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VALMT.HE - Q4 2015 Valmet Corp Earnings Call

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PRESENTATION

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Good afternoon, ladies and gentlemen. Welcome to this news conference regarding the Valmet's financial statements review 2015. My name is Hanna-Maria Heikkinen and I'm in charge of the Investor Relations.

One of our key targets in Investor Relations is to improve the disclosure, and that's one of the reasons why we today actually give also some information about how we have proceeded in strategy implementation and also we will give some update regarding 2015 full year figures.

Our CEO, Pasi Laine, will start with 2015 in brief then he will continue with Must-Win implementation and also business line development. Then our CFO, Kari Saarinen, will continue with financial development. Then Pasi will come back and continue with dividend proposal guidance and short-term market outlook. He will also summarize the financial statements review 2015. And finally, he will go through the investment highlights.

After this presentation, there is possibility to ask questions. Please, Pasi, time to start.

Pasi Laine - *Valmet Corporation - President, CEO*

Okay. Thank you, Hanna. Good afternoon also on my behalf. Like Hanna said, I will go first 2015 in brief through then something about Must-Win, business line development, and then Kari will continue after that.

Like Hanna said, we have a little bit longer presentation today to make sure that you will have as good package to analyze our company as possible, and we took a little bit the material that we created a year ago in capital market days and updated that info, so that it would help you in analyzing our company also this year.

So if we start from 2015, here are the highlights, of course one of the highlights is that we had successful acquisition of Automation. It was a big acquisition for us and we are very pleased that it went very nicely and we have integrated it now fully into our operation and the results in Automation have been good, so that's of course one of the highlights of the company in this year and of course transformed the company also for the coming years.

Orders received and net sales increased in our stable business. Stable meaning Services and Automation together. Our orders received declined and net sales increased in Capital business, and I will go that through more in detail as well.

Our backlog is about EUR2.1 billion currently. We had good development in our profitability and our net debt was in the end of the year EUR178 million.

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So Valmet totally, at last year net sales about EUR2.9 billion, out of that our net sales in stable business was EUR1.4 billion.

We got new orders worth of about EUR2.9 billion. Our EBITA was EUR182 million before nonrecurring items and EBITA margin was 6.2%, so first time we are in the range, targeted range in Valmet history.

And we employed in the end of the year about 12,300 people. If you divide the business to business lines and areas then stable business accounts about 46% and Capital business about 54% of our business, so good mix of stable business and Capital businesses.

Geographically Europe, Middle East and Africa have increased a little bit because of good business activity here up to 45%; North America, 21%; and the rest is coming from growth markets South America, China and Asia Pacific.

So in average in the history, we have been 60% to [40%] between the established markets and growth markets and this last year, we were a little bit stronger and the business activity was a little bit stronger in the established markets.

If we look at Valmet's development over the last three years, of course, 2013 year is our carve out figures and they were reported as part of - they were operated as part of Metso and then we had 2014 numbers and 2015 numbers. So if you look orders received, we had on orders received about EUR2.2 billion, then we had an exceptional good year in Capital business when it went to EUR2 billion, EUR3 billion and last year, it was almost EUR2.9 billion. Of course Automation contributed to that with EUR250 million. And then what is remarkable is that our share or volume of stable business in orders received and net sales have increased a lot, so orders received about EUR1.3 billion and net sales about EUR1.3 billion. So a big part of our business is now coming from stable business.

Our EBITA has improved from EUR54 million, first, EUR106 million then EUR182 million, so good development year after year.

And then if you look at EBITA margin, first, it was 2.1% then 4.3% and then 6.2%. And like I said first time, we are in the targeted range and I think - already now maybe say that I'm very happy that we achieved in two years the targeted range and I assume that not all of us believed that when we launched Valmet as an independent listed company. So we are actually very, very pleased with the performance of the company or development of the profitability, let's say so.

