Transcription

Valmet Q4 2022 Financial Statements review webcast

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PRESENTATION

Pekka Rouhiainen

00:00:00
Good afternoon, ladies and gentlemen, and welcome to Valmet's 2022 result publication Webcast. The highlights of the year included the finalization of the merger with Neles, which now means that Valmet's stable business, consisting of Services and Automation, was 2.8 billion Euro in terms of net sales. My name is Pekka Rouhiainen, and I'm the head of Investor Relations here at Valmet. The speakers today are President and CEO, Pasi Laine, as well as CFO, Katri Hokkanen. After the presentations, you will have the chance to ask questions over the phone lines. Without further ado, Pasi, please, go ahead.

Pasi Laine

00:00:40
Thank you, Pekka. Hello. So, our headline today is that orders received increased to 5.2 billion and comparable EBITA to 533 million. So the traditional agenda, first, 2022 in brief, then some words about the segments and business lines, then one page about Flow Control integration. Katri will go through the financial development. And I will then talk about dividend, guidance and short-term market outlook. First, the year in brief. Orders received was 5.2 billion, net sales, 5.1 billion. Backlog ended to be 4.4 billion. Like I said, our EBITA increased, comparable EBITA increased to 533 million, and EBITA margin was 10.5 percent. Gearing in the end of the year was 20 percent. And here are the same numbers in pictures as well. Last year we employed about 17,500 people.

Then if we think about the net sales and divide that into segments, so a little bit less than 50% came from Process Technologies. And there is, of course, now change because of the merger with Neles. Services contributed to 32 percent, and Automation segment to 20 percent of our net sales. Geographically, North America was strong, 21 percent, South America, 14, Europe, Middle East, and Africa 37 percent, China, 16, and Asia-Pacific, 12, a good and quite traditional contribution of the net sales between the areas. Then here's the history graph, which we have been showing for some years now in quarter four call. So we started with orders received somewhere at 2.5 - 3 billion euro level, and now, for the first time we are over 5 billion, and quite constant growth in orders received.

Net sales has been growing even more steadily. We were at 2.5 billion euro, and now we have doubled that in nine years. So now we are a little bit over 5 billion. Comparable EBITA has been improving in euros year after year. We started from 50 million euro and now we ended up at 533, so constant improvement. Then comparable EBITA margin has been developing every year, and now there's exception and our EBITA margin went down even if comparable EBITA was going up. So of course, this is a disappointment to us. Of course, our target was to improve our comparable EBITA margin as well. But last year we didn't succeed on that.

Our orders received has been increasing steadily. Here you see the graph. So it has gone from this 2.5 billion euro, and now the trend of last four quarters is at a little bit over 5 billion euro level. Geographically, of course, in this graph, we are not comparing apples to apples. The year '21 is without flow controls and '22 has three quarters of flow controls included. But North America is a big market for us, almost 1.3 billion euro. South America last year a little bit less than in a good year, so 350. Europe continues to be strong, a little bit over, or almost 2.1 billion.

China was performing well, 711. Of course, there is some growth coming from flow controls. But all in all, Chinese market was active last year again. Asia-Pacific has been improving, from 544 to 771. So all the areas with one exception, actually two exceptions, were growing. So three were growing, two not. Stable business, orders received totaled to a little bit over 2.8 billion. When we started, we had Services with 1 billion euro order intake and then we acquired systems business. We have been growing organically services and automation business, and now we've made the merger. And now last year's order intake was a little bit over 2.8 billion. So this is a good summary slide telling what kind of changes, what has been one of the changes that has happened in Valmet. And we are of course, very proud and happy of the organic development, merger development, and acquisition development.

Backlog ended up to be 4.4 billion. We are saying that about 65 percent comes from Process Technologies, Services 20, and Automation 15 percent. We are also saying that about 75 percent of the backlog is currently expected to be realized as net sales during '23. Last year, the same number was 70 percent.

Then some words about the segments and business lines. So first the Services, which is a segment and business line. Order intake ended up at a little bit over 1.7 billion. So nice growth in order intake. Net sales grew also and was a little bit over 1.6 billion. EBITA in euros improved from 204 million to 237 million, and EBITA margin year before, '21, was 15, and '22, 14.8. So our organization did very good work. Like you all remember, the first quarter was not that good, second was better, third one, not that good. And now we are only 0.2 percent below in margin compared to the previous year. So good development and good work by Services, business line and all the area organizations. We can happily say that all the geographical areas were growing and all the business lines were growing.

And if we take a look at the business units -- or the business units were growing earlier. So if we take a look at the business units, so Performance Parts was about 35 percent of the orders received. Rolls, 17, Fabrics, 13, Board, Paper and Tissue Solutions, 17, and Pulp and Energy Solutions, 18. Roughly the same percentages as a year ago. Maybe some small changes. But all business units have been growing. Geographically, North America was performing well and strong, so 34 percent of the orders came from North America. South America, China and Asia-Pacific, are roughly the same size. So if you take 10 percent out of 1.7 billion, then you end up at roughly 170 million euro level. So we have a good, about 170 million euro order intake in all these three growing areas. Europe was 37 percent, and in euros that was growing as well. So good performance in all the business unit and good performance in all the other areas as well.

