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PRESENTATION

Calle Loikkanen - *Valmet Oyj - Director of IR*

Ladies and gentlemen, good afternoon and welcome to Valmet's Q1 2018 Results Presentation. My name is Calle Loikkanen and I'm Head of Valmet's Investor Relations. Today Valmet's President and CEO, Pasi Laine; and Valmet's CFO, Kari Saarinen, will walk us through the highlights and results of the quarter. And as always, we will end with a Q&A session after the presentation.

But without any further introductions, Pasi, please, the floor is yours.

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Thank you, Calle. So, today's main message is that orders received continued on good level in Paper and comparable EBITA was low. So, agenda today is first, quarter 1 in brief; then couple of words about development of business lines; Kari will go through financial development and I will come back to the guidance and short-term outlook.

So first, 2018 first quarter in brief. So, our orders received remained at the previous year's level in our stable business and they were EUR 439 million. And stable business means Automation and Services together. Orders received decreased in capital business to EUR 462 million. Our net sales increased to EUR 732 million. Our order backlog remained at previous year's level and was about EUR 2.6 billion. And our comparable EBITA decreased to EUR 22 million, which was 3.0%. And our gearing was minus 12%.

Then if we look the numbers little bit in different form, so like I said, or didn't say yet, orders received was EUR 890 million, smaller than a year ago, but it's good quarter for us. Net sales was EUR 732 million, which was at good level. And comparable EBITA to EUR 22 million being 3.0% and that's of course on lower side and we'll come back -- with Kari couple times back to that, reasons behind that. We employed about 12,300 people. Net sales was strongly coming from capital business, so Pulp and Energy and Paper all together were 59% from the revenue. Then the rest was coming from our stable businesses and that's more from the capital businesses than normally. Net sales by area; still quite strong in Europe, strong in China and strong in North America.

Our orders received decreased to EUR 890 million in quarter 1 and then when you look the graph, you can see that in 3 years it was the second best quarter. So, we are of course very happy with EUR 890 million order intake. But when you compare quarter-to-quarter, it was lower than last year, but it was at a good level.

Geographic-wise, Europe was strong, China continued to be strong and North America was stronger than normally. So like you remember, about 20% of orders usually come from North America, and now it was 30% even if U.S. dollar rate was down. So, we had good market activity in North



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America. In stable business orders received, like I said earlier, at last year's level and in capital businesses they decreased. And Europe and North America accounted to 71% of the orders.

Then stable business totaled in 4 quarters EUR 1,605,000,000 and that's of course at good level and about at the same level where it was during the previous quarter. So no radical growth there, but it stayed at good level.

Then backlog was about EUR 2.6 billion. It was little bit stronger than in the end of the last year. About 70% of the backlog is from capital businesses and about 30% is coming from stable businesses. And now we say that approximately about 65% of the backlog will be expected to be recognized as net sales during this year.

Then couple words about the business line development. If we start from Services. So, Services net sales and orders remained roughly at last year's level. Then if you look the numbers more in detail. So order intake in quarter in Services was EUR 346 million, it's down EUR 6 million compared to last year, about 2%. And still from the graph you see that it's the second -- it is the second best quarter we have ever had. We had good activity in Europe and other activity level -- other areas were not that active. Net sales remained at last year's level so it was EUR 247 million this year and last year it was EUR 252 million so little bit lower revenue than a year ago.

And then here traditionally we are not commenting anything about foreign exchange rate changes, but this time the changes were that big that we want to comment in a couple of the business lines and total numbers as well. So if we would have calculated or if you calculate the order intake in last year's currencies, then our order intake would have been EUR 21 million more and that would have created -- resulted to about 3% growth in constant currencies. So in reality we had minus 2% growth and if you calculate on constant currencies, then the growth would have been 3%. But all-in-all here, I think the big -- main message is that quarter 1 order intake was at good level in Services.

Automation order intake was EUR 93 million, there was growth compared to last year and net sales was roughly at last year's level. Activity continued good in Automation. Bigger --share of the orders came from direct sales, so not with package sales, but direct sales.

And then there was positive development in energy and process industries where I earlier have been saying that market hasn't been that active, but now process and energy part of Automation business has been more active in quarter 1. Which is of course good for us.

