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VALMT.HE - Q2 2018 Valmet Oyj Earnings Call

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PRESENTATION

Calle Loikkanen - *Valmet Oyj - Director of IR*

Ladies and gentlemen, good afternoon, and welcome to Valmet's Q2 2018 results presentation.

My name is Calle Loikkanen, and I'm head of Valmet's Investor Relations. Valmet's President and CEO, Pasi Laine; and Valmet's CFO, Kari Saarinen, will today walk us through the highlights of the quarter and the beginning of the year, and after that presentation, we will, as always, end with a Q&A session.

But without any further introductions, let's begin. So Pasi, please, the floor is yours.

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

Thank you, Calle. So the headline this time is that orders received increased in Paper and Services and comparable EBITA increased. The content will be, like traditionally first, Q2 in brief, then some words about development of the business lines, then Kari will go through the financial development and I will come back with guidance and short-term market outlook.

First, Q2 in brief. So our orders received increased to EUR 440 million in stable business, and orders received increased in EUR 438 million in capital business. Net sales increased to EUR 844 million. Our backlog remained at previous year's level, and it was EUR 2.6 billion.

Comparable EBITA increased to EUR 61 million, and EBITA margin was 7.2%. And our gearing was 0%.

So here, a little bit more details on the numbers. Like I said, orders received was EUR 865 million, and the interesting thing is that Paper contributed 41% of the order intake.

And I'll come back to that later on. And Pulp was only 10 -- Pulp and Energy was only 10%.

Half of the orders came from stable business, Services being 40% and Automation being 10%.

Our net sales was EUR 844 million, and like I said, comparable EBITA, EUR 61 million, and comparable EBITA margin, 7.2%, which is better than a year ago but below the targeted range, which is 8% to 10% in Valmet's case.

We employed about 12,700 people in the end of the quarter.

Geographically, order intake has been strong in Europe and in China. North America, a little bit less than traditionally and Asia Pacific-and China -- Asia-Pacific and South America, less active than as in average.

Orders received increased to EUR 865 million, and here you see the trend that now the fourth quarter's trend is somewhere close to EUR 3.2 billion, a little bit down from the highest point when it was close to EUR 3.5 billion.

If we take the first 6 months in orders received, Europe, Middle East and Africa accounted to 45%, China to 17%, North America, 23%. So meaning that North America and EMEA have been active and China as well. Asia-Pacific and South America, a little bit less active than in average in those regions.

Then our stable business, where we count Automation total and Services order intake. The orders received totaled to EUR 1,626,000,000, which is the highest number ever. And like we have been saying, this is, of course, strategically a very, very important topic for us to continue to grow our stable business in absolute terms. And we have been successful in that, like we have been saying earlier as well.

Order backlog was, in the end of the quarter, EUR 2,621,000,000. And out of that backlog, we are estimating that about 55% of the backlog will be expected to be recognized as net sales during this year, and this is to help you to estimate what the net sales will be in the end of the year. And about 30% of the backlog relates to stable business, and 70% of the backlog relates to capital businesses.

The backlog level itself is good, so it means that it's a good level, but it's also at the level that we can still take new orders. So delivery time in most of the businesses is not an issue. But I'll come back there later on in business line comments as well.

Then how the business lines have been developing. First, Services. Orders received and net sales both increased in this quarter, and it's, of course, very nice that we were able to grow our Services business again. Like, if you remember, in the first quarter, we had a negative or no growth or it was decreasing, and then we had some headwind from the currencies. Now we are not commenting to currency separately, but we are proud to say in that orders received increased compared to last year.

And now the year-on-year growth is from EUR 676 million to EUR 690 million, so about 2% growth in orders received. It is less than it has been normally, but beginning of the year, we had some headwind.

Net sales totaled to EUR 572 million in the first half of the year, and those increased as well compared to last year.

Orders received have been increasing in several areas in EMEA and China and in North America, South America and Asia-Pacific -- sorry, and it was at last year's level in North America and has decreased in South America and Asia-Pacific.