In Automation segment, of course, the big change is that the order intake was almost 1.1 billion, and the big change was, of course, the merger with Neles.Net sales was a little bit over 1 billion as well. Comparable EBITA for the whole year last year was 79 million, of course, consisting only of systems business then. And now we ended up in comparable EBITA of 190 million. Last year, EBITA margin was 19.2 percent, and this year 18.3 percent. So we are happy with the performance of Automation segment, both in flow controls and in systems business.

In Flow Control, order intake in Valmet books was 576 million. Totally, you can add a little bit less than 200 million, and then you end up at total order intake of 770. This is, of course, very good performance by Flow Control. Net sales grew as well. So in Valmet books, 551 million, and before that in Neles books, 166 million. So good growth both in order intake and in net sales. And I'll come back to the integration later on. But we are very happy with the performance of Flow Control.

In Flow Control, about 68 percent of the business came from a business unit called MRO and Services.Valve controls and actuators brought 19%, and projects 13. So this is the first time when you see the split between the business units in Neles, but that's how the business is now managed, and that's the share of businesses based on the business unit structure. Customer segment-wise, about 26 came from pulp and paper, renewable energy and gases, 7, refining and chemicals, 48, metals and mining, 10, and the rest, 10. And then by areas, North America was strong last year, and traditionally it's also strong for Flow Control. So almost 40%, a little bit over 30% from Europe, and then China, Asia-Pacific and South America, close to 10 percent, all of them.

In systems business, we are proud to announce that the order intake went over 500 million, first time ever. So here you see the growth trend starting from 2016, and the order intake has been growing with one exception every year. Now it ended up at 505 million. Net sales grew also nicely, 412 million to 489 million. So nice development in systems business as well.

So we are happy with the performance of Automation Systems.

And here the traditional graphs, so pulp and paper, was 72 percent, and energy and process was 28 percent. Usually this is about 30-70. Last year, pulp and paper activity was a little bit more than in energy and process. In geographies, North America was strong here as well. Europe is always big. And then the rest of the areas, South America, 6 percent, and Asia-Pacific and China, 9 percent.

In Process Technologies, our order intake dropped from the peak year to a little bit over 2.3 billion. So now it's second-best year in history. So it's a good year in order intake. Net sales has been growing steadily, and last year it was a little bit over 2.4 billion. EBITA last year was 175, now 30 million less, 145, and EBITA margin has gone from 8.1 to 6.0. So the profitability is impacted, like we have been saying, with some selective, some pulp and energy projects where we have cost overruns, and the same projects which we have earlier had. So now we have the full year picture. And last year's profitability, EBITA margin was six percent in Process Technologies.

Then if we take a look on business lines. Pulp and Energy business line, order intake, a little bit less than 1.1 billion, almost 90 million less than a year ago. But one could say normal level if you look at the graph, which is telling the history. Net sales has been growing steadily. So net sales ended up at 1,081million. Orders received-wise, Energy was active, so 54 percent came from Energy. We had one year when we were almost at the same level, or same level in order intake in Energy, and then we had marine scrubber business booming. And then, if I remember correctly, we said that marine scrubber business order intake was roughly 190 million. And last year it was very marginal. So no material orders at all, which now means that our boiler market has been active, and we have been very successful in the boiler market.

Then where we haven't been successful is pulp. So our competitor has been winning more cases. But order intake has been at a decent level in some of the business units. Of course, we have to accept the fact that our competition has been stronger in pulp side, but we have been a lot stronger in energy.

Geographically, Europe has been big, Asia-Pacific as well, and North America, South America, and Chinese market haven't been active, or we haven't been successful in pulp cases in those areas.

Then Paper business line. Last year was very good order intake, over 1.6, and now it's a little bit less than 1.3 billion. But I would say that this is a good level, order intake level for Paper business line. So a good performance. Net sales has been growing nicely as well. We started from 500 million, and now the record is a little bit over 1.3 billion, so a good and constant development in Paper business line. Like you see here, our net sales was a little bit higher than order intake, which means now that we start to be on top of the backlog so that it's not growing and lengthening our delivery times even further. So this is positive news that we have in Paper business line, higher net sales than orders received.

Business-unit-wise, Board was 74 percent. So majority of the business is coming from packaging applications. Paper was contributing 9 percent, and tissue 17. The board market has been very active and like we have been saying, tissue market has been satisfactory to us, and that has then resulted that order intake was only 17 percent of the total.

Geographically, here are always big changes depending on where the products are landing. North America, a good market for us, 21 percent. South America, not too much activity in '22. Europe was strong. China was still strong and Asia-Pacific was strong as well. So here the pie chart is changing quite a lot depending on which country the big projects are landing.

Then some words about integration of Flow Control into Valmet. First of all, I want to say that integration is going according to plan, or maybe even a little bit better. So we have now started to integrate the sales efforts so that when we are offering process technology and services, in selected cases we are then including our valves into the package. Not in all, but it depends always on customer case and application.