Then Pulp and Energy. Orders decreased, they were EUR 192 million. And then, on a yearly average, I think this is somehow at satisfactory level and it was improving from last 3 quarters. So, one could say satisfactory order intake. Net sales was EUR 203 million and that was -- decreasing compared to -- increasing compared to last year. Then where from the orders came. The activity was very good in Energy and we still have lack of investment decisions in Pulp side. So, big activity or good activity in Energy and not enough activity in Pulp side.

Then we had to write EUR 15 million loss in one of the Pulp and Energy projects in Q1. It's in Nordic country, we are not telling who is the customer. The project itself is proceeding according to time schedule, customer contact is good and project is going well. Otherwise, we had delay in some of the subcontractor deliveries from China and we got some speed-up costs because of that. And then part of the design of the piping and local installation were delayed. And then we had challenges with -- in the same area with a subcontractor and we had to do quite a lot of to speed up the project to make sure that the start-up is not jeopardized. And those speed-up costs account to very small amount and they are about EUR 15 million. But the project itself is proceeding well and I hope this is enough about whose project it is because we have decided not to disclose the name of the project. But it's in one of the big ones what we have in Pulp and Energy in Nordic countries. And I'm sure that you will make more questions about the project later on.

Paper orders received decreased to EUR 270 million, last year it was EUR 314 million. But EUR 270 million is very good level in order intake, so it was good order intake in Paper business line. Net sales has started to increase as well, so net sales was EUR 223 million. So, it was growing quite a lot compared to last year. So, now we start to see the increased revenue recognition in Paper business line from last year's good order intake. Orders received was -- or activity was good in North America, South America and China. And then it was good level in Board and paper and not that active in Tissue, and it has been like we have been saying that there is good activity in Board and paper, good activity in Tissue as well, but not as good as last year. And here the changes in foreign exchange rate would have resulted to EUR 28 million higher order intake with last year's currencies. So from there, you can also calculate that the activity in Paper side was good.



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So, that's quick overview of the total Valmet and business lines and now I let Kari to go more in details to the numbers.

Kari Juhani Saarinen - Valmet Oyj - CFO

All right. Thank you, Pasi, and good afternoon on my behalf as well. So, going more on the financial development. So orders received, that was EUR 890 million. That is 11% below last year's. Automation business line increased, Services business line was at previous year's level, Paper -- capital business lines meaning Paper business line and Pulp and Energy business line, they reduced. Geographical areas, South America, China and North America all exceeded last year's orders. And as Pasi mentioned, Service business line had the second highest orders received quarter ever with Valmet. Impact of foreign exchange rate differences to quarter's orders so that was negative EUR 55 million total. Biggest impact to Paper business line, negative EUR 28 million and then Services business line, negative EUR 21 million. Measured at comparable currency, the reduction of orders received was 6%.

Order backlog was almost EUR 2.6 billion. This is 4% below last year's and 5% above end of last year. Foreign exchange impact to this one was negative EUR 135 million. So measured at comparable currencies, order backlog was the same as last year same time. Net sales EUR 732 million, 13% above last year's. So last year's good order intake and momentum at Paper business line, so that now shows that net sales as well increased was 55% compared to first quarter last year. Capital and stable business split so that was a bit unusual. So, capital business was 58% of net sales whereas stable business was 42%. And normally this is very close to 50-50 and this split also has a negative impact to our EBITA percentage. Foreign exchange impact to net sales was negative EUR 34 million. EBITA, EUR 22 million or 3.0% and as Pasi was saying, so we booked loss of 1 project at Pulp and Energy worth of EUR 15.2 million during the quarter.

Then looking at gross profit and SG&A development. So, gross profit percentage was below last year's and reason is the EUR 15 million losses to the project, which actually means 2 percent points. And then also this capital/stable split 58/42 so that has an impact as well. Our SG&As, so they were slightly ahead of last year's. We did some additional or extra work at R&D compared to previous year, also some work to Industrial Internet and then also our ERP project so that is now running full speed. SG&A percent, so that was actually -- of net sales so that was below last year's.

And then comparable EBITA. So, looking at this so 3% for the quarter so adding back this EUR 15 million losses so we would be roughly at the same level as last year. And are we happy with this? So, of course not. So, we should be doing better than what we did last year. In the past so also then quarter 1, so that has always been the lowest quarter and then in the next quarters business has always picked up.