Then Automation remained at last year's level in orders received, and in net sales, we had increase in net sales.

Year-on-year, we have now against EUR 192 million, now EUR 195 million, which means 1% growth. It's less than what we target, but in any case, we are in growth mode again.

Net-sales-wise, we have had a little bit more net sales in the beginning of the year than a year ago.

Orders received have been increasing in South America, was at last year's level in EMEA and Asia-Pacific and decreased in China and North America.

Then Pulp and Energy. Here, you see that the trend has been going down for many quarters already. And at the lowest point, it was in 2015 of the second quarter, and we start to be at the same level in order intake 6 months' curve. So the order intake is not at the level which satisfied us. The reason for that is that the market activity hasn't been good. We are calculating following the -- of course, our market share against our competition, and there, we haven't seen any change compared to earlier years. So we have been keeping our market share, but there hasn't been very much activity, especially in big pulp mill side.

And net-sales-wise, we had growth to EUR 408 million, and that's, of course, contributing from the good order intake from the previous years.

Here, the market -- I'll come back to the outlook later on, but market hasn't activated yet on the Pulp side. We have had satisfactory development in Energy in the beginning of the year, and we say that's how it will continue. And in the Pulp side, we haven't seen yet that the big pulp orders or projects would have been proceeding further.

Paper has been, of course, the beginning of the year, has been excellent. So last year, we had record order intake to EUR 557 million in the beginning of the year, and now beginning of the year has resulted EUR 623 million in orders received. And this is, of course, a very good level. And slowly, the order -- net sales has started to grow as well, and now net sales in the Paper business line was EUR 460 million. So a very positive development both in orders received and net sales in our business -- Paper business line.

Here, the majority of growth is coming from -- all the growth is coming from board and paper machines, and order intake in tissue has decreased. It's still at good level, but compared to the very high years in 2017 and -- sorry, '16 and '17, we had lower level, but still at good level in tissue as well.

So now it's Kari's turn to go through the financial development.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

All right. Thank you, Pasi, and also, good afternoon, on my behalf.

So quarter's orders received, EUR 865 million. So we had 9% growth. Paper business line orders grow -- grew 45%, Services business line, 7%, Automation was flat, and Pulp and Energy reduced. Out of geographical areas, South America and EMEA increased. Order backlog, EUR 2.6 billion. Last year, we were at EUR 2.7 billion. And out of this order backlog, 55% will be recognized as revenue during this year. Last year, this figure was 50%. So in other words, we have now EUR 80 million more in backlog for the current year than what we had a year ago. And out of order backlog, 30% is stable business. Last year, this figure was 25%.

Net sales have increased 15%. All business lines increased: high growth with the Paper business line for over 40%; Services increased 8%; Pulp and Energy, 7%; and Automation, 5%.

And then EBITA, both EBITA percent as well as EBITA euros increased. Quarter's comparable EBITA, that was EUR 61 million or 7.2%. Last year, we were at EUR 48 million or 6.5%. EBIT, that was EUR 49 million, 5.9%, a EUR 10 million increase from last year's.

Cash flow, EUR 3 million. Last year, we were at EUR 31 million. Cumulatively, our orders were now minus 3% or minus 60 -- EUR 46 million compared to a year ago. Orders were cumulatively now above 11% above sales. We had a EUR 75 million headwind out of comparable currency during the first half of the year. Cumulatively, Paper increased, Services and Automation were flat, and Pulp and Energy was below in orders.

Our first half net sales, those increased 14%, increase with the Paper business line almost 50%, Pulp and Energy, 7% increase. Stable business, Services and Automation was flat at cumulative sales. And then cumulative comparable EBITA, that was EUR 82 million or 5.2%. Last year, we were also at EUR 82 million, percent was 5.9%. And as we remember, quarter 1 this year includes EUR 15 million additional costs booked for one project. So we are still far away from our target range of 8% to 10%.

Then looking at gross profit and SG&A development. So even though our gross profit euros increased, our gross profit percentage actually reduced by 0.7 percent points. And this is due to the sales mix. Capital/stable split was 52/48 during the quarter. Last year, it was 49/51. And we are now cumulatively, capital/stable, 55/45. Last year, cumulatively 50/50. So capital business share has been higher than in last year.