If we look to orders received it was EUR2.9 billion. Stable business contributed EUR1.3 billion and we had last year or first of all in 2014 very active in first half of the year then market was a little bit slower, then beginning of this year a little bit slower and thereafter order intake has been between 700 and 800 every quarter and Kari will go through the last quarter numbers more in detail, but all in all, we ended up in EUR2.9 billion and that's volume where we are actually satisfied and happy with the order intake volume.

If we look at backlog -- our backlog is now EUR2.1 billion, a little bit less than third quarter but has increased compared to last year. Of course Automation is contributing a little bit on that, but all in all, we can say that we have healthy backlog of EUR2.1 billion. 75% of that backlog is coming from Capital business and 25% from stable businesses. And we say that above 80% of the backlog will - or we expect that currently that it will be realized as net sales during 2016. You can of course us that information in making your mathematical models of our performance this year, but good backlog.

And backlog is on that level that we can also compete with delivery times, so it's not too high level to be competitive on the marketplace.

Then a couple of word about our Must-Win implementation. Why we want to come back to this is that we have been saying already from 2013 that we continue with our Must-Wins and make sure that with this Must-Win implementation we achieve our profitability level.

The Must-Wins are here, so partly they have something to do with customer excellence. We are all the time developing our operations close to customer. We are developing our management, the key account management system.

We drive our Services through long term agreements. We improve our cost competitiveness and the focus of course in the first two years has been on this category - excellence in processes where we have put a lot of effort in making sure that Valmet operates in as good way as possible. And

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there's a -- one big focus has been in quality cost reduction and implementing Lean. We have had focus in the same in procurement and health and safety. And results have been such that we said in 2013 that we targeted this to save 10% in procurement and we haven't given out the exact number, but here you can see that our savings have been in 2014 better than the target and 2015 better than target.

So we have been good in category management and, currently, we are more and more focusing on design to cost to continue to procurement to develop what we have had. Our quality cost target has been reduced quality cost by 50% by end of this year and then we also developing year after year in constant manner currently. We have reasons to believe that we can achieve the targeted level by end of this year.

And what's very important is the development in our health and safety. We started in 2011 in when our LTIF, so how many incidents you have per million hours, working hours, and it was that 10.1. And we have had quite a lot of focus on improving our safety procedures and safety culture in the company and now we reduced our LTIF in one year from 5.5 to 3.3. With that number, we start to be - [low], you can never say an acceptable level with incidents, but we start to be a company who has good track record in health and safety.

So all in all the message is that we have defined Must-Wins we do. We have been doing actions. We have been monitoring the performance and we had also good performance in implementing these Must-Wins. And of course in 2016, we'll continue with the same concept.

Then business line development, I'll start first Services, so orders received was about EUR1.1 billion and I think we have had growth in Services. This year service order intake was more like a normal year, that 55% of orders roughly came in first half of the year and then the 45% in the latter part and vice versa for the volume, that the volume in the latter part of the year is higher than the first part of the year. And all in all, we can be reasonably satisfied with the Services development during the year.

If we split service business line more in details, so about here the five business units what we have in Services, so 19% came from our Rolls Maintenance, 28% from Mill Improvements, 26% from Performance Parts, 15% from Fabrics and 12% from Energy and Environment. This is the additional information what we now give in the beginning of the year so that you can better analyze our Services business.

Geographically, North America and Europe are still the biggest areas because there we have the biggest installed base as well. But we are also pleased with Services development especially in South America and China where we have had good development during the year. And maybe it's good to mention that all in all our business in China has been developing better than you could actually imagine after reading newspapers, so China has been good market for us in 2015.

Automation, we are reporting two figures, so we are telling the total order intake and internal order intake - or external order intake. And last year, the total order intake ended up to roughly EUR250 million and that's of course three quarters of the year, not whole year.

We have been pleased with the volumes in order intake. We are pleased with the net sales in Automation business and we are of course very pleased with the competitive advantage what we give and what we get when we have the process technology, Services and Automation in one company. So all in all, we are very happy with our acquisition of Automation business.