We have done most of the synergy actions in functions, common locations and supply chain. We have been saying earlier that we expect about 25 million annual run rate synergies, and we have been saying that about 60 percent of them will be achieved by end of '23, and 90 percent by the end of '24. Now we can tell that our orders received included about 10 million of synergy impact in '22. So we are well developing that. You have to remember that Flow Control was only nine months with us. And then of course in the beginning it took a little time to get machines synchronized. And then we can tell that we have implemented cost synergy actions so that the annual rate is about 12 million, out of which we are saying that roughly half was achieved already as realized cost saving in '22. So integration is going according to plan or even a little bit better. And we have started and we have seen already synergy benefits both in orders, sales, and in costs. Good. And now, I'll let Katri continue with the financial development.

Katri Hokkanen

00:19:42

Thank you, Pasi. And hello, everybody, on my behalf as well. Before actually going into the financial development, I would like to thank all the Valmeteers for the year 2022. Thank you for your hard work. And I also want to send a special thanks to my team globally for getting us to this point today, that we can report the results.

Few words about the Q4, first. So our order intake increased to 1.4 billion. Our net sales also increased to 1.5 billion, and our order backlog was at 4.4 billion. Our comparable EBITA increased to 196 million or 12.7 percent. And gearing was 20 percent at the end of last year. Then few words about the full year numbers. So order intake was at the level of 5.2 billion, and that was 10 percent higher than a year ago, in 2021. Backlog, as I said earlier, was at the level of 4.4 billion, there was a 7 percent increase, and net sales was 5.1 billion, and there was a 29 percent increase. Comparable EBITA was at the level of 533 or 10.5 percent. So in millions of euros, we were 104 million ahead of 2021. But as Pasi said earlier, the margin was down by 0.4 percentage points.

A few words also about segment key numbers. Starting from order intake, so Q4, as I said earlier, was at the level of 1.4 billion. All of our segments increased during the fourth quarter. And then when looking at the full year numbers, Services was at the level of 1.8 billion, there was a 19 percent increase compared to 2021. Automation was at the level of 1.1 billion. So there we now had three quarters of Flow Control. And then Process Technologies was at the level of 2.4, and there we had a decrease of 16 percent.

Moving on to the net sales, so fourth quarter also all segments increased compared to the comparison quarter. And when looking at the full year numbers, Services was 1.6 billion, Automation 1 billion, and Process Technologies 2.4 billion, and all of these increased compared to 2021.

Then a few words about the profitability. So first Q4, Services was at the level of 18.7, and that was a good achievement from the Services segment considering that the first quarter was below 10. Then during Q2 and Q3, we were around 14 percent level, and now at 18.7. Automation was the highest last year at 21.4 percent. And then Process Technologies was at the level of 5.6.

And when looking at the full year profitability, so Services 14.8, Automation segment was 18.3, and Process Technologies at the level of 6 percent. And as I said earlier, 533 was the comparable EBITA, out of which 80 percent was coming from the stable business. Gross profit was 1.2 billion at the end of last year, so there was an increase in millions of euros, but the profitability went down from 25 to 24 percent level. SG&A was at the level of 852. So that was a big increase compared to 2021. And out of that increase, roughly 65 percent was coming from Flow Control. And the rest is then related to personnel cost increase, so we have more people. There was also FX impact and more traveling.

Few words also about the development over the years. So Net sales has been developing quite nicely over the years, and as Pasi said, last year was the first year that we were above 5 billion. And stable business net sales was at the level of 2.6. Pasi also mentioned the comparable EBITA percentage, that it went down to 10.5. This was the first year that we were not able to improve the margin even if in millions of euros we improved.

And when looking at our financial target, it is unchanged. So we are targeting to be between 12 to 14 percent, and continue the hard work towards that target.

When looking at the cash flow, that was 36 million at the end of last year. That was a big drop compared to 2021. And of course, '20 and '21 have been kind of exceptionally high numbers when it comes to cash flow. But this change is coming from the change in net working capital. And when looking at the net working capital profile. So it has changed after Flow became part of Valmet, and I already said this last time that if we would have had Flow Control as part of us the whole time, we roughly estimate that net working capital would have been on the level of -7 percent. And now when looking at last year's number, we were at -2 percent, so clearly below that being at -82. And there are three items which contributed to this decline. First, is related to inventories. This one we have been discussing already in the earlier quarters that our inventory levels have gone up. This is partly explained by Flow Control, but we have also increased the inventories in legacy Valmet to be able to deliver to our customers.

Then the second topic impact in this was trade receivable. We had a very high invoicing month in December, that then increases the trade receivables. And of course, that is something that then we expect to collect early this year.

And then the third item was related to customer advances. In 2022 we had less customer advances than in 2021. So those were the ingredients impacting the cash flow and also the net working capital.