SG&A, 16% of net sales, and those were EUR 0.5 million -- or EUR 0.5 million higher than a year ago. We have high business volumes at the moment, and also, ERP project is running full speed, so both of these also increased our SG&As.

Looking at comparable EBITA margin development. So EBITA, 7.2%. Last year, 6.5%. So this is the best quarter 2 EBITA ever, both in percentage and also in euros.

Seasonality during the year. So the same trend holds, so that quarter 1 tends to be lower, and then we pick up after that.

Cash flow. Cash flow was now the lowest since the beginning of year 2016. Our receivables increased by EUR 40 million, also some negative impact from hedge reserves and also unrealized FX losses.

Looking at net working capital, minus EUR 362 million. This is EUR 22 million higher than end of quarter 1. So we had some -- so we went a little wrong direction here. But anyways, this minus EUR 362 million is minus 11% of rolling 12 months' orders, so this is relatively good. And as I said, orders received, EUR 40 million higher than end of quarter 1, and with over dues, we had no material changes.

Net debt, so gearing 0. Net debt was minus EUR 4 million. During the quarter, we paid dividends worth of EUR 82 million. Last year, we paid close, quarter 2, EUR 63 million. Also, a year ago, we had EUR 100 million more customer advances than what we have now. Equity to asset ratio, no major changes here.

And then looking at our comparable return of capital employed. So good development here continues. We are at 17%, so we are within our target range here. A year ago, we were at 13%. So capital employed has reduced, debt amount is lower as well as also, the equity is a bit lower due to the dividend payments.

And now back to you, Pasi.

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

Okay. Thank you, Kari. And then I go to the guidance and short-term market outlook. So like Kari told, the net sales has been growing and now the backlog is bigger for the end of the year than last year, and that was the reason why we gave the new guidance as announced in July the 17th. And the new guidance that Valmet has is that Valmet estimates that net sales in 2018 will increase in comparison with 2017 and comparable EBITA in 2018 will increase on comparison with 2017. So that's the new guidance.

Then on market outlook. In Services, we keep a good market outlook. We have -- orders received has been growing, and then also, we have good workload and we have still good market activity in Services.

In Automation, the same situation, even if we have been growing 1% only. We have good market activity both in the Pulp and Paper side and Energy and Process side.

In Pulp and Energy, we still keep Pulp as weak. And the reason is the same as earlier, that there hasn't been, up to end of the quarter 2, any new pulp mill announcements by our big customers. And like you see, the order intake has been quite low in the Pulp business, and that's why we have good reasons to keep this as a weak.

In Energy, order intake has been satisfactory, and we still have satisfactory market activity as well and that's why we keep that outlook as unchanged.

Paper and board order intake has been good, workload is good, and we keep market outlook as good but don't expect that it is as good as in the beginning of the year. But it's still good market activity. And tissue, like I said, order intake has been lower than last year, but this is still good and we still have good market activity in tissue as well. So no changes in market outlook, but the change in guidance.

Then a summary of the second quarter. So our orders received in stable business increased to EUR 445 million. In capital business, orders received increased to EUR 438 million. Net sales increased to EUR 844 million. Backlog, like Kari was saying, is about EUR 2.6 billion, and like I said, it's at a good level so that we can still take new orders as well. EBITA increased to EUR 61 million and margin was 7.2%, and gearing was 0%.

So thanks for listening to the presentations.

Calle Loikkanen - *Valmet Oyj - Director of IR*

All right. Thank you very much, Pasi, and thank you, Kari, for the presentation. It was very quick and efficient. Some sort of a record, I think. But now let's continue with Q&A. And let's first start with any potential questions here in Keilasatama and then move on to questions on the phone lines. So do we have, this time, have any questions here in Keilasatama? It seems that we don't have any questions here right now, so let's continue with questions on the phone lines. So operator, please, do we have any questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And for your first question, it comes from the line of Antti Suttelin.