Automation business, we divide to two customer segments. Pulp and Paper is contributing about 67% of the business and Energy and Process is contributing about 33%.

Automation is more European business, so 59% is coming from Europe, Middle East and Africa and 22% are coming from North America. And then of course, it's obvious that we still have room for improvement of our business in volumes in South America, China and Asia Pacific. But good performance in Automation and good development and very good attitude in the team that we have in Automation.

Then pulp order intake was about EUR860 million, EUR of course. Last year, it was EUR1.3 billion, so roughly EUR500 million less than a year ago. I would say that 2014 was exceptional, so it's not normal that we get so many, so big orders than we got in the beginning in 2014. So I would more say that this EUR860 million is a normal year. Later on, I will come back to this capacity cost issue and we have planned the business so that it's EUR860 million order intake is roughly normal order intake, so we don't expect that we get EUR1.3 billion in a normal year.

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And then of course one has to say that 2015 was a successful year especially in Pulp and order intake in Pulp was 66%. We got half of Metsa Fibre, we got half of Ostrand and we got almost [1 mill] technology supply in China, so it was a good year in Pulp.

In Energy side, investment level was lower than a year ago and Energy contributed only 34% of the order -- net sales in Pulp and Energy.

Geographically - okay, this is net sales, so [this is Chinese], I will come back to that later. In Paper, our order intake was EUR670 million and net sales roughly the same, so in a way one can say that the Paper business has found a new level where it operates. Some three, four years ago, our business was a lot bigger in Paper -- Paper business line and then there was a big drop and currently it has stabilized at last now in two years in EUR670 million level.

In Paper business line, about 55% of order net sales is coming from Board, 33% from Tissue; and 12% from Paper, so the share of graphical Paper machine is very small in our Paper business line. If you take order intake then it might be in 2015 higher, but all in all if somebody is afraid that this declining graphical Paper demand will have a big impact to all Paper business line, then that's not the valid worry. So it's only 12% of the net sales in 2015.

Business type-wise, 55% of the net sales was coming from new lines and 45% was coming from rebuilds and single sections. And that's of course that we have rebuilds and single sections sales makes the business more stable compared to Pulp and Energy.

One big thing in the market position is that in 2015 we can say that we were number one world-wide in Board, Tissue and Paper. So in order intake, we were more successful than our competition and we can say that we have increased our market share in Paper, Board and Tissue and, currently, we are number one in that business. And that's of course very good achievement for our team in that business.

Then that was an overview and now, I will let Kari to continue with the financial development.

Kari Saarinen - *Valmet Corporation - CFO*

All right. Thank you, Pasi, and also good afternoon on my behalf as well. So first some words on our quarter four development, so quarter four in our stable orders is that our stable business in quarter four increased, increase coming actually from Automation, Services being flat, like net sales of our stable business in quarter four increased also well, so Services actually having record high quarter.

And also Automation was strong. Looking at our Capital businesses, our Pulp and Energy business line actually had orders received four times higher than a year ago and also Paper business line increased by 40%.

Then about our order backlog - our order backlog was 4% higher than a year ago and out of that EUR2.1 billion, 80% or EUR1.7 billion we will recognize as revenue during this year.

And then our EBITA, so our EBITA was within our target range and it was actually 7.3%, so first time in Valmet above 7% and EUR63 million. And then our net debt, EUR178 million; and gearing, 21%.

And then some more words on the figures -- so orders received increased 65%, so driven by the strong Pulp and Energy as well as Paper and Automation. Net sales increased 10%, so Services record high. Also Automation is strong. And then this EBITA, EUR63 million or 7.3% and the difference between the EBITA and EBIT, EUR22 million, so out of that EUR11 million is coming from amortizations and then EUR10 million is coming from non-recurring expenses and biggest of those was in payment of real estate of EUR5 million and then we also booked one-time cost-related to Automation worth EUR2 million.