Cash flow. So, cash flow was EUR 19 million. So that was low now, low compared to the 5 previous or 6 previous quarters. The big impact or reason for this is that net working capital didn't change. So, net working capital was pretty much unchanged as we can see here, minus EUR 384 million once we take out the debt for the dividend payout. Net working capital level minus 12% of rolling 12-months orders so that's on good level. Anything that's below minus 10%, so that's good.

Net debt-to-equity and -- or net debt and gearing. So, we have had a positive development with our net debt, minus EUR 102 million. A year ago, it was minus EUR 27 million so good development there, pretty much in the same level as end of last year's. Gearing minus 12%, year ago we were at minus 3%. So, good development here as well. Equity to asset ratio, 39%, actually the same as last year and equity now reduced to EUR 82 million because of the dividend payments. And then capital employed and return on capital employed, so 16%. So, we are here at our target range between 15% and 20%.

Then back to you, Pasi.

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Thank you, Kari. Then guidance and short-term market outlook is unchanged. So, Valmet estimates that net sales in 2018 will remain at the same level as in 2017 and comparable EBITA in 2018 will increase in comparison with 2017. So, we keep the same guidance that we gave on March the 21st. Then short-term market outlook. In Services, like we said, it was in nowadays' currencies minus 2% growth, but we still see that the market is active and we have good activity level. In automation, we keep the good level as well. In pulp, we still see the weak -- that the market situation

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weak. None of the big customers have announced firm plans to proceed with a big pulp project. So, we are still living with a situation that we try to win small to medium-size projects and there we have been successful. In Energy, we keep the level at satisfactory. Order intake has been comparable with last year's level and we keep the level at satisfactory.

In paper and board, like you saw, order intake was good and we still have market activity and we have of course good workload. Tissue, we have good workload, market activity is less than last year; but like we have been saying, last year order intake EUR 350 million was record ever. The earlier record was EUR 250 million. So we see that the market activity what we have currently is good, but not at the level like it was last year. So, thank you -- no, there is still the summary slide. So, orders received remained at previous year's level in stable business. Orders received decreased in capital business, but like I said, Paper was good. Net sales increased to EUR 732 million. Backlog is good at EUR 2.6 billion level. Comparable EBITA decreased to EUR 22 million and it's not of course good. Margin was only 3.0% and gearing was minus 12% and it still is in -- a strong number.

So now, it's Calle's turn to invite us to the next stage.

Calle Loikkanen - Valmet Oyj - Director of IR

Thank you, Pasi. Now that we have all the slides sorted out so thank you for the presentation, Pasi and Kari, and then let's continue with questions-and-answers. And as always, let's first take any questions here in Keilasatama and then move on the questions on the phone lines. So, do we at this time have any questions here in Keilasatama? Seems that we don't have right now anything. So, let's continue with questions on the lines. So, operator, please, do we have any questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a question. It comes from the line of Manu Rimpela.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

The first question would be on the margin in the first quarter. So, can you just help me to understand that if you had a very strong top line growth and I think your Services sales plus Automation were more or less stable year-over-year. So, why didn't we -- I understand that the mix leads to a lower EBIT margin, but why didn't we then have a kind of higher contribution on the absolute EBIT in the quarter?

Kari Juhani Saarinen - Valmet Oyj - CFO

Well, if we take into account now this one loss that we booked, that EUR 15 million, so we were pretty much like percent wise in the same level that what we were last year's. Quarter 1 is always a kind of low quarter for us because of the low stable business content. So we pick up the orders with that stable business, but they don't turn to sales. So that's the reason, that the 58/42 is kind of unusual sales split at Valmet.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

And is -- has this something -- so are you saying that the timing of the Services orders and sales is kind of not matching up as it normally is. So, we will see some sort of stronger sales contribution on the Service or stable side in the coming quarters?

Kari Juhani Saarinen - Valmet Oyj - CFO

Well, Services -- order backlog actually increased compared to the end of year.



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Pasi Kalevi Laine - Valmet Oyj - President & CEO

And that's normal, like we have been saying.

Kari Juhani Saarinen - Valmet Oyj - CFO

And that's normal, but anyway it increased nicely.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

And is this the reason that you are then confident in that you will be able to increase your EBITA this year since you are starting the year EUR 12 million behind compared to Q1 last year?