Net debt was at 502 million at the end of last year, and our gearing was 20 percent, so no big changes there. And we have now added a new ratio to the presentation materials. So it's this net debt to EBITA ratio, and that was 0.78 at the end of last year. Capital employed was at the level of 3.3 billion, so no changes to previous quarters. And there is an increase of 1.5 billion, and that is related to the merger of Neles. Our comparable return on capital employed was at the level of 17 percent, and our financial target is to be at least 15 percent. Then last but not least, adjusted earnings per share. So this is without the business combinations. Last year we were at 2.37, and it has increased compared to 2021. So this was my part of the presentation. Thank you. And I will give the floor back to Pasi.

Pasi Laine

00:27:00

Thank you, Katri. It seems that Katri talks faster and more precisely than I, so I have to speed up as well, my presentation skills. So I'll go through the dividend proposal, guidance, and short-term market outlook. First, the dividend proposal. Like you know, our policy is that dividend payout should be at least 50% of the net profit. And now our Board of Directors have decided to make a dividend proposal to the AGM in a way that we would be paying 1.30 euro dividend per share, which represents about 68 percent payout ratio. And here you have then the graph showing how the dividend has been developing from 15 cents and now the proposal is 1.30. And we haven't added here in the slide, but we are proposing also that the dividend is paid in two installments, so one in Spring, and one in Autumn, to make the cash flow management easier in Valmet. But 1.30 is the dividend proposal to AGM.

Then our guidance and short-term market outlook. This time we are saying that Valmet estimates that the net sales in '23 will increase in comparison with '22. And comparable EBITA in '23 will increase in comparison with '22. So both guidances are increase. Then short-term market outlook. Services we keep the good status. Like you have seen, order intake has been developing well, which means that we have good capacity utilization and current market activity is still good. In flow control, same reasons, good order intake and market activity continues to be good. Automation system business, the same, good market activity and good order intake last year. In pulp and energy, same story, so we have units where we have good utilization, a good backlog, and then we have one unit where the situation is not that good and that's why it's good/satisfactory. Energy, order intake has been good and market activity continues to be good. And board and paper, order intake has been good, there is still plenty of projects active. And tissue, order intake wasn't that good last year, and we'll keep the satisfactory outlook, short term market outlook, for this year.

So, that's the guidance and short-term market outlook.

Q&A

Pekka Rouhiainen

00:29:56

Thanks, Pasi. We are now ready to move on to the Q&A session then. So we will be taking questions over the phone lines once we're ready.

Moderator

00:30:15

If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five, again, on your telephone keypad. The next question comes from Antti Kansanen from SEB. Please, go ahead.

Antti Kansanen

00:30:42
Yes. Hi, guys. Thanks for taking my question. First one is on the Services and kind of the order growth that you saw on Q4, and the demand outlook. The growth was five percent in comparable FX. I'd assume that it's fully driven by pricing, but the outlook remains good. Could you maybe elaborate what you saw geographically or the different type of services in Q4? What is the outlook there going into first half this year?

Pasi Laine

00:31:11
That was a good question. We saw good market activity, and Katri, correct me if my answer is not correct, we saw good market activity in all the areas and the same actually goes with all the business units. So I wouldn't say that we had seen any difference compared to the whole year results and outlook.

Antti Kansanen

00:31:42
Okay. Then the Process Tech margins and the issues that you have had with the projects. Is it in any way possible to quantify the kind of revenue impact this year from those projects related to or in comparison to '22? I mean, just trying to get how much of those projects are still ongoing this year, compared to how much they impacted last year's numbers?

Pasi Laine

00:32:08
Yes, that's a difficult one to answer. Of course, we know the backlog numbers and how much, but we have been saying all the time that it's selected projects in Pulp and Energy segment. So first, you can take Paper away from that calculation, and then you can think that it's selected, so it can't be majority. But I can't give a too accurate answer on that, so maybe the best is that I continue with the message we have had earlier. And we have been saying that it's selected projects in Pulp and Energy.

Antti Kansanen

00:33:04
Okay. But there's no communication on when those projects are due to be finalized or anything like that?

Pasi Laine

00:33:13
No, we can't communicate that.

Antti Kansanen

00:33:20
Okay. And then perhaps a follow up on the Process Tech. I mean, the backlog is a bit down, but obviously from a very elevated level. So is it getting back to normal, or is there some point of concern about capacity utilization, or do you have enough workflow going forward? How would you look at that? I know it's a mixture of different businesses and probably quite uneven situation, but how should we think about the volume impacts?

Pasi Laine

00:33:48
We have one business unit where we don't have that good work situation, but it's a small one, and then the rest they have good workload. Like you said, and like I said also, it's good that the backlog is getting a little bit down, especially in board side. So it means that our delivery times start to be more competitive again.

Antti Kansanen

00:34:21
Okay. And then the last one to actually Katri regarding your financial expenses this year. I mean, you have roughly 700 million in debt. How should we think about how much that will cost you in '23? Is the interest rate going up? How's the structure on that debt?

Katri Hokkanen

00:34:40
Yes, so when looking at the interest, of course, it's probably better to look at the net debt, so that was 502 million. Now, at the end of last year, our average interest rate was 2.3 percent. So there was a 1 percent increase compared to the third quarter. So clearly the interest has increased a little bit. So of course, if this continues, it will have an impact. But of course we are playing with the fixed and floating interest rates. That's one way of handling it. But with this level, I think that we are not worried about the situation.