And then looking at the full year, so orders received minus 6%. So as Pasi was saying the first half of Pulp and Energy was extraordinarily good, around EUR1.1 billion, but worth notice also is that our stable business increased around 30% during the year and that's around EUR300 million.

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And net sales plus 18% compared to year 2014. So Services strong also, Paper business line increasing and Automation. And then this EBITA 6.2%, so within our target range, EUR182 million and there is a difference of EUR62 million between EBITA and EBIT, so EUR36 million of that is amortization and EUR26 million is non-recurring items and out of that more than $14 million is coming from one-time items of Automation acquisition and then we have EUR5 million impairments and then EUR3 million is some restructuring that we did.

And then looking at our gross profit development. So quarter four, it was 22% and also we can see a positive trend here, partially of course Automation impacting that, but also our Must-Win activities that we have taken since the beginning of Valmet, so they are in there in fourth year.

And then also looking at our SG&A, so slight increase quarter two 2015 onwards due to Automation acquisition. Quarter four, our SG&A out of all Valmet increased 3%.

And here we have the quarterly development of EBITA. And here we can see that out of the five previous quarters, we made our target range four times. And now this quarter four 2015 was in its like own percent rate, so 7.3%. And an important thing to note is as well that quarter one tends to be the lowest quarter. So year 2014 quarter one EBITA was only 0.7%, full year being around 4.2% and then year 2015 quarter one was 3.5% EBITA and the full year was 6.2%. So there's clear seasonality in the quarters and also Automation business has pretty much the same seasonality, meaning that it's fair to assume that that would also continue for year 2016. I'm not sure if that was clearly enough said, but.

Then looking at our cash flow -- so actually our cash flow developed well at quarter four, so we got more than double compared to quarter four a year ago, full year being EUR78 million, so that's way below what did cash flow in year 2014. And actually the reason is here, that our net working capital increased around EUR120 million to minus EUR238 million which equals to minus 8% of net sales. And our net working capital, that increased in orders received as well as our inventories.

We actually - the accounts receivables increased because of the milestone payment schedules at our -- some of our major projects. And then also the inventories increased because of some progress of our projects and that's normal, typical like project work.

And then looking at our net debt, so Valmet was debt-free once we started and we were also debt-free beginning of the year. And then we acquired the Automation business that deal value was EUR312 million and that also then increased our gearing to 29% and now during the year we actually have been able to reduce that to EUR178 million which is 21% gearing.

And then looking at equity to asset ratio, so that was 36% in the end of the year and our equity amount was EUR860 million.

And then return on capital employed, so once we started quarter one 2014, that was 1% and now we've closed last year, year 2015 with 14%, so we are 1% off of our target of 15%. And we have good development here even though our capital employed increased by EUR350 million.

So thank you, and I will give back to you, Pasi, for dividend proposal.

Pasi Laine - *Valmet Corporation - President, CEO*

Okay. So here is the dividend proposal, guidance and short term market outlook. So our policy is that dividend payout is at least 40% of net profit and Board of directors is proposing to annual general meeting to pay EUR0.35 per share as dividend, and that's of course still subject for approval of shareholders.

And then if that happens in our track record is that first we'd say - we paid EUR0.15 and then EUR0.25 and now we are proposing to pay EUR0.35, so solid development also on that perspective.

Our guidance and the short term market outlook is that we estimate that net sales in 2016 will remain at the same level with 2015 and EBITA before non-recurring items in 2016 will increase in comparison with 2015. So we are saying net sales will remain at the same level and EBITA will improve compared to this year and that's our guidance for 2016.

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Our short term market outlook where we try to give an image how we see in coming six months, market activity then also what kind of factory and organization workload we have in Services we say that satisfactory development and market condition continues.

In Automation, it's satisfactory as well. In Pulp, we see that last year market was good and for coming six months, we see more satisfactory market in Pulp business.

