

Transcript for Valmet's Interim Review for January-June 2025

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Pekka Rouhiainen: Good morning, and welcome to Valmet's second quarter 2025 results, publication, and webcast. While the second quarter highlight was definitely the Capital Markets Day, in which we launched our new strategy and 2030 financial targets. We were delighted to see a full room attending our event in Tampere and over 1000 people through the live webcast as well. Therefore, thank you again for the participation, everybody, and for the good discussions. Operationally, Valmet's second quarter highlight was the strong organic growth in orders received. I am Pekka Rouhiainen from IR, and with me today are Thomas Hinnerskov, president and CEO, as well as Katri Hokkanen, CFO.

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Pekka Rouhiainen: Today, Thomas will first go through the highlights of the quarter and discuss some key topics of the new strategy. After that, Katri will go through the financial development in more detail also from the perspective of our new segments. Thomas will then conclude on the guidance and short-term market outlook. It's worth mentioning that this quarter is a bit special in terms of our financial reporting, as both the old and new reporting segments will be visible in the presentation. We have tried to ensure that the reporting is easy to follow also during this transitional quarter, let's say. With that, I hand over to the presenters. Thomas, the floor is yours.

00:01:27 - 00:02:40

Thomas Hinnerskov: Thank you very much, Pekka. Yes. Let's go through and look at the second quarter highlights. Clearly, as Pekka mentioned, the launch of our new strategy led the way in our ambitious 2030 financial targets at our capital market day back in Tampere, which was definitely a highlight of this quarter. A major milestone was also the implementation of our new operating model, which went live here on July 1st. A lot of work went in during Q2 for actually designing and implementing that. It simplifies our structure, reinforces local accountability, and enables faster decision-making. A key point in preparing us for the strategy execution phase that we now enter into. Going forward, we will operate through two segments, each with a distinct strategic mission aligned with financial reporting. The segments are Biomaterial Solutions and Services and Process Performance Solutions. As Pekka said, our Q2 numbers are already reported aligned with the new operating model, and we will be discussing the development from that standpoint in this presentation, together with the previous segment structure as well.

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Thomas Hinnerskov: Operationally, the second quarter was strong in terms of orders received. As Pekka said, the comparable EBITA margin increased 90 basis points. Very happy with that. However, net sales decreased, and therefore comparable EBITA stayed flat. Customer activity overall remains stable quarter on quarter, more or less in line with our earlier expectation, and we'll get back to that a bit later in this presentation as well. Automation segment, the new process Performance solutions segment delivered across the board, both in orders, net sales, profitability, and all KPIs pointing in the right direction, and we were pleased to see another strong quarter, especially after a good Q1. In the Process technology and Service segment, which is now combined into our new operating model, the Biomaterial Solutions and Services segment will provide integrated expertise, services, and technology across the entire lifecycle, as we discussed extensively at the Capital Markets Day.

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Thomas Hinnerskov: The new biomaterial segment achieved strong growth in orders, including a 10 percent organic growth in service orders. However, on the flip side, the profitability in process technology declined due to lower net sales. [silence 00:04:07] Let's take a closer look at the orders received. Orders grew to 1.5 billion in Q2, which translates into 21 percent organic growth without FX or M and A impact. Last 12 months, order intake was €6.3 billion, supported by the large pulp mill order that we received and reported back in Q4 last year. Orders grew 11 percent organically, and the process performance solution is a very good achievement in the current macroeconomic environment. I think it is another sign of our strong position in that market. Biomaterial solutions and services also grew very nicely. On the capital side, we won several mid-sized orders during the quarter, and the biomaterials services grew 10 percent organically.

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Thomas Hinnerskov: [silence] Our strategic mission in our new biomaterial solutions and services segment is advancing circularity. Here on the slide, we have two Q2 customer cases that bring that mission truly to life. We secured two similar bio-based combined heat and power plants, one in Sweden with Krafringen Energi, and another one in Spain with the Saica Group. Both include Valmet boiler plants, flue gas cleaning system, and

our future ready design features. [silence 00:05:39] It's good to ask - why did we win these customers? Both customers highlighted the energy, certainty, and key priority, and chose Valmet based on our strong track record in delivering reliable, large-scale energy infrastructure. These orders, I would say, are also a strong endorsement of our pulp, energy, and circularity business area and basically our strategy in action. What makes these deliveries especially relevant is their future readiness.

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Thomas Hinnerkov: This is also something we discussed when we visited Saica Group a few weeks ago, and were actually on the site where this biomass boiler is going to be put up. Both systems are carbon capture-ready with design features that allow a seamless integration of carbon capture technology later on. This means that the customers aren't just complying with today's standard. They're investing in a flexible, long-term solution for a low-carbon future, a great example of how we combine immediate environmental performance with life cycle adaptability. I would like to thank both customers for choosing Valmet and look forward to our future partnership. Now let's turn to the bigger picture. Our new Lead the Way strategy and our ambitious 2030 financial target. As you know, we introduced our renewed strategy at the Capital Market Day in June at Tampere. It clearly builds on Valmet's core strength, but it also raises the bar for the next phase of value creation, really putting it up there.