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

This is Antti here. 2 questions. First on margin improvement, that now it really depends what you take as a comparison, whether you compare your second quarter EBITA margin with the restated number or with the originally reported number a year ago. I don't know which is the more relevant. Do you think your margin has now started to improve? Is there now an improving trend? Or how do you see on that?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, Antti, of course, we look at restated figures now because those now are our official figures. And if we look at the content of the backlog and then also if we look at the content of the net sales, so of course, we are now so that we have over 50% -- 55% is capital, 45% is stable. And last year, we had 50/50. So of course, that has an impact. And -- but typically -- but then also, if we look at our order backlog contents, so 30% of the order backlog is stable. Last year, it was 25%. So meaning that, typically, we have very strong second half for stable business.

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

Okay. And then on order backlog, if I look at your backlog, I can see 3% down year-over-year, and then you say that a bigger portion of that than a year ago is to be delivered during the remainder of this year. And this means that the opening backlog for next year and beyond is somewhat smaller. So I know it's early days, but do you think you can grow sales next year as a group?

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

I think it's a little too bit early to say guidance for net sales for next year, so we just changed the guidance for 2018. So -- but your calculation is correct. So the backlog -- currently, the backlog for 2019 is smaller because of the facts, what you said.

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

Could the Pulp business change and you could potentially get some large pulp orders? I know you kept it at weak, but could it potentially be that, in Q4, you may -- might get something?

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

It, of course, depends on customers' decision schedules. And like I said, in quarter 2, nobody has made an announcement. Now maybe somebody has made an announcement or somebody has made an announcement. But we, of course, try to focus now on getting also small to medium size of projects in Pulp and Energy, and typically small- to medium-size projects have better margins than the bigger ones. So of course we do everything to make sure that next year's results will be adequate as well, not depending on one or 2 decisions by our customers.

Operator

So your next question comes from the line of Manu Rimpelä.

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

My first question would be on the margin progress. I mean, can you just help us a bit better understand how should we think about it going into the second half of the year? So I mean, obviously, you have a very strong capital business backlog that you are delivering sales from and we saw strong sales continue in the second quarter. And your margin is also improving, but how do you see the kind of the mix impact within the stable business and the strong growth in the new equipment business? Is this kind of the level of improvement we saw in Q2 that we should expect going into the second half of the year? So that alone says some other factors playing in favor of that margin improvement.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, thanks, Manu. So what we said already earlier is that stable business is now 30% of the backlog. So that, of course, is -- we think that is a good thing and also increases the quality of the backlog. And I think that we are quite pleased with that.

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

And you don't see any impacts from cost savings or purchasing or these kind of other factors that will help improve the margins second half of the year?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, I think that that's the business as usual, what we are doing all the time. And that's the reason why -- I didn't mention that. But that's, of course, there all the time as well as the project improvements as well.

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

Do you see any change in terms of the project execution, capabilities, has that improved in Q2? Or do you see that you have projects that are starting to get better compared to the kind of maybe older projects with a more competitive environment and lower margins?

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

I think that somebody has now -- from somewhere, there's coming a voice through, so I don't know where from, but I hope the operator takes care of that. I assume you are supposed to take care of this, only one line open. But to the competitive situation, I think it's -- of course, so that in the Paper side, all the -- or both the big suppliers have good order intake, so maybe the competitiveness there is not as high as it was when we had very challenging times. And now, of course, in the Pulp side, when the market hasn't been active for a long time, then I think that the risk of having quite competitive situations in new sales cases is obvious. And then quality -- project execution, we had challenges in the first quarter, and like you see now in our gross margin for second quarter, there isn't anything surprising. So I would say that from that perspective, Q2 was reasonable. And then, of course, we try to make sure that the same kind of track record will continue in quarter 3 and quarter 4 as well.

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

Okay. And then in terms of the Paper business, so the order intake has been very strong for 2017 and then also continued in the first half of the year. I think you talked previously, about kind of EUR 700 million has been the normal, about right for orders, and we've more or less done that for this year already, so how should we think about -- I mean, can this trend continue on for this year and it could be another billion in order intake? Or are we starting to see slowing in the end market as well?