And one has to remember what I said, that there were many decisions in 2015 and also in 2014 and that's now our view of the market. In Energy side, we see that the market is beginning to little bit up compared to last year, but there of course we have still workload issues because of the weak market demand in 2015, but now we see that there's more market activity than a year ago. That's why -- and also a quarter ago so that's why we increased the market outlook to satisfactory.

In Paper, Board, we increased market outlook from satisfactory to good and Tissue, we keep at the satisfactory level. So that's our market guidance currently and market outlook currently and the best understanding what we have.

Then we decided to update our investment highlights and we want to go through that also now with you, so that we can later on use that in our meetings with investors and analysts. So we are saying that we have strong market position in markets that are growing. We have stable business with about EUR1.4 billion net sales and that of course has stability, growth and profitability.

We have strong market position in Capital business with cost structure to meet business requirements. We are a technology leader with unique offering and we systematically develop the company in profitability and otherwise with our Must-Win initiatives.

First of all, these are strong market positions. You have seen this slide many times and the big change there is that now we say that we are number one in Paper, Tissue and Board. So earlier, we said that we are one to two in Paper and Board and that's of course a good achievement for us that now we can say that 2015, we were the market leader.

We are still one to two in Energy; one to two in Pulp; Automation, one to three; and Services, one to two. So we have globally strong market position in all the segments where we operate. We see that all these markets are having slow growth, 1% to 2%, some even 3% and then except Paper where we see decline of 1%. But then when you calculate what kind of net sales is coming from Paper and then what kind of net sales is coming from the rest of the area, then you can see that we are reasonably well-positioned in regards to the growth of the market as well. Slow but in any case there's some growth in our end market.

We have good stable business now with EUR1.4 billion of net sales and order intake and that offers stability, growth and profitability. In Services, we have been able to grow now 3% a year and of course, the target is to continue that growth. Then Automation roughly, if you calculate last year, our numbers and Metso's - the numbers for Metso has published about EUR309 million and last year, we haven't seen growth, but of course the target is to turn that business to growth mode again. And I think we've good cooperation with Services and with Capital business and of course Automation, own personnel, we can turn that business to growth. That's of course really important for Valmet that now we have so big share and so big volume coming from stable businesses.

Then we have strong market position in Capital business and we have streamlined the cost structure to meet the business requirements. So paper like I said earlier has now two years order intake about [EUR670 million]. Our net sales is roughly also at the same level. Of course, we don't know what kind of year 2016 will be, but in a way Paper has found new level of its business. Then we have 41% of capacity cost compared to net sales, so we have flexibility, but not as much as in other businesses, but good flexibility in any case.

In Pulp and Energy order intake is changing in quite much year on year, so EUR700 million, EUR1.3 billion, EUR860 million, so big variation, but then when you look at the output of the business, so it's closer to EUR900 million. So there is big variation in order intake and less variation actually in net sales. And there we have 24% of capacity cost against the net sales, so we have a lot more flexibility in our Pulp and Energy business and that's to be sure that we have flexibility because we know but also in the future Pulp and Energy business is lumpy and that will not change. So good market position and reasonably good cost structure to meet the business requirements.

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Then we are technology leader with unique offering. So we have process technology, we have Services and we have Automation. As examples of process technology, we have sold 10 OptiConcept M machines which are a new type of Board and Paper machines, what we launched some years ago. We have sold six new NTT machines, this is a new way how to make tissue machines which is one example of our technology.

We, of course, have all the capabilities for Pulp mill and in Energy, we have multi-fuel boilers and we are developing that offering further, so good technology offering. We have Services, so that we can serve both our own installed base and competition's installed base and wide technology offering and wide services offering like I explained the business lines early.

And then on top of that we are a forerunner in industrial internet with our Automation offering and we are the only company who has process technology, Services and Automation and can help the customers with that triangle.