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Thomas Hinnerkov: Let's briefly recap on the strategic direction. Our new strategy, Lead the Way, is guided by a clear new purpose to transform industries towards a regenerative tomorrow. This means reusing raw materials smarter and using less raw materials, something we enable through two focused missions the Advanced Circularity and Biomaterial Solutions and Services, which we just talked about two customer cases on, and then unlocking resource efficiency in the Process performance solutions. These priorities are already shaping how we work with customers, how we innovate, and also how we allocate resources into the business. Personally, I've had the opportunity to meet several customers, both here in Europe and also in North America, since the strategy launch, and the feedback has been really encouraging, I have to say. Our purpose to transform the industry is towards a regenerative tomorrow. Our lifecycle approach and the co-creation with customers has resonated very well with our customers.

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Thomas Hinnerkov: [silence 00:08:34] We also updated the two 2030 financial targets that we first shared at the Capital Market Day. As you recall, we're clearly raising the bar compared to previously. Now we aim to deliver five percent organic growth across the cycle, 15 percent comparable EBITA, and 20 percent return on capital employed, and also adding a balance sheet target with having gearing below 50 percent. So, why are we confident that we can achieve these targets? As I said at the CMD, it starts with our new Lead the Way strategy. It is more focused, it is bolder, it is more executable because we've got fewer but bigger initiatives. We're building on strong fundamentals. Many of you actually saw that in action in Tampere. We have already implemented the new operating model that went live on July 1st, which is also a key milestone in getting to the execution of the new strategy. These are solid foundations that give us confidence in our direction and our ability to deliver on these ambitions.

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Thomas Hinnerkov: Furthermore, I would say these targets are already being used internally as part of the discussion about future initiatives. Therefore, when I talk with the organization, I can always say: "How is that going to bring us closer to five plus 15 equals 20?" Really easy to remember, also for the organization, and therefore easy to implement into the organization as well, so I'm very happy with those. Let's now focus on one of the key investor questions after the Capital Market Day. How will Valmet accelerate service growth in the biomaterials services, basically doubling it compared to what we've seen historically? As we said earlier, we want to increase our market share from the current 21 percent to 25 percent by 2030. That will drive growth. This is not just an ambition. We have a clear five-lever plan to deliver on it. First and foremost, a lifecycle approach, where embedding services early and capital projects are not just an afterthought, but clearly built into the everyday delivery room or every delivery we are making. This ensures that we monetize the installed base more, we're consistent with a strong service relationship that begins already day one, and then takes it into the next couple of decades.

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Thomas Hinnerkov: We're focusing our investment by directing it to high-potential categories and regions. We've pinpointed high-potential opportunities in selected product categories and regions during the strategy phase that we just went through. By investing in these areas, we aim to unlock significant growth, while also

strengthening our market position and driving sustainable long-term growth within the service business. One example of this investment we've done, for example, in Macau, in India. We strengthen our capabilities in cost-competitive sourcing, consumables, spare parts, and manufacturing, while also expanding our pre-assembly capacity for capital projects. This enhancement supports our growth ambitions, cost competitiveness, and ability to deliver and manage effectively during the current geopolitical risk situations. Cost competitiveness. Through our new global supply unit, we're driving more efficient sourcing, particularly in spare parts and also in consumables. This expands our competitive edge and supports profitable growth without compromising on quality.

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Thomas Hinnerskov: Digital and data leverage are clearly lots. We are an engineering company with lots of data. We have a strong install base, one of the largest in the pulp and paper industry, which gives us a unique advantage. We now put in that install base, all the data to work on predicting maintenance needs, reducing lead time, and it has improved the customer experience as well as increased our own commercial effectiveness. Then lastly, the fifth point, empowered frontline. This is a big ticket item not to be underestimated. Our new operating model fosters closer collaboration and faster decision-making because we are taking out complexity and a more direct approach.

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Thomas Hinnerskov: We're decentralizing the authority to our service teams on the ground, where the problems are, where the strings need to be solved. This enables faster decision-making, quicker quotation, stronger local accountability, and ownership. Clearly, this will help us capture more opportunities and deliver more value to our customers without any bottlenecks. These are some of the highlights in our new strategy. I hope it clarifies it a bit, and also how we're going to plan to grow the service. Now I'll hand over to Katri, and she will walk you through the financial performance of the second quarter.