Kari Juhani Saarinen - Valmet Oyj - CFO

Well, I think that there's couple of things. First, we think that our pipeline is good, so outlook still -- short-term market outlook is unchanged for the businesses and pipeline looks solid and then also we have confidence in our backlog as well.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

Okay. Can you then comment on the distribution of sales in this new accounting standard? So if I look at the restated numbers that you have provided for Paper so there was a very heavy Q4 sales contributions. So, is that some -- is that going to be typical in this new IFRS setup or how should we just think about the seasonality of sales between the quarters?

Kari Juhani Saarinen - Valmet Oyj - CFO

Well, I think that this new adaptation of this IFRS 15 and going to cost-to-cost so it doesn't have impact to the quarters. So, it's more how the projects are developing and so there shouldn't be any seasonality within a year.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

But if you look at last year, so Q4 was almost twice the size of Q3 for example. So, is that just temporary timing related to projects and should we more or less assume that it should be pretty equal revenue distribution between the quarters?

Kari Juhani Saarinen - Valmet Oyj - CFO

That was timing related for Paper business line that -- it happened so quarter 4 last year, the timing of the projects.

Operator

(Operator Instructions) And another question comes from the line of Antti Suttelin.



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Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

A follow-up to Manu. I'm just looking at your EBITA margin year-over-year and I can observe that excluding this EUR 15 million overrun, you are flat and this is really even if you had 9% sales increase, your personnel cost is unchanged year-over-year. This has to mean that you had a pretty significant headwind from gross margin. And you should have actions, which are improving the gross margin like quality cost reduction excluding this overrun and then procurement cost cutting. How are these programs running?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Well, I think first if I comment. Quality is proceeding reasonably well so we have good progress, but you can't expect too big changes there. But I think the quality in our operation is improving. Then if you take this EUR 15 million away, that's of course not good thing. Then procurement, we are fighting against the material price increases and up to now, I think we have been successful on that one. We have long-term contracts and we still have good targets for procurement to continue to improve our gross profit. Then like Kari said, we have increase in SG&A was it 3?

Kari Juhani Saarinen - Valmet Oyj - CFO

EUR 3 million.

Pasi Kalevi Laine - Valmet Oyj - President & CEO

EUR 3 million and with that sales, it's 0.5% in EBITA. So, there we have to be very careful that we are not letting the SG&A to grow and eat the profitability. So, there we have to continue, and of course we have to continue the quality and procurement and then -- that's my answer. Then Kari can add some.

Kari Juhani Saarinen - Valmet Oyj - CFO

Not so much to add.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

Can I just continue, the procurement cost cutting, is that -- how much net terms are you able to benefit from procurement?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I think unluckily big part of that goes also to the benefit of our customers. So we do procurement action planning when we are making project quotations and then part of that goes to customers to make sure that we are competitive. So, I think we have been saying that earlier as well that unluckily we can -- we are not in a position that we can keep all that in house.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

And then on quality costs. Last year you had 2.7% quality cost of sales and that was a clean year in the sense that no big overruns last year. How -- where should that number go without this EUR 15 million overrun in 2018 as you see it?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I don't have now the number in my head. So sorry, but Kari, can you help me?

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Kari Juhani Saarinen - Valmet Oyj - CFO

Our long-term goal is 1. -- less than 1.3% and last year yes, 2.7%, so EUR 85 million, EUR 86 million there. So, we of course work hard to reduce that amount and of course it's impossible to say what's the figure going to be, but I would be negatively surprised if we exceed last year's figure here.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

And then finally, just if I compare Valmet EBITA margin to your dear competitor Andritz, I can just see that it has started -- the gap has started to widen again compared to where it was a few years ago. So, what is Andritz doing differently than Valmet you think?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I think first of all, Andritz is well-managed company as well and I think during last years, they have been successful in their project execution. And then if you compare the profitability of corporations, then I think the profitability is actually roughly at the same level. So they show better margins in Pulp and Paper, but I think the corporation is roughly at the same level if I remember correctly.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

Of course the Pulp and Paper is what is comparable I guess.