And then the fifth point is that we continue to develop company systematically with our Must-Wins. We have had a lot of focus in process excellence, now when the profitability has improved a little bit then we can be more focused also in technology and customer excellence and winning team subjects, so that we can develop the company further in all respects.

And as an example of our development and position is this industrial internet. Many companies talk about the industrial internet. Industrial internet is here already for us, so if we calculate or when we calculate it, we have about 740 Valmet supplied production lines, so paper machines, tissue machine, boiler with our own Automation. We have 440 online connections open to our customers already today. We have 80 agreements where we remotely improve performance of our customers over the internet. So our point is that we have very good installed base in this industrial internet already.

We have some business there and of course we have future possibility to develop that even further, but that's of course one of the strengths of Valmet now after the acquisition of Automation.

So as a summary, 2015 was a successful year for Valmet. We made very good acquisition. Stable business was growing in orders received and in net sales. Capital business order received declined, mainly in Pulp and Energy. Net sales increased, order backlog is EUR2.1 billion, good development in profitability and net debt decreased EUR178 million increased compared to a year ago, but decreased compared to third quarter. So 2015 was a good year for Valmet.

QUESTIONS AND ANSWERS

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Thank you, Pasi. Now it's time for questions and we will start with the questions from Keilasatama. Do we have any questions from Keilasatama? If not then we will continue with the international questions.

Operator

Thank you. (Operator Instructions) We have questions from the telephone lines. Your first question comes from the line of Johan Eliason of Kepler Cheuvreux. Please ask your question.

Johan Eliason - *Kepler Cheuvreux - Analyst*

Yeah. Hello. This is Johan. I was just a bit curious about your somewhat changed outlook for Pulp. I think you have always been taking a couple of number of orders here recently. Is that the main reason for the downgrade? Previously, you have talked about one to three big orders in the pipeline. Have those been delayed do you think instead? How should I interpret this from good to satisfactory near term outlook? Is it more related to your winning already or some delays in the project you had in the future pipeline? Thank you.

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Pasi Laine - *Valmet Corporation - President, CEO*

Johan, thanks for the question. If I remember correctly, we haven't actually told how many Pulp projects are in pipeline. We have been saying usually that there are about one-and-a-half soft wood pulp mill a year being built and we have been saying that in some years there are two decisions, some years there is one decision, in some years no decisions. And now we see that the market is not as active for coming six months than it has been last year. Therefore, last year, there were actually many decisions, so we see that kind of normal situation that once in a while investment activity is not as big as has been last six months.

Johan Eliason - *Kepler Cheuvreux - Analyst*

Okay. And then the outlook for Board, are there any particular reasons you see an improvement there?

Pasi Laine - *Valmet Corporation - President, CEO*

We see quite a lot of activity in many corners of the world and it's not only Board, it's Board and Paper and rebuilds. So we have activities where we are selling -- trying to sell rebuilds and new machines for Board and rebuilds for Paper. Currently, we see that the market activity is good and then of course our workload also is reasonably good because last year we were quite successful in winning orders against our competition.

Johan Eliason - *Kepler Cheuvreux - Analyst*

If you look at the price trends for Board, I think it was - suddenly, it took a downturn in North America fairly recently. It seems to have been a bit of a worry for Paper manufacturers. Do you think that won't sort of impact the demand for Board investments going forward?

Pasi Laine - *Valmet Corporation - President, CEO*

I think most of the investments are done so that our customers are making very long term calculations on the demand and supply side, and I think this kind of short term variations are not maybe the most or the best indication for Capital business then it might be more indication for Services business where of course if customers are not earning enough money then they tend to squeeze their maintenance services activities, but I wouldn't read that as a sign for slowing of Capital business market.

Johan Eliason - *Kepler Cheuvreux - Analyst*

Okay. Thank you very much.

Operator

Thank you. Your next question comes from the line of Sven Weier of UBS. Please ask your question.