00:13:59 - 00:15:11

Katri Hokkanen: Thanks, Thomas, and thank you, everyone in Valmet in my team, for your efforts in the Q2 closing and also the renewal with the renewal of the operating model. Good job done there. Let's look at the financials next. As has been said already today, the highlight of the quarter was the strong order intake, and the orders increased by 1.5 billion. Order backlog also remained solid, rising to 4.7 billion. Then net sales declined to 1.2 billion, and this was below expectations, particularly in services. This was partly due to the foreign exchange impacts and timing, and also in the paper, where the quarterly net sales were the lowest since pre-COVID, and a disappointment. Additionally, it is typical for there to be variations between quarters based on the development of projects. That's fair to say. Comparable EBITA remained flat year over year at 143 million. However, the margin improved to 11.5 percent, and that was driven by a higher share of the automation segment in the sales mix and its improved profitability.

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Katri Hokkanen: Cash flow from operating activities decreased to 79 million, and this was mainly due to a less favorable change in the net working capital compared to the same period last year. Comparable ROCE was 13.1 percent, which was the same level as what we had in the first quarter this year. Adjusted EPS declined to €0.23, and this was primarily due to restructuring expenses, which were related to the renewal of our operating model. It's very important to note that both reported and adjusted EPS include items affecting comparability. Let's then take a closer look at the key financial figures for the second quarter and the first half of this year. Orders received increased by 19 percent year-over-year in Q2, reaching 1.5 billion assets. For the first half, the increase was 22 percent, totaling close to 2.9 billion. Order backlog grew significantly and stood at 4.7 billion at the end of the quarter, and it was 20 percent up from last year. This reflects the growth in orders received in '25 and also ARAUCO order from Q4 last year.

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Katri Hokkanen: Net sales declined by six percent in the second quarter and four percent in the first half, and this was mainly due to the lower volume in services and process technologies. Comparable EBITA was flat at 143 million in Q2, with a margin of 11.5 percent, and it was up from 10.6 percent last year. For the first half, EBITA was 265 million, with a margin of 10.9 percent. EBITA and operating profit declined, and this was due to the restructuring costs. EBITA was 81 million in Q2, down by 39 percent, and operating profit was 57 million, down 45 percent. Items affecting comparability were 62 million, and they were mainly related to the operating model renewal. Cash flow from operating activities was 79 million in Q2, down from 128 million last year. However, for the first half, it improved to 297 million compared to 267 million last year. [silence 00:17:38] Our order backlog continued to grow and reached 4.7 billion at the end of the second quarter, and this

is actually 259 million higher than at the end of last year. It reflects the strong order intake during the first half of this year.

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Katri Hokkanen: Approximately 2.3 billion of the backlog is currently expected to be delivered as net sales during the second half of this year. The revenue recognition from the Big ARAUCO pulp project, which we sold last year, amounted to roughly 100 million in the first half. This was mostly taking place in the second quarter, and we expect roughly 200 million more to be booked as revenue this year for the project. I would say that this level of backlog provides very good visibility for the remainder of the year, and it supports our confidence in delivering in line with our full-year guidance. As always, it is good to remember that the timing of deliveries can vary somewhat between the quarters, but we expect that the full-year net sales outcome is going to be consistent with our expectations. [silence 00:18:54] Cash flow from operating activities was 79 million in the second quarter, and this was clearly lower than in the comparison period when it was 128 million. The main reason for the decline was a less favorable change in the networking capital compared to last year.

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Katri Hokkanen: In the second quarter, the cash conversion ratio was 55 percent, and for the first half, it was 112 percent. As we highlighted at our Capital Markets Day, Valmet has a strong track record of cash conversion, and typically we have been in the range of 90 to 100 percent over the longer term. When it comes to networking capital, it stood at minus 139 million at the end of the second quarter, that equals minus two percent of the last 12 months' orders received. It is also worth noting that the figure includes a 123 million dividend liability. The first dividend installment was paid in April, and the second will be paid in October. CapEx in the quarter was 33 million. It was slightly higher than last year, but when we look at the year-to-date CapEx, it was at the same level. For the full year, we expect the CapEx to be in line with last year, meaning close to the 110 million level. Net debt and gearing increased from the previous quarter, and this was mainly due to the dividend payment of 125 million in April. At the end of the second quarter, the net debt to EBITDA ratio was 1.60, and gearing stood at 42 percent, which remains well within our financial target of below 50 percent.

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Katri Hokkanen: The average interest rate on our total debt was 3.6 percent at the end of the quarter, down from four percent at the end of Q1 and 4.5 percent at the end of Q2 last year. Interest rates have gone down compared to last year. Also, our gross debt is lower than what we had a year ago. As a result, our Q2 interest expenses decreased year-over-year to 16 million, and we expect the coming quarters to be close to this level. [silence 00:21:25] Capital employed decreased to 3.9 billion at the end of the second quarter, and it was down from 4.2 billion at the end of last year, resulting in a 185 million decrease. The main drivers for the decrease were dividends and change in the interest-bearing liabilities, and the fact that the net profit decreased mainly due to items affecting comparability. It's also good to mention that we have repaid 127 million in loans during the first half, and FX translation differences had a negative impact on the equity. These were only partially offset by the profits generated in the first half.