Pasi Kalevi Laine - Valmet Oyj - President & CEO

No, we compare the profitability and that's for the whole company. But you have point there that -- you have point there that of course our target is to be between 8% to 10% and we are not between 8% to 10%. And we still have, I can't say long way, but of course we have still a lot of work to be done that we are constantly between 8% to 10% and that's our target. And this quarter wasn't very good from that perspective, that the work continues towards getting us to the targeted range. So, we are not happy with the current profitability and we are not happy with the profitability what we had in quarter 1. So, there you are exactly on correct point Antti.

Operator

Sir, we got a follow-up question from Manu Rimpela.

Manu M. Rimpelä - Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

Can you comment on the SG&A increases? Is that something that you expect to continue in the coming quarters, these investments into --I think you mentioned the ERP will obviously continue, but is this kind of going to increase on a sequential basis. And what about these other -- did you mention digitalization and other type of investments?

Kari Juhani Saarinen - Valmet Oyj - CFO

So, first, our SG&As last year, we had a very good development. Then there's -- maybe the second thing to say is that this ERP was not fully up to speed quarter 1 last year, but it was after the second quarter so we shouldn't see any major increases there. We've been putting now a bit more focus on R&D work now specifically in quarter 1 and then also industrial internet. And we are managing our cost and we are looking at this constantly.

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Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

Okay. And then on this cost overruns. You were expecting, Pasi, a question, so here it comes. It is that it was the second cost overrun if we -- I think you had the last one in Q4 '16. So is this something that we should expect that just is part of a big project business that every 1--1.5 years, one of the projects will go sour. Because I think that is roughly the kind of average if you look at the last 3, 4, 5 years?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

I think it -- of course, it shouldn't be so. But the history what you told is like you said. And then, we work hard in minimizing project-related risks. Once in a while they happen. And then, like I have been saying earlier that if something positive happens in the project execution, we are not telling about it because we don't want to tell to you that by the way from this and this customer, we got a lot of more money than we thought. So, that leads to a situation that we talk about the negative things. Then I -- little bit to open it more up. So in Pulp -- in Paper business line, we have very good project execution currently and we have as a total amount of positive variances against as-sold. And then in Pulp and Energy, we unluckily had one big thing where things didn't go well and we work hard on avoiding it in the future. So, I can't promise it to you, we are partly in project business, but we work hard on making sure that the negative surprises happen less frequently and then that the surprises are less -- of the impact.

Operator

Sir, we got another question comes from the line of Antti Kansanen.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Two questions, please. The first one would be on the profitability in the capital businesses. Year-over-year your sales growth has mainly increased in Paper where you have said that you have higher earnings leverage or a higher capacity cost. So, shouldn't this support your profitability year-on-year, but you still have a fairly flat margin excluding the write-down. Could you comment on that, please?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, I think that maybe you need to look at a bit longer perspective and looking from all the way from year 2014 so we started from 0 and first year's profit EBITA was 2%. Last year we were very close to 7%. So, we have had positive development here and once we just compare quarter-to-quarter so then it becomes a bit more difficult -- and then there becomes -- lot of things that impact more, but I can say that Paper business line is -- we are quite happy with the profitability of our Paper business line.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

And then....

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

And then of course, one can say that currently we are not happy with the Pulp and Energy profitability like you guess after that EUR 15 million.

Antti Kansanen - *DNB Markets, Research Division - Analyst*

Then the second question on the write-downs, which was caused by a subcontractor or supplier. Given that in your Paper business, the share of outsourcing I guess is increasing all the time and your internal capacity utilization is quite high. Is there any risks of -- that we could see similar situations in the Paper projects or is this isolated to the Pulp ones, which are obviously much larger?



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Pasi Kalevi Laine - Valmet Oyj - President & CEO

The project execution. So, currently our Paper business -- is executing the projects very well. And one could maybe not say that they are easier because there we are selling more machinery where there is more repetition. And in the Pulp and Energy side, there is more that kind of process engineering happening. So nature of the businesses is different, but currently Paper has good execution track record.

