp side. Then we all believe that in the coming years, North American pulp mills need to be partly rebuilt.

01:06:28 - 01:06:43
Tom Skogman: Okay. Then I would like to ask about the Siemens gas acquisition. What does this mean strategically for automation systems and what type of sales synergies do you see in, from that acquisition?

01:06:43 - 01:08:08
Pasi Laine: We call it now API, it's easier. Its Analyzing Products and Integration, so they are serving petrochemical refineries, actually the same customers that flow control is serving, so actually we get a bigger share of wallet from those customers as a combination of API and flow controls. It might be the different persons in the organizations are buying them, sometimes the same, but in any case we are a more important supplier now for that customer segment. Then we bought a little bit more than a year ago, a batch software company in North America and that's serving the same customers API is serving. Now with our new DNA, we can enhance our product offering on top of the, or under batch control. We would be selling our DNA to the customers who already have been already buying the batch controls and the gas chromatograph, so we, directly there will be no synergy sales, but indirectly we have a lot of better visibility and customer contacts to new customer segments to whom we can start to market our DNAe.

01:08:11 - 01:08:28
Tom Skogman: Okay, and then the new automation DNAe product, is that for some reason better suited to other industries than pulp and paper, so you could generate a lot of growth in the next ten years from other industries somehow that will be better than the old model for other industries.

01:08:28 - 01:09:15
Pasi Laine: It's now the most modern in the world, so for our sales troops, it's a lot easier to sell to new customers, something which is totally new and it's cyber-secure and all the things that I said already in my presentation and to go with that kind of product to new customers instead with the product where the core has been developed some decades ago already. So, our sales troops will have a lot of easier task to sell it to new customers, and then of course, in short while it should be, of course, more cost competitive than the current offering because it has better engineering tools and more cost competitive hardware as well.

01:09:17 - 01:09:21
Tom Skogman: Any concrete plans to expand to new industries that we should know of?

01:09:22 - 01:09:29
Pasi Laine: No, I wouldn't go into that detail. Of course, we have some plans, but I wouldn't go to that detailed level.

01:09:31 - 01:10:05
Tom Skogman: Then finally to your CFO, net working capital is now €850 million above the end of 2021. The Neles acquisition brought some 200 million euro. Now we have the Körber acquisition and of course, the sales, but break down this a bit because, I mean, it's easy to be scared that there will be problems with some projects that the customers don't want to pay because there are some quality issues or so, and why we should not be afraid of that. When you just show this slide, it's really hard to grasp this.

01:10:06 - 01:10:54
Katri Hokkanen: What I said earlier was that also as you said, we have had these acquisitions and mergers, but the part of the stable business has increased if you compare it to the earlier years. It's almost 70 percent of stable business. There are no issues with the receivables, so the collection works well, no topics there. Of course, what

can swing the net working capital are the capital prepayments and then the inventory I mentioned earlier that, of course, it's very much linked to the stable business and we are actively working with that. However, when the stable business has been growing, as well as POC, what we are recognizing from the VIP has been increasing. So, you have to look at kind of all the elements that are there.

01:10:56 - 01:10:57
Tom Skogman: Okay. Thank you.

01:11:05 - 01:11:11
Operator: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

01:11:12 - 01:11:51
Johan Eliason: Hi, it's Johan again. Just curious, following up on Tom's question here where you see a potential recovery in either pulp or board, you mentioned North America needs some renewals going forward. If we look at the geographies, and I guess this relates mainly outside of Europe as your competitors are also Euro-based in most of your segments, would you say you are better positioned in terms of reference installations, service network in any geography if equipment demand starts to take off than your competitors.

01:11:56 - 01:12:46
Pasi Laine: In China, we all are present, but we have the widest services offering in China, but then I'm sure that when the Chinese market is active, all of us are there. In North America, we have the strongest installed base in paper and board, and tissue, and the strongest service network as well. Europe, we are roughly at the same level. In South America, we are strong and we have during the last year become also strong in paper and board, where we were not earlier active practically at all, but then, of course, our friends in Germany and our friends from Austria have good services networks as well.

01:12:48 - 01:12:58
Johan Eliason: To conclude, if North America is to take off, you would have a little bit of an edge. Is that the way to see it?

01:12:58 - 01:12:59
Pasi Laine: Yes.

01:13:01 - 01:13:02
Johan Eliason: Excellent. Thank you very much.

01:13:14 - 01:13:21
Operator: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad.

01:13:31 - 01:13:51
Pekka Rouhiainen: Right. Thank you for the active Q&A session then for the audience and Pasi and Katri for the answers, the half-year result will be published on July 24th, exactly three months from now. I wish everybody a nice rest of the day and bye for now.