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Katri Hokkanen: Comparable ROCE for the last 12 months was 13.1 percent, and that was slightly below last year's level of 13.6, but stable when we compare it to the first quarter. Adjusted earnings per share were €1.72 on a last 12 months basis. Actually, the decline from last year was mainly due to restructuring expenses related to the operating model renewal. [silence 00:22:42] Let's then take a closer look at the segment structure we had in place in the second quarter. Actually, all three segments' services, automation, and process technologies showed growth in orders received. In comparable FX, the numbers were even a bit higher. In services, we saw continued strength, with orders up by seven percent and a solid comparable EBITA margin of 18.41 percent.

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Katri Hokkanen: This is reflecting improved execution and commercial effectiveness in this business. Automation also delivered a very strong quarter, with orders up by seven percent, and comparable EBITA margin rose to 17.8 percent which was supported by higher net sales. However, in Process technologies, while orders were increasing strongly, profitability declined, and this was due to lower net sales. It resulted in a comparable EBITA of just one percent. In the other comparable EBITA amounted to minus 10 million and a year to date to minus 26 million. The expenses in other areas have been roughly 50 million in the last year. We expect similar or slightly higher levels this year as well. [silence 00:24:08] Let's now turn on to Valmet's second quarter performance through the lens of our new operating reporting structure. This became effective on July 1st.

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Katri Hokkanen: As a reminder, we now operate through two reporting segments, Biomaterial Solutions and Services and Process Performance Solutions. In the second quarter, Biomaterial Solutions and Services was the larger of the two in terms of both orders received and net sales. However, when looking at the comparable EBITA, the contribution was more evenly distributed between the two segments. This reflects the strong profitability of Process Performance Solutions despite its smaller top line. On the next slides, I will walk you through the performance of each segment in more detail. Starting with Biomaterial Solutions and Services, which is our largest segment in terms of orders and net sales. There, orders received increased to 1.1 billion in the second quarter. This was supported by strong organic growth in services. This was particularly in mill improvements and field services and several mid-sized capital orders, especially in tissue and energy. However, the net sales declined to 869 million, and this was mainly due to lower volumes in the CapEx-driven business. As a result, comparable EBITA decreased to €87 million and the margin was 10 percent.

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Katri Hokkanen: This is clearly below our long-term ambition. As you may recall, at the Capital Markets Day, we set a 14 percent comparable EBITA margin target for this segment to be delivered by 2030. The key enabler for reaching that ambition is growing our market share, especially in services, as Thomas said, with the new strategy and lifecycle approach. This remains our top priority. As services continue to grow, we expect margin improvement to follow over time as well. Turning then into Process Performance Solutions. The segment delivered a very strong performance in the second quarter. Orders received increased to 376 million, with 11 percent organic growth. Growth was broad-based, so 12 percent in Automation solutions and 10 percent in Flow control. We also saw good momentum in Analyzer Products and Integration business, or API, as we call it. That contributed to 37 million in the orders. Net sales grew to 372 million, with nine percent organic growth. This was driven especially by strong execution in Automation solutions.

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Katri Hokkanen: Profitability was again a highlight. Comparable EBITA increased to 66 million and the margin improved clearly to 17.8 percent. At our Capital Markets Day, we set an ambition for this segment to accelerate growth to more than double the market rate and to reach a 20 percent comparable EBITA margin by 2030. This quarter's performance shows that we are on the right track, both in terms of growth and profitability. Good job done there as well. Let me now briefly touch on the progress of our new operating model renewal, which is a key enabler of our new strategy. As you know, the new operating model became effective on July 1st. It's designed to simplify our structure, improve our global cost competitiveness, and then reinforce the local accountability. Renewal is progressing well.

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Katri Hokkanen: Change negotiations have been concluded in most countries, covering over 90 percent of our white collar employees. The estimated annual cost savings from the new model are around 80 million, with the full run rate expected by the beginning of '26. In the second quarter, we booked 61 million in restructuring and strategy renewal costs as items affecting comparability. Some savings will already start to materialize in the second half of this year, mostly in the fourth quarter. The transformation is well underway, and it will support our strategic execution and financial performance going forward. With that, I will now hand back to Thomas to conclude with the guidance and short-term market outlook.