Antti Kansanen

00:35:17
All right, thank you.

Katri Hokkanen

00:35:18
Thank you.

Moderator

00:35:23
The next question comes from Mikael Doepel from Nordea. Please, go ahead.

Mikael Doepel

00:35:33
Good afternoon, everybody. First, a question on order intake heading into this year. Now, what are your expectations there overall, if you think about new equipment and aftermarket businesses separately? And are you seeing any hesitations out there given the macro headwinds?

Pasi Laine

00:35:55
We are giving the market outlook with the business, or the segments, what we said. And like I said, we are still seeing good activity in stable business, in services and flow control, in automation. In pulp, it's good/satisfactory, and energy, and board, and paper are good and tissue is satisfactory. So we are not guiding the order intake for the whole year and not more specifically. But for coming six months, this is our view of the market. Then hesitation, we haven't seen increasing hesitation. So in our pipeline we always have certain amount of projects, and some of them customers are delaying, some they are speeding up, and some are going according to the plans. But we haven't seen any actual change compared to the normal situation now in our capital, or process technology sales pipeline.

Mikael Doepel

00:37:14
Okay. And then in terms of productivity, I guess, you talked about your margins going down in 2022. You're citing supply chain issues and weaker productivity. So I was just wondering. Are you able to quantify what kind of an impact the weaker productivity actually had on your earnings and margins last year? And if you would expect that to reverse this year?

Pasi Laine

00:37:44
So of course, internally we have analyzed many things. So productivity is maybe - - In gross profit, of course, the inflation maybe had a bigger role than productivity. And then cost inflation, both in materials, and labor, and logistics and so on. And for the coming year, of course, people are reading newspapers and can see that there's some discussion that logistics prices might drop at some point of the year, and maybe even raw material prices.

But then next, inflationary topic is more the salary inflation and the impacts of it. So we are of course, working on all these fronts to make sure that our gross profit will go up. But last year it didn't. Katri, do you want to add something?

Katri Hokkanen

00:38:42
I think you nailed it well. It's exactly like that, yes.

Mikael Doepel

00:38:48
Okay. Well, that's clear. Finally, just wondering, given the opening up in China and you having a decent exposure. Just wondering if you can say anything about what you're seeing on the ground in China right now, in terms of activity. And also in terms of the project pipeline, I guess, there are a few bigger integrated packaging mills planned. And are these moving ahead now?

Pasi Laine

00:39:14
Last year, our order intake in Services was developing well, like you can calculate from percentages. Even if there was COVID and COVID limitations, the capital market was active last year as well, and we are still a little bit above normal. If you can have a normal Chinese market, but the Chinese market has been the last three years good for us. Now, the sentiment is more positive. So of course, people are somehow relieved that normal life comes back, and people can travel and meet with each other, and go to restaurants. So when talking with our Chinese team, they are happy now.

Mikael Doepel

00:40:05
All right, good. Thank you very much.

Moderator

00:40:14
The next question comes from Sven Weier from UBS. Please, go ahead.

Sven Weier

00:40:21
Yes. Good afternoon. Thanks for taking my questions, as always. The first one, Pasi, is around the revenue and the EBIT guidance for this year. Obviously, there's still a bit of a sizeable

impact from the one additional quarter from Neles. I mean, would you be happy to say that you expect the company to grow organically on both items?

Pasi Laine

00:40:45
I think its -- rules are saying that company can give only one guidance, and the company is giving only one guidance. So as total Valmet is giving its guidance that net sales will increase and EBITA will increase. Sorry, Sven, but I can't open that more.

Sven Weier

00:41:07
It's fine, I was kind of expecting that answer. That's okay. Worth a try always. And maybe on the second one you can be a little bit more detailed, because I was wondering on the Stora project in Oulu, I hope I pronounced that correctly. I was a bit surprised with the order size you had announced related to the project, given that the total project size is a billion. I mean, are you expecting more business potential from that mill or is that basically it, what you have announced?

Pasi Laine

00:41:44
No, maybe it's not our normal – - We have announced the orders, what we are getting from Oulu. So we got...

Sven Weier

00:41:54
I get it.

Pasi Laine

00:41:56
Yes.

Sven Weier

00:41:58
So there's no more...

Pasi Laine

00:42:00
No, of course, some small ones, but not the ones of that size that we would make an announcement.

Sven Weier

00:42:11
Okay, thank you. And the other one is a follow up question to the Process Technology margin. Is it still fair to assume that there is still an impact this year? But the impact is smaller than it was in 2022, from those problems we talked about in the Q&A?

Pasi Laine

00:42:30
No, I'm not giving a direct answer to that. But I'll come back to our earlier statement that once Valmet targets to reach higher profitability, all the business lines have to improve. So Automation has to improve, Services has to improve, and Process Technologies have to improve. Are we able to do it this year? I can't promise that. But of course, our goal setting has to be that all the business lines are improving. Otherwise we couldn't be saying that our EBITA guidance is that EBITA will increase.