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

I think it's -- for this year, we were saying already that we are not expecting the year to be as active and -- as 2017 was, and now the beginning of the year has been actually more active. So I think it's reasonable to think that the second quarter will be not as active and as -- sorry, second half of the year will not be as active as first quarter. But like we said, there are still projects and we have sales activity with new projects as well. And then if you take a longer-term view on Paper, Paper is on a very high-cycle, at least according to our understanding. So it's more than an average. Kari, do you want to add something?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

No. That's exactly how it is.

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

Okay. And then final question. On the Pulp end markets, I mean, you said that there hasn't been any active decisions on the orders so far, by the Pulp producers, putting in new equipment or greenfield investments. But will you -- because Arauco already has a board approval for a pulp mill, and so -- and there's been some discussions about the potential other orders as well. So what is your thinking around the first bigger greenfield order after a longer time of no orders? So you said it that the first order will likely be competitive, so would you be willing to let that go and focus on the coming months? Or are you feeling pressure that you just have to take in the order in order to kind of ease your utilization rates?

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

I think that's exactly the reason why I said that we can't think that we are depending only on one order. So we have to develop the -- and we have been developing the small- to medium-size project activity, not to be depending on one single decision. And then, of course, we do our utmost to be successful in bigger cases as well. But the result cannot be depending on those ones alone.

Operator

So your next question comes from the line of Tom Skogman.

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

This is Tom Skogman from Carnegie. I have 2 questions. First, we know that the pulp producers have a part there and the profitability is going through the roof. Do you see any kind of change in the quotation activity for rebuild and perhaps also greenfield mills on the back of that?

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

If I remember correctly, our order intake in Pulp and Energy was EUR 268 million in the beginning of the year. A bigger share of that came from Pulp than a year ago. And the activity has been actually quite good in -- especially in fiber line, where we have been getting nice modification orders and extension orders. So there, we have a good market activity with small- to medium-size projects. And it's exactly what you say, that it's to increase the capacity of existing mills to get us good benefit of the current market as possible. So we see there a reasonable activity.

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

But you don't see any step change in the quotation activity. If I would have a pulp mill, I would do everything I could to expand it now with these prices.

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

We haven't seen a step change in that. So of course, it's -- to make small modifications, you have to have a shutdown as well, so then it's easy for customers to calculate that is it worthwhile to have the addition and then have to shut down and lose some tonnages? So -- but we have good activity in small- to medium-size projects, but not -- in the fiber line, but not a step change compared to earlier years.

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

Okay. My second question is then on the drop-through margin and pricing. So in the second quarter, the drop-through margin was on the EBITA level only, 12%. And in Q1, if you adjust for the EUR 15 million, cost overrun -- it was only 3%. So basically, you have very strong sales growth but only moderate earnings growth. So this indicates that, of course, I realize you have the mix change that you talk about, but you also have good growth in your Service business. So the conclusion must be that despite the long-lasting boom in the board machine market, you cannot get up the prices, unless there must be some kind of a negative operating leverage that you have been forced to expand your costs a lot or something. Can you please help me to understand this because in a boom -- this long -- and when you look at other industries, the margin on equipment is typically higher than you have?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Of course, Tom you analyzed the figures correctly here, and there's couple of points here. First is that, anyways, the stable business has been like quite flattish now over the first half of the year, so the increase is actually coming from the capital business. Last year, the split was 50/50, now it's 55/45 for capital. And then the other thing is that we are recognizing some of the sales of some of the projects that were sold before this boom started.

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

Okay. And that last comment then, I mean, that leads to, of course, another question. So that is it so that the kind of new order margin has improved throughout this long-lasting boom for board machines, so we should just expect the margins to go up in the quarters ahead now?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, I would say that the biggest driver, of course, is the share between capital and stable. As said the backlog for stable, we are quite happy with the backlog of our stable business at the moment.

Operator

So your next question comes from the line of Tomi Railo.