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Thomas Hinnerskov: Thanks, Katri. Let's wrap up the whole thing with our guidance for 2025, and then also the short-term market outlook as we see it right now. We are reiterating our full year 2025 guidance, which was first issued back in February. We continue to expect, like Katri also said, that our net sales and comparable EBITA for the full year of '25 will remain at the previous year's level. Let's now look at the short-term market outlook, and we will start with Biomaterial Solutions and Services, where we are seeing a slightly more cautious environment emerging. For Biomaterial Services, we estimate that the customer activity will decrease slightly. The main reason is the economic or increased economic uncertainty, particularly related to the US tariff situations, which clearly is weighing in on our customers' sentiment.

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Thomas Hinnerskov: We've also seen cautious or some cautious comments from some of our customers. While it's important to remember that we serve hundreds of customers globally, but still, these signals do add to the overall slightly more cautious tone. A specific area of concern is consumables and performance parts. After a very strong Q1, orders flattened in Q2, which is sort of potentially a sign of reduced activities, especially in this

part of the business. On a positive note, though, we did see a good development in mill improvements and field service, including larger individual order. Overall, the slowing momentum in the transactional part of the service is something we're watching carefully. In the CapEx-driven business, the picture is more stable overall. In tissue, the customer activity is relatively high, and we see good momentum continuing in this market. As you know, the market can be quite sort of binary depending on when the big-ticket items materialize.

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Thomas Hinnerkov: Overall, a mixed picture in biomaterials was servicing softening, CapEx stable, and some areas of strength. That said, it is important to emphasize that the long-term growth prospects for Biomaterial Solutions and Services do remain strong. We expect to see continued global growth in pulp demand, packaging board, and tissue consumption over the coming years. All of which will support our strategic direction and service growth ambition towards the 2030 goal. In Process Performance Solutions the outlook remains more stable. Q2 was again a strong quarter. We saw 12 percent organic growth in automation as Katri said, 10 percent in flow control, both contributing to the segment's solid performance.

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Thomas Hinnerkov: That said, we are staying alert to early signs and flow control. We've observed some signs of pre buying in North America a bit ahead of the US tariff decisions, which may impact order volumes in the coming quarters. While the segment benefit from a broader industrial customer base, the global uncertainty and the softness in the pulp and paper market, as discussed in the context of biomaterial services are also relevant here. With that, I'll be handing over to Pekka for Q&A.

00:33:01 - 00:33:20

Pekka Rouhiainen: Thank you for the presentations, and I will now be moving on to the Q&A. We will be taking questions over the phone lines and then also via the digital platform. Utilize either one of those. With that, I hand now over to the operator, please.

00:33:22 - 00:33:44

Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. [silence 00:33:35] The next question comes from Sven Weier from UBS. Please go ahead.

00:33:48 - 00:34:23

Sven Weier: [silence] Good morning, and thanks for taking my questions and doing the call. I got two, please. The first one is just on the top line guidance, where you still guide flat. I was just wondering, mechanically, you were swamped behind in the first half. Your backlog for delivery is kind of flat against last year. Do you expect to catch up in orders in the second half, or what's driving that one? I'll come then afterwards with the second question. Thank you.

00:34:24 - 00:35:11

Thomas Hinnerkov: All right. Thanks, Sven. Thanks for also joining the call. Good observation. We were slightly low in Q1 and also in Q2. We do still expect that if you look at our order backlog, the service business across the board, and the faster rotation of that, we will be keeping our guidance. That's why we are confident of keeping our guidance of flat net sales and EBITA compared to last year. There's some seasonality in it as well. You think in orders, and generally Q3 is a little bit soft. Then we've got a strong Q4 when it comes to the biomaterial piece, whereas the process performance is sort of no seasonality. We still stay confident in the guidance.

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Sven Weier: Does it bake in also, or what kind of currency impact are you baking in? Obviously, that has changed quite a bit since you first guided in February.

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Thomas Hinnerkov: This assumes that we don't see big impact from a currency or FX perspective. We have managed it very well during this first half year, as you can see in the results as well. We are generally hedging the operational piece, but of course, also the translation of profit from different countries. There, we don't see, but it can impact top line if we have big changes in the FX.

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Sven Weier: The other question I had was just on how you accounted for this big pulp order you had from

China. I was surprised to see that when I look at pulp orders and paper orders individually in the quarter, you had an even stronger uptick in paper. Did you book part of the order also on paper, or what was driving the paper strengths, and were parts of the order also booked in services in the automation line? Thank you.

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Katri Hokkanen: I can start and complement. We have publicized some of the projects that we have booked. China had a very strong quarter in the second quarter. There are other cases that we have booked as well. Overall, China's performance in the second quarter was very solid.

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Thomas Hinnervskov: Yes. Maybe a bit more...

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Sven Weier: For these, China...

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Thomas Hinnervskov: Sorry, Sven. Go ahead.

00:36:46 - 00:36:55

Sven Weier: I was just wondering if this Chinese project specifically was only booked in the pulp and energy business line, nowhere else?

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Katri Hokkanen: This was in pulp and energy business lines, but we did have other orders as well.