Sven Weier

00:43:15
Okay. And the final one is just on the pulp greenfield pipeline, how you look at that. You already mentioned that last year the peer was a bit more successful. But how do you see the pipeline in general? Is it still a reasonably good one, or now with pulp prices going down a bit, has there been a change?

Pasi Laine

00:43:36
Now, the pulp business, people are paying a lot of attention to mega mills and we traditionally haven't been listing the mega mills. Our dear friends might be listing them, we haven't. So I would assume that some bigger mega mill cases, if decided it will be in the latter part of the year. And then one has to remember that in pulp side, pulp business there are also island decisions. So somebody wants to build a new recovery boiler, increase the fiber line, or build a new cooking line and so on. And that's the market where from last year we got that order intake we got. So that market continues to be active. So for us to have good business, we can't base that on the thinking that there has to be a mega mill every year.

Sven Weier

00:44:42
Thank you, Pasi.

Pasi Laine

00:44:45
Thank you, Sven.

Moderator

00:44:53
The next question comes from Panu Laitinmäki from Danske Bank. Please, go ahead.

Panu Laitinmäki

00:45:01
Firstly, on the competition, you commented in the pulp side, competitor was maybe more successful, and it seems that in Stora Oulu site, Voith got the bigger order. Can you comment, is it more like pricing why competition has won these orders, or what was the final reason?

Pasi Laine

00:45:21
All in all, in board side, our hit ratio last time against dear friends from Germany was about 70 percent. Sometimes you lose projects. And then we can’t, of course, open why we lost but of course we have had good discussions with Stora Enso, why they selected somebody else. But that happens in the business. Generally, our hit ratio has been about 70 percent for us against Voith.

Panu Laitinmäki

00:45:57
And in the pulp side?

Pasi Laine

00:45:59
Pulp side, we got good size business there in Oulu.

Panu Laitinmäki

00:46:10
All right, thanks. And secondly, on the Services margin, it was up clearly from previous year. The question is basically, was Q4 '21 already impacted by the inflation since we haven't seen

the earlier quarters? Is it like above normal levels in Q4 '22, or was it just recovery after inflation?

Katri Hokkanen

00:46:38
I would look at it so that it has been a development over the year. So Q4 margin was lower than this year. Of course, then there was the low margin in Q1. And then we have been improving again, so we have been increasing the prices. We have said also earlier that we were maybe a little bit late with increasing the prices, and that was visible earlier this year in our results.

Panu Laitinmäki

00:47:03
All right, thanks. Then on the receivables, they increased. Was there anything special related to timing of sales or where did the increase come from?

Katri Hokkanen

00:47:14
It came from many fronts, but we had a very high invoicing month in December, so that was clearly visible and it is in our current receivables. So it was a very active December, let's put it that way.

Panu Laitinmäki

00:47:31
All right. And then finally on Neles or Flow Control, I think the split of orders that you showed was quite interesting. So pulp and paper was only like 25 percent, if I remember correctly. And then clearly, the weakest part came from refining and chemicals. So can you talk about what you are seeing in there, and where is the growth coming from? And how do you see the different end markets?

Pasi Laine

00:48:00
So I think actually it's quite normal. If I remember correctly, at the highest pulp and paper has been now 29 percent in the order intake. So 26 is good taking into account that the total amount was growing. So I'm not calculating in my head, but I actually would assume now that 26 percent is bigger number than year before, 29 percent, in absolute terms. So Flow Control has been doing good work on that front as well. But otherwise, this is telling quite well where we are and where --- so the growth can still come in paper. And we have been saying that Flow Control can increase their market presence in board and tissue. Then an interesting case is the gases, metals and mining as well. But I'm sure that in our capital

markets day Simo will open the growth avenues even more. So if it's okay that this time I'm just saying that we try to grow in all these segments.

Panu Laitinmäki

00:49:20
All right, that's clear. Thanks.

Moderator

00:49:28
The next question comes from Tomi Railo from DNB. Please, go ahead.

Tomi Railo

00:49:37
Hi, this is Tomi from DNB. Also trying to ask about the profitability and the underperforming projects. Just simply, it must be fair to assume that the share of revenues is smaller this year compared to last year.

Pasi Laine

00:49:56
Now, you all try to get us to answer something that we have been reluctant to answer, and Tomi, the same question - - answer continues. We have selected projects where there are cost overruns in Pulp and Energy.

Tomi Railo

00:50:20
Okay. Another way to ask, would you be able to comment on the overall order backlog quality from the profitability point of view? Is it better or similar than starting last year?

Pasi Laine

00:50:38
We are happy with the order backlog quality.

Katri Hokkanen

00:50:43
Yes, it's on a good level, 4.4 billion. It's over 300 million higher than a year ago. And of course, it's good to also mention that we have 35 percent of stable business in the backlog, and that is more than what we had in 2021. So I agree with Pasi.

Tomi Railo

00:51:04
Okay. And then Energy, really good uptick, almost 600 million orders. As Pasi said, above the previous peaks, which included the scrubbers. Do you have any capacity limitations on that side or is it really in a way shared with the pulp and so on? Can you continue to grow orders in energy?