Tomi Railo - *SEB, Research Division - Analyst*

It's Tomi from SEB. Coming back to the pulp market situation. Have you seen a pickup in the quotes or quoting in terms of the bigger potential projects? That's my first question.

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

I think I said earlier as well that this development of these projects can take several years. So in some cases, we develop the project together with the customer for 5 years before they make the announcement to go ahead. So of course, we have that kind of discussions ongoing with customers and have had that kind of discussions ongoing with them actively now for, at least, for a year. But you never know when those discussions will and preparations will be that far that they are ready to start to make the final decisions. So that's why it's difficult to say that -- or I can't claim that the activity would have increased now recently.

Tomi Railo - *SEB, Research Division - Analyst*

But Arauco is saying that they are making the decision during the third quarter. And I'm just wondering your sort of reasoning behind the market outlook commentary. We know it's for the next 6 months. It's a combination of capacity and outlook. Surely, you cannot wait until they make then a sound announcement that they have chosen this or that provider, equipment provider. I'm just thinking that was it a close call, or what is the reasoning that you keep waiting with the possible upgrade of the outlook?

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

So first of all, I think that announcement from that customer came last night. So then we are, of course, and we know -- of course, we know quite a lot of about that project, but I can't say anything. But then thinking that customer now makes the announcement and then it takes some months to prepare everything and negotiate, and before, if somebody is successful, so us or somebody else, then before that materializes as work, order -- first, a firm order, and then as work, then it takes still reasonably long time. And that's why we keep the outlook for our 6 months' development still as weak. And we knew, of course, about this project when we decided to keep it as weak, but it will still take some time.

Operator

So your next question comes from the line of Manu Rimpelä.

(technical difficulty)

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

Can you hear me now?

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

Yes.

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

Okay. So my follow-up question would be on the margins. So can you comment if you still are seeing the equipment margins have been improving in the first half of the year if you take out the big cost overrun in the first quarter because you keep on talking a lot about the main driver behind the margins being the Services and Automation, stable businesses? So what's happening on the equipment margins?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, I think that what we can say is that we are actually working very hard on our project execution and be better there. And so far, there, of course, is a quite tough competition at the marketplace. And what Pasi was saying earlier, that we have still a situation that we can take new orders.

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

Can you at all comment that --has your equipment margins increased during this year compared to last year or is all the margin improvement, excluding the cost overrun, coming from the Services business.

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

I think Kari a little bit answered to that from the Paper side as well already when he said that currently, we have been recognizing the revenue from the projects which we sold after a long dry period. I think, there, he was quite clearly saying that, thereafter, the margin has improved in the Paper side. And then like I have been saying, that when the backlog goes down, then, of course, our capability to keep the prices up is getting not that strong, and that is the situation, maybe, in some other areas.

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

And if you think these 2 businesses, the Pulp and Energy and Paper together as an equipment, so Paper is up, the Pulp is down, but this, the combination is still up?

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

I think I am -- I have, of course, the figures so I analyze them separately.

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

And then final question is that the ANDRITZ acquired the Xerium from the U.S. Do you -- did you take a look at the business and do you see that the -- that kind of gives ANDRITZ any competitive advantage, so changing the competitive landscape compared to where they were?

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

I think it -- it's better that you -- or how would I answer? I think it -- the owner of that business, it doesn't change too much, so it has been one of the -- our competitors up to now named Xerium, and now it will most probably have a different name. And I don't know how much ANDRITZ will have synergies, and they will talk about it in their conference call. But we see more that one competitor which has a paper machine clothing and roll service businesses has now a different owner.

Operator

That is your last question. (Operator Instructions)

Calle Loikkanen - *Valmet Oyj - Director of IR*

All right. Thank you very much, operator. Thank you for all the questions. I think this then concludes the event for today. Just as a reminder, I want to do some marketing about the upcoming Capital Markets Day, which will be held in Helsinki on the 18th of September. But otherwise, that's it for today. Thank you very much for the presentation, and thank you for the questions. And I wish you a really good rest of the summer.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Thank you.

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

Thank you.