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Sven Weier: Okay. That makes sense.

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Katri Hokkanen: Yes.

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Thomas Hinnervskov: It's a good observation in terms of seeing the China activity on the order side. I think you know what we ended last year. What was it? Four hundred and eighteen million or something around that. We are now last 12 months, slightly above the 600 million mark. Clearly, China has picked up in this, and so we've done a good job in China in this last half year.

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Sven Weier: Understood. Thank you both.

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Katri Hokkanen: Thank you.

00:37:34 - 00:37:34

Thomas Hinnervskov: Thanks.

00:37:38 - 00:37:44

Operator: [silence 00:37:34] The next question comes from Antti Kansanen from SEB. Please go ahead.

00:37:49 - 00:38:44

Antti Kansanen: [silence] Hi guys. It's Antti from SEB. A couple of questions for me as well. The first one is for Q2 orders and the demand guidance for paper packaging and tissue. That's quite a nice uptick on both packaging and tissue orders on the second quarter compared to a year ago and first quarter this year. It's a rather surprising, given what we see in the marketplace generally, that it appears quite weak right now. Could you maybe open up a little bit more? Was this a combination of a lot of mid-sized orders? Was there something very big that maybe we haven't seen the announcement yet? In general, are these projects that you have been kind of working on for a long time and now kind of coming from the pipeline? I just wanted to understand maybe how the pipeline going into the second half of next year looks versus what you have now converted to orders very recently.

00:38:46 - 00:39:17

Thomas Hinnervskov: Thanks, Antti. Also, thanks for joining. Good question. Overall, these things do come a bit binary from core to core, so there can be timing there. However, it is generally several mid-sized orders that actually show up to be a significant good order uptick in the business. Pipeline-wise, I think we are generally also... I think that is reflected in our guidance as well, how we see the pipeline.

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Antti Kansanen: [silence 00:39:17] I guess on the outlook. You mentioned that there's a bit of a slowing momentum on the transactional services, but if I understood correctly, the CapEx side looks more stable. Is that slightly declining demand outlook on the biomaterials side more on comment on the aftermarket, or more comment on expected timing of capital orders?

00:39:41 - 00:39:44

Thomas Hinnervskov: Sorry, just say that once again. Sorry, I missed the first part.

00:39:46 - 00:40:08

Antti Kansanen: If I understood correctly, you guide for a slightly slowing demand on the biomaterials side, and you are flagging a bit weaker momentum on the transactional services, but the CapEx looks quite stable. I wanted to understand if the guidance is reflected on weaker aftermarket, or timing of deals in the second half on the capital side.

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Thomas Hinnervskov: If you think about the server side, that's a bit of reflection about operational rates. Profitability with our customer base is weak in certain parts of the business as well. Whereas on the capital side, we do see relatively, as we're saying, quite stable. It can be very different from quarter to quarter, but it is a more stable outlook.

00:40:37 - 00:41:23

Antti Kansanen: [silence 00:40:33] The last question for me is on the profitability of the pulp and paper capital business, and I guess this is the last time that we see this number. Your book-to-bill is now above one for the first half of this year. You should, at some point, get a little bit more stabilization on the sales decline. One should maybe expect ARAUCO deal also to start to contribute positively to earnings going into next year. Should we be confident that we're starting to kind of find the floor in a sense that the capital business is not any more a tailwind for your margins, that it actually starts to contribute positively, even excluding any kind of bigger savings programs that we are now expecting for next year?

00:41:24 - 00:42:12

Thomas Hinnervskov: As Katri said as well, we're not happy with the capital, the caps on net sales. It is low. I think it probably is the lowest we've seen since Q1 2020 or something like that. That volume clearly impacts the profitability a lot with the leverage that we have in our Global supply. We are taking short-term action in terms of temporary layoffs. It is also clear that with the Global supply and how we are going to structure that going forward, we'll have an impact on managing volume ups and downs in a better way. With that, there is also, I have to say in Q2, a little bit of timing effect and on some of the sales as well. Anything to add back, Katri?

00:42:12 - 00:42:34

Katri Hokkanen: I think maybe one thing to highlight is this operating model. Now we have brought the equipment business and the services together. Looking at the total lifecycle approach, that's also going to support the strategy execution. Our target with this new segment is to be at 14 percent profitability. Therefore, there is some work to be done and room for improvement.

00:42:34 - 00:42:36

Thomas Hinnervskov: Now we are 10.

00:42:36 - 00:42:39

Katri Hokkanen: Yes.

00:42:39 - 00:42:57

Antti Kansanen: For sure, I understand the savings and the operational model stuff. However, if we just look at it purely from the volume impact, orders in the first half are now better than sales. Therefore, if you look at the timing of your backlog, when should we start to see the top negative top-line impact stabilizing?