Sven Weier - *UBS - Analyst*

Yeah, good afternoon. Three questions please. The first one is a follow up question on the Pulp comments you've made, less activity in the next six months, but did I understand it correctly that this is basically applying to all sizes of orders and not just the large ones? Then maybe also [one] about your EBITA guidance for this year, of course, I'm aware you are not specifying that any further, but is it fair to assume that the EBITA improvement should be coming from your residual cost savings or is it also because your service business is continuing to grow? And then I was just wondering

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on your large order announcement going by your order intake, is it fair to assume that there were some that you have not announced yet? Thank you.

Pasi Laine - *Valmet Corporation - President, CEO*

Kari and Hanna have to help me. I have difficulties to follow up all the questions. If I start on the one which I heard well the other one -

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Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Maybe you just say (inaudible - microphone inaccessible).

Pasi Laine - *Valmet Corporation - President, CEO*

-- yes, EBITA guidance. So we are saying that our EBITA has increased compared to last year and we have of course internal rules when we are able to say that it's increasing and those are not published. We have several actions of course. Our target is to continue to grow our Services business and turn Automation business also to growth mode and there we have been saying that our target is in both businesses low single digit.

Then of course we have to be very, very careful with our cost, so many of our Must-Wins are targeting to improve our gross profit, so improving quality and procurement and design, project management. So of course, we continue to have a lot of focus on those ones as well.

And then this year one of the topics has to be also the referral management of our SG&A expenses, so those are the tools to improve EBITA when saying that net sales is not increasing.

Hanna, can you help with the two other ones?

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Yes. Could you please repeat the questions? If we take one question at a time, please.

Sven Weier - *UBS - Analyst*

Can you hear me now better?

Pasi Laine - *Valmet Corporation - President, CEO*

Yes, maybe.

Sven Weier - *UBS - Analyst*

Okay, I will try that one. The other question was just on your large orders that you've announced, I was just wondering if there have been any that you have not announced yet. And the other question was just on your Pulp downgrade. I was just wondering if the slower activity in the next six months applies to all sizes of orders, so not just the large pulp projects but also the base business. Thank you.

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Pasi Laine - *Valmet Corporation - President, CEO*

If I start with this Pulp, I think it's more related to large orders. I haven't seen any change actually in the medium and small size project activity, so it's more that we don't see that the large pulp mill order or let's say process activity would be at the same level than last month. And then these large orders, we have announced what we have announced and then it's a little bit difficult to comment on that do we have something, what we haven't announced.

Typically, let's say, so that we try to be as fast in announcing the projects as possible because that helps your work and it helps our work as well and we try to be as quick as possible.

Sven Weier - *UBS - Analyst*

Okay. Thank you.

Operator

Thank you. And your next question comes from the line of Simon Toennessen for Berenberg. Please ask your question.

Simon Toennessen - *Berenberg - Analyst*

Yes. Good afternoon, everyone. The first question is just on your growth outlook. Can you just go through it in a bit more detailed by divisions? If I understood you correctly, you expect Services to grow at a similar pace that you've seen i.e. 3% in 2016, Automation should grow, I presume, low single digit and then offset mainly by Pulp. Is that the way basically to look at it in 2016?

And then second question is just on margins in 2016, obviously your guidance is more on improving adjusted EBITA in 2016, but maybe if you could elaborate a bit more what you would expect for margins in 2016. Is it fair to assume that we should see an improvement from the levels that we've seen in 2015 on the way towards more the midpoint of the margin range as you've seen in Q4? Thank you.

Pasi Laine - *Valmet Corporation - President, CEO*

So first is growth outlook. We are keeping the outlook same -- market outlook the same for Services and Automation and, last year, we were able to grow 6%. Of course, currency was helping and in Services. And of course we target to continue with the same activities that we have and, of course, I cannot say exactly where we target, but the same work continues what we have had in Services. And in Automation, of course, comparison year is a little bit challenging because there was partly Metso time and partly Valmet time, but of course our target is to make Automation to grow and how much - we are not guiding that thoroughly.