Operator

(Operator Instructions) And sir, we have another question comes from the line of Tom Skogman.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

This is Tom from Carnegie. I wonder about this project cost overrun whether it's in a greenfield or rebuild project?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I can't comment on that.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

But how is it generally then, is the risk level much higher in rebuild projects in Pulp and Energy typically?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I think that in both ones you can have challenges. How would I say... I would say that with very good customer of course in good location, greenfield is easier than rebuild. But of course when planning a greenfield --- brownfield together with the customer, so the rebuild, then of course there is quite a through risk analysis done together with the customer. So, I wouldn't share -- see there very big difference actually from the risk perspective.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

And if you kind of do an audit on your order book, how is the risk level there at the moment? I mean I assume it should be lower this year than other years and you have more Paper and less Pulp and Power in the order book and you have no risky project in the Amazonas for instance?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Sometimes you have challenges in Nordic countries as well. But -- and then I can tell you that it's now actually recent deliveries in South America have been very good from our perspective. So, one has learnt from one's mistakes.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

And I just hope to get some kind of clarity on the full-year impact from currencies on EBITA level, if the currencies stay on the current level. How much will that hurt your EBITA and is there also a margin impact or is it just translational impact?



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Kari Juhani Saarinen - Valmet Oyj - CFO

So this -- of course it is difficult to say how the currencies are going from this point on. But this quarter 1 was the -- you know, if they stay as is, so quarter 1 was -- had the biggest impact and also what Pasi was showing so that actually the North America, China being strong and the fluctuation there have been the biggest. But then meaning that once we go ahead in the year, so the quarterly impact most likely is not so high. But then if we start to look at impact to EBITA so then it becomes so speculative. So, it's very difficult to say. We may have some small negative impact, but really what's the figure, it's very speculative.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

Okay. And then on -- but how -- can you perhaps tell a bit about the principles? I mean how does it work. If you have a big rebuild project in the U.S. and you source part from Europe and part from China and you sell it in dollars. I mean can you just open up a bit how it works, I mean it's a bit hard to understand from the outside how the exposures really are when it comes to currencies for Valmet?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

I'll start and then Kari can continue. So, depends little bit country to country like if we have a big project in South America, we usually have several contracts. So, 1 contract is for the local deliveries in local currency. Then if we have big delivery from Sweden, we have 1 contract for -- in SEK from Sweden and then another Euro-based contract for deliveries from Finland. So, there we have of course natural hedging. Then in -- if we are selling in U.S. then when we sell, then we check the currencies and make the currency clauses and then Kari knows the hedging there after when we get the order. So, Kari can continue from here.

Kari Juhani Saarinen - Valmet Oyj - CFO

So, I think there's 2 things here. One is the transactional, which is what Pasi explained here, and that is fully hedged. From the point of view once we get the order, so hedging starts until the contract closes. And so the open position is hedged there and then this,-- what we are talking about now, this foreign exchange differences, what -- what we are having, so these are translational and this cannot be hedged. That comes -- the positive or negative comes from there.

Tomas Skogman - Carnegie Investment Bank AB, Research Division - Head of Research of Finland

Okay. And then steel prices. Are you certain that there will not be any bad surprises later in the year from steel prices? Is everything hedged that you have promised to sell?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Well, we hedge nickel and then some other materials or ingredients as well and this -- the impact of this is anyway limited to us.

Operator

(Operator Instructions) And sir, we have a follow-up question from Antti Suttelin.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

About this mix issue, you're saying that the mix burdened gross margin. And now that I'm looking in the mix, yes, it is correct that the capital business had a bigger share of sales this quarter than in Q1 year-ago, but then when I look closer into the capital business, I can see that the Paper



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business is notably bigger of the capital business than year-ago. So I'm just wondering whether really the mix after all is such a big driver behind the weaker gross margin?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Well, anyways, this 58%/42% mix is something that has impact. And if we look at this from margin point of view, so -- it doesn't really then, taking away now this losses that certain projects or a certain project was bringing, but otherwise the project margins are quite equal there within capital business.

Antti Suttelin - Danske Bank Markets Equity Research - Head of Research of Finland

So, Paper is about the same as Pulp?

Pasi Kalevi Laine - Valmet Oyj - President & CEO

Quite close, yes.

Operator

Sir, there's are no question at this -- no further question at this time. You may continue.

Calle Loikkanen - Valmet Oyj - Director of IR

Thank you very much, operator. This then concludes the event for today. Thank you very much for the questions and thank you for the answers. And I hope -- I wish you a really good rest of the day and a great weekend. And hope to see you all at the Q2 results in end of July. Thank you.

Operator

This concludes our conference for today. Thank you for participating. You may all disconnect.

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