00:42:59 - 00:43:18

Katri Hokkanen: [silence 00:42:57] It will come through the revenue recognition. We need orders, and then the rest will follow. Giving exact timing for the ARAUCO, we will recognize 200 million more still, and we have been saying that it's roughly split equally between the years. That is going to contribute as well.

00:43:19 - 00:43:28

Thomas Hinnerkov: Positively a lot of the orders we got in Q2 were mid-sized one. They will tend to turn a bit faster than the very large ones.

00:43:29 - 00:43:29

Katri Hokkanen: That's a good point.

00:43:32 - 00:43:34

Antti Kansanen: All right. Fair enough. Thank you for the answers.

00:43:34 - 00:43:39

Thomas Hinnerkov: Thanks, Antti.

00:43:39 - 00:43:44

Operator: [silence] The next question comes from Mikael Doepel:, from Nordea. Please go ahead.

00:43:47 - 00:44:25

Mikael Doepel: Thank you. Good morning, everybody, and thanks for taking my question. Firstly, on the services' outlook, which you see is slightly weak. Now I think you mentioned in your comment earlier that you just mentioned in the transactional parts of the business. Maybe you could talk a bit more about that. Is that the only place where you see some weakness, or are other segments within services still doing well? Are there any big regional differences, maybe just a bit more color on what you're seeing in that business heading into the second half? Thanks. Let's start there.

00:44:27 - 00:46:03

Thomas Hinnerkov: Thanks, Mikael. I think it's really nice to see that despite dynamic world situations, economic outlooks, and so on, customers are investing in mill improvement projects. They want to make a more efficient mill. That's really good to see. It's good to see that they're starting to invest in the install base for the future, with a bigger effect than before. Then, as we said, we did have a good Q1, we had a flattish Q2 when it comes to the more consumable part, the performance part, the fabrics, the rolls in Q2, which is maybe indicating slight softness in terms of the actual operational rates that we see currently. I wouldn't say compared to previously geographically, it's unchanged, soft in Europe, which we also saw previously. Generally, okay, in the US in the high 80s, early 90s, different depending on where you are, China being a bit the same, Asia the same as previously. No bigger changes there, but just a slight softening in it as well. Just being a bit cautious and being very focused on making sure that we support our customers to the best extent possible during the coming quarters.

00:46:05 - 00:46:22

Mikael Doepel: Okay, that's helpful. Thank you. Then just a question on the project pipeline, which you've seen in Latin America. I think you have previously talked about this and mentioned active discussions. Just wondering where we are now on this topic.

00:46:24 - 00:47:25

Thomas Hinnerkov: Maybe I should just add to the previous question. It is good to see when you talk about services that in the performance solutions, there we are actually seeing quite a good service business, and very stable, and a good outlook on that as well. I'm very pleased on that side of the business as well. Then, in terms of these big projects in South America, as we said last time, there are certain players who are looking into investing further in South America because it is an attractive market to invest in when it comes to the pulp business. Very difficult to say anything about the timing, but our customers are looking into it. They are also not taking a few-year horizon on this. Therefore, what the world looks like right now may impact that a little bit less because it's a longer-term investment into a very competitive pulp production.

00:47:28 - 00:47:59

Mikael Doepel: Okay. That's fair. Then just finally, on the costs related to the operating model renewal, we aim

at the 80 million cost savings. You booked, I think, one of the costs of 61 million for this program in Q2. Was this all, or will you see more costs being booked in the quarters ahead? Also, in terms of the phasing of the savings, how much should we expect for 2025?

00:48:00 - 00:48:27

Katri Hokkanen: If I say, yes, this is our best estimate of the total program. That's the answer to your first question. Then the impact for this year. We will see some savings materializing already this year. I would maybe go with the double-digit statement here, because we are still kind of in the process of the change negotiations in five countries, so we cannot give exact comments yet within that ballpark.

00:48:28 - 00:48:30

Mikael Doepel: Okay. That's very clear. Thank you very much, both.

00:48:31 - 00:48:32

Katri Hokkanen: Thanks.

00:48:33 - 00:48:34

Thomas Hinnerkov: Thanks, Mikael.

00:48:35 - 00:48:52

Operator: As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. [silence 00:48:43] The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:48:55 - 00:49:28

Panu Laitinmäki: Thanks. I had two questions. First one is on the service outlook and order intake development. If I understood correctly, you had a slowdown or flattening of the spare parts and consumables, and then orders were more about the mill improvement and so on. Does this mean that it's like the service sales mix is a burden for the margin going forward? I assume the spare spares and consumables are more profitable.

00:49:30 - 00:50:10

Thomas Hinnerkov: Now we're into the finessing, in terms of the modeling or the comment on that. I think overall it is about driving the overall service business. That is a better margin business for us, so that's what we're focusing on. As we discussed a lot at the capital market is really about how we help drive our customers' outcomes in the best possible way, because that will deliver value for them, then they will actually do business with us as well. Therefore, I wouldn't be too focused on the mix between those things from a profitability perspective.