Pasi Laine

00:51:29
Energy business unit is sharing the capacity with recovery boilers, which is part of the pulp side. And I think our capacity starts to be very well utilized. So in energy side, it's easier to outsource manufacturing, but then at some point of time becomes the limitation of project management and engineering capability. And I think we start to be at a very high level from an organization load point of view. Katri, you have been there as a business controller.

Katri Hokkanen

00:52:08
Yes.

Pasi Laine

00:52:08
Do you want to correct my statement?

Katri Hokkanen

00:52:10
No, I don't want to correct your statement. You are absolutely right. And you know the business as well.

Pasi Laine

00:52:16
But you know it better.

Katri Hokkanen

00:52:18
Yes, but exactly as you said that we cross-utilize the resources.

Tomi Railo

00:52:26
And finally, group costs jumped in the fourth quarter at least. Any color you could give for this year for the group costs?

Katri Hokkanen

00:52:36
Yes, so the Other was 39 million. So there was increase as you said, and we have more people there now. There has been some increase in the personnel cost, and we will do our best to keep it roughly on the same level. I think, that's fair to say.

Tomi Railo

00:52:52
Thank you very much.

Moderator

00:53:01
The next question comes from Johan Eliason from Kepler Cheuvreux. Please, go ahead.

Johan Eliason

00:53:08
Hello, it's Johan here at Kepler Cheuvreux. Just coming back to the pulp side again. You mentioned you have been losing some share. You've gone for the island, mid-sized orders rather than the big greenfields. But I think some time ago, Pasi, you sort of mentioned that now with Neles, you're a bigger company, you might take on risk and go for the greenfields as well. Has anything changed there regarding your strategy?

Pasi Laine

00:53:40
No, we have been doing greenfields earlier as well and currently we are doing one very big greenfield project with Metsä in Finland, and in South America we have been doing several of them. Of course, we go after them and we have been going after them. We haven't been during last two years as successful as Andritz, but of course then we want to be successful in the future. Of course, now, when Valmet’s EBITA is over 500 million, then of course, our capability to take calculated risks is higher. But of course, we want to say to the investors as well that we are not making any stupid decisions now, because we are a bigger company. Of course, we will be very careful with our decision making in the future as well. I think this one sentence, what I said last time has been a little bit overquoted by many people. It was one sentence, in one sentence. So of course, we are careful, but of course, we want to increase our market share in pulp.

Johan Eliason

00:54:58

Okay, excellent. Then on profitability, I mean, we learned about this excellent profit improvement in the automation systems business since you took it over from Metso a couple of years ago. Now, obviously, we see it down year over year, which is clearly the Neles impact in Q4 and on the full year, I suppose. But would you say the Automation Systems margins, have they improved further or have they also slowed, sort of on a standalone basis?

Pasi Laine

00:55:33

Difficult question to answer. We opened the system business profitability last year and then I'm not allowed to tell the business line profitability for systems or flow controls, but I would say that last year's profitability in Automation segment was actually quite good. But of course, they should continue to improve the profitability as well.

Johan Eliason

00:56:02

Okay. And then coming back to the interest comment, you said 2.3 percent now, at the end of the quarter. I think previously, Kari sort of alluded to the fact that you had a big cash position that wasn't yielding any interest income at all, and that's why your interest net looked a little bit high. How is it today? I mean, your cash position, is that yielding anything or should we just calculate the costs on the debt?

Katri Hokkanen

00:56:41

When you look at the overall, you should look at the net debt. So, of course, we had a strong cash at the end of last year, almost 300 million there, so we also gained the interest. So you should look at the net debt.

Johan Eliason

00:56:57

Okay, excellent. Thank you very much.

Katri Hokkanen

00:56:59

Thank you.

Moderator

00:57:04
The next question comes from Antti Kansanen non from SEB. Please, go ahead.

Antti Kansanen

00:57:13
Yes, thanks for taking a follow up. It's on the Pulp and Energy side where we now see this kind of a mix shift from pulp towards energy. So could you, on a general level, talk a little bit about profitability differences on those two businesses? If you do an energy project, is it materially different than the pulp side or fairly same type of margins? Is there any impact on profitability from this shift?

Pasi Laine

00:57:37
As an average the same, and some years energy is better than pulp, and some years the other way around. But as a rule of thumb, it's the same.

Antti Kansanen

00:57:50
Okay, so you just ensure the workload on the boiler side, and then similar type of project margins?

Pasi Laine

00:57:58
Customers tend to squeeze with the same pressure on both businesses.

Antti Kansanen

00:58:05
Okay. Thank you, that's all.

Pasi Laine

00:58:07
Thank you.

Moderator

00:58:11
As a reminder, if you wish to ask a question, please dial Star five on your telephone keypad. The next question comes from Mikael Doepel from Nordea. Please, go ahead.

Mikael Doepel

00:58:29
Yes, thanks. Just a brief follow up. Coming back to your commentary around margins, I'm just wondering if you can talk a bit more about the headwinds and tailwinds going into this year. I mean, you mentioned the order backlog having a bigger share of stable business. Does it suggest that there should be a bit of a mix improvement, perhaps supporting margins? But I was also wondering to what extent there is still a catch up effect coming from pricing versus costs? Or are you in fact already seeing pricing ahead of cost in the year? So maybe if you could talk a bit about the headwinds and tailwinds for margins, thanks.