In Pulp, I don't remember exactly, so we are saying that Pulp market is not as active as it was in 2015, at least in the beginning of the year but that's normal in our business, so that's not something abnormal.

Margin improvement, we are guiding only on EBITA and we are guiding there that our guidance is that our EBITA will improve and like I've been saying now actions are the normal ones, so quality of execution in Valmet from quality point of view and procurement, product design, of course sales, try to push the sales prices up as much as possible, so those are the tools in trying to improve the EBITA margin.

Simon Toennessen - *Berenberg - Analyst*

But it would be fair to assume that if margins would be at the similar level to 2015, that would be rather disappointing for [2015]?

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Pasi Laine - *Valmet Corporation - President, CEO*

Are you now talking about EBITA euro or percentage?

Simon Toennessen - *Berenberg - Analyst*

No, the margin percentage.

Pasi Laine - *Valmet Corporation - President, CEO*

How would I say, we are guiding that net sales stays roughly at the same level and EBITA improves. I think that's the answer.

Simon Toennessen - *Berenberg - Analyst*

Great. Thank you.

Operator

Thank you. (Operator Instructions) And your next question comes from the line of Tomi Railo of SEB. Please ask your question.

Tomi Railo - *SEB - Analyst*

Yes. Good afternoon. Just if you could a little bit open up the order intake for the Pulp and Energy, how much of the order intake was coming from the Pulp and how much from the Energy? That's my first question.

Pasi Laine - *Valmet Corporation - President, CEO*

We haven't opened that up, so we have now net sales only and it was 66 roughly against 34.

Tomi Railo - *SEB - Analyst*

Pulp is a little bit more on orders for 2015 than 66?

Pasi Laine - *Valmet Corporation - President, CEO*

No, we haven't published that number and I don't have that with me either. Have we published that?

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

No, we haven't.

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Pasi Laine - *Valmet Corporation - President, CEO*

No, we haven't published. Sorry, Tomi. We think about it if we will publish it and then we'll come back, but maybe it's better to - we'll think about it. So Tomi, it can be that we - at some point of the time the order intake split between the same units as well, but currently we don't have it.

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Actually, as an appendix of this presentation, there is this area split for also business lines, so you can make some calculations based on that. But Pasi is absolutely right, were have not published that so you need to make some calculations by yourself.

Tomi Railo - *SEB - Analyst*

Thank you. And then I think you have actually commented that you have expected at least one Pulp project to be awarded in 2016. Is that still the case?

Pasi Laine - *Valmet Corporation - President, CEO*

I think we have tried not to forecast when the Pulp project will be decided. So of course, it can't be that they are bigger Pulp projects which will be awarded in 2016, but we haven't had the tradition to comment the amount and the names of the projects. Our Austrian friends are doing it, but we are not.

Tomi Railo - *SEB - Analyst*

Then if you can still comment on the Automation profitability between 10% and 12%? Is that a fair assumption going forward and for 2015?

Pasi Laine - *Valmet Corporation - President, CEO*

It was the number, what Metso had and we are not commenting our business line profitability, but maybe now I can make one sort of exception that Automation profitability was good in 2015.

Tomi Railo - *SEB - Analyst*

Thank you. Very helpful.

Operator

Thank you. There are no further questions from the telephone lines, sir. Please continue.

Hanna-Maria Heikkinen - *Valmet Corporation - VP of IR*

Thank you. So thank you for all these questions and good presentations. And then Q1 report will be published on April 27. Please also save the date for our capital markets day. It will be in Helsinki in Finland, on September 20, so we hope that we will see many of you there.

And like I said to Tomi, there are some additional slides on the appendix of the presentation, so it might be worthwhile to go those to. Thank you.

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Pasi Laine - *Valmet Corporation - President, CEO*

Thank you.

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