Pasi Laine

00:59:05
Katri, do you want to take this?

Katri Hokkanen

00:59:10
Well, if I start, of course, maybe the one question mark for this year is related to the salary cost inflation, and that impact on the cost level. So maybe that's one thing at least to mention. Do you want to add something here?

Pasi Laine

00:59:26
And then on the other side, might be that logistics costs are going down.

Katri Hokkanen

00:59:33
Yes, so both trends.

Mikael Doepel

00:59:39
Okay. But do you feel comfortable with your current pricing in the order backlog to handle these changes to cost inflation then?

Pasi Laine

00:59:47
You never feel comfortable. But of course, we are comfortable enough. But a lot of work is needed like last year as well. And the same kind of work continues that we will have

somewhere cost increases, and we have to compensate them from somewhere else. So normal management is needed, nothing special.

Mikael Doepel

01:00:13
Fair enough. Thank you very much.

Moderator

01:00:17
The next question comes from Tom Skogman from Carnegie. Please, go ahead.

Tom Skogman

01:00:27
Good afternoon. This is Tom from Carnegie. So I have a couple of questions, starting with the market sentiment. I'm sitting next to our pulp and paper analyst in our office, and things are getting much worse for your customers at the moment. And you have a very long experience, both of you, from this industry. So how long can the downturn be without that really starting to impact customer negotiations and confidence to go ahead with the project? If the downturn in pulp and board prices are longer than one year, would that start to have an impact also?

Pasi Laine

01:01:12
Now, some of the European - - We have been focusing a little bit on our own numbers, so I haven't had time to analyze globally, what our customers have been announcing. So some of our European customers have now announced that demand was weaker in quarter four. Then when discussing with some customers, they have been saying that they see that market will pick up somewhere in the latter part of the first half. And then of course, I haven't been yet following what happens in Latin America, and China, and North America, with the results. So too early to say that. But when thinking about the investments, our customers are looking for the long-term growth of the market, and that's deciding whether they invest or not. Short term, everybody knows that there's fluctuation of market. But my view is still on the positive side.

Tom Skogman

01:02:27
Okay. Then in service. I mean, we saw during the pandemic that you were not allowed to visit some customers, and then we had a very high board price last year, and also on the pulp side, the price was very high. So I guess, a lot of modernization projects have not gone

ahead that have been planned for several years. So do you see pent-up demand in service that could be realized now when the heat is off for your customers.

Pasi Laine

01:02:59

In pent up demand, we have been saying that may be there is limitation. So this pent up demand will not materialize as a peak in order intake because customers have limited resources, and we have limited resources. So we have been trying to say that first there was a level, but then business went down and then it came back. But this kind of pent-up peak after the little bit lower period is not possible because customers don't have unlimited resources, and we don't have unlimited resources either.

Tom Skogman

01:03:47

All right. And then I wonder about capital allocation when you start to turn your net working capital into cash, you will soon have a very strong balance sheet and a strong cash flow again. And then the question is, I mean, given you have so high market shares in the kind of project business, is it so that acquisitions will focus now on flow control and automation companies? I mean, I realize you want to buy service companies if something is available, but you have tried that for the last ten years. But this is a new opportunity when you have Neles now as part of the company. So will capital allocation focus more and more on the automation and flow control business?

Pasi Laine

01:04:38

Katri can comment on other parts, but I'll comment on acquisitions. So we continue to work on all these three lines. So process technology, services and automation, and we somehow internally keep all of them at the same level. So the one who has good idea and can bring a good opportunity will be supported. Let's see where we can find good and suitable acquisition targets earliest. Like you know, it takes several years to develop the cases, so it's not something that you have money and then you buy something. So it can be that an acquisition process takes three to four years. So, it's a long-term activity, and all the corners of the triangle will be supported.

Katri Hokkanen

01:05:31

Yes.

Tom Skogman

01:05:33
So there is no kind of strategy to further strengthen the automation flow control. They have a much lower market share.

Pasi Laine

01:05:42
Of course, we want to strengthen it, but I don't want to send a message that we strengthen that and neglect the opportunities in services or process technology. Of course, if there are opportunities, good opportunities, then of course we'll strengthen our automation business. No question about that.

Tom Skogman

01:06:03
All right. Thank you.

Moderator

01:06:06
There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Pasi Laine

01:06:13
Pekka will say the closing comment but this is the first time when it has taken over one hour, so maybe my presentation was long. Thanks for a very good activity, and thanks for very good questions.

Pekka Rouhiainen

01:06:28
Yes, all right and thanks also on my behalf. The next event for Valmet will be the Capital Markets Day that will take place on the 8th of March here in Espoo. So welcome, everybody. We distributed the formal invites today, so please register and come to see the Capital Markets Day. After that, the quarter one results will be published on April 26th. So thanks for the active Q&A and have a nice rest of the week for everybody.