00:50:10 - 00:50:31

Panu Laitinmäki: Okay. That's clear. Then, secondly, on the outlook for the board specifically. Now you give the outlook for the whole business. Previously, you used to be more specific on the end market. How does the board machine market look for you going forward?

00:50:35 - 00:51:44

Thomas Hinnerkov: [silence 00:50:32] I guess if you think about it, you can go to a very granular level in terms of how you look at the market. We do that when we're looking at our pipeline and then the sales forecast discussions, or what our forecast is ordered. Sales from an orders' perspective, forecast discussion. It is a bit difficult in this forum to really go to that level of detail because it also depends on where you are actually in the world. You've seen capacity coming online in Europe. Therefore, utilization rates probably come down a bit in the European business, impacting the service business there compared to what the number of mills would indicate. There's also a closure in the board. We've seen one here in Finland being announced. Overall, you have to look at it quite granularly but also from a geographical perspective. We have seen orders also on the capital side there.

00:51:44 - 00:51:48

Katri Hokkanen: Maybe big picture. No changes in the overall.

00:51:48 - 00:51:48

Thomas Hinnerkov: Yes. View.

00:51:49 - 00:52:15

Panu Laitinmäki: Okay. Thanks. I actually have a third one, if I may. On the guidance, you are a bit ahead of last year in the first half in terms of comparable EBITA. You said that you will get double-digit million in cost savings for the second half. Therefore, is the guidance conservative given the cost savings, or what kind of headwinds will we still see?

00:52:17 - 00:52:27

Thomas Hinnerkov: It's clear that the savings program underlines and supports our guidance, and that's also why we are reiterating with confidence.

00:52:29 - 00:52:48

Katri Hokkanen: Yes, and maybe to say that we need a book and a bill in every business that we have. There is work to be done still, and now the backlog for this year is 2.3 billion same level than last year. However, it's all about getting the orders in, managing the costs, and then delivering the volume. No updates on the bottom line either.

00:52:50 - 00:52:51

Panu Laitinmäki: Okay. Thank you.

00:53:02 - 00:53:07

Operator: [silence 00:52:51-00:53:01] The next question comes from Tom Skogman from Carnegie. Please go ahead.

00:53:11 - 00:53:27

Tom Skogman: [silence] Yes. Hello. This is Tom Skogman from DNB Carnegie. I can see that the order backlog beyond the current year is up almost 60 percent. Can you reveal how much it is up for the kind of next year, in this case, for '26?

00:53:29 - 00:53:39

Katri Hokkanen: Backlog is up, and one big ticket item is the ARAUCO project. That is visible. If you look at the overall backlog, that's the main driver there.

00:53:41 - 00:53:55

Tom Skogman: Yes, but the problem is you don't know how the backlog looks for '26. Is it up double digits? Is it in total beyond? The current year is up now close to 60 percent.

00:53:56 - 00:54:11

Katri Hokkanen: I think we go into the quiet level of details here. I cannot comment on '26, but what I can say is that ARAUCO is mainly delivered in three years. That is visible in that backlog. Otherwise, order intake has been solid.

00:54:12 - 00:54:17

Thomas Hinnerkov: We expect that ARAUCO will have... three hundred million will come to sales this year, right?

00:54:17 - 00:54:18

Katri Hokkanen: Yes.

00:54:18 - 00:54:21

Thomas Hinnerkov: That will give you an indication, Tom.

00:54:24 - 00:54:53

Tom Skogman: Okay. Then I wonder about the balance in the order backlog. We have a very special kind of environment for your company, is it? Do you have challenges with low utilization level outlook in some segments, or is it okay across the board now? I guess in paper in Europe, it should not be that good. Perhaps it's good in paper in China as an example. Could you give a little more granularity, just about the outlook for utilization levels for factories?

00:54:55 - 00:55:54

Thomas Hinnerkov: Yes, good question, Tom. I think it really boils down to how to think about it. You saw net sales, and where we were not really happy was the lowest in the board and paper business since 2020 Q1. If you

think about overall, you also need to think from a profitability perspective. You need to think about there's both the biomaterial business. Let's not only think about that, but it is actually more or less close to half the business that is actually on the bottom line is also coming from the Process performance solutions business. That utilization rate is also important, but the leverage is on the other side. That gives a little bit of swing, but overall, very strong business in both parts, but then also a very strong foundational part, no matter what happens in terms of the performance solutions.

00:55:56 - 00:56:24

Tom Skogman: Then about pricing, I have not heard any comments about pricing. When you have booked these great orders, have you used the price weapon to secure a good backlog in challenging times, or is the safe margin more or less what it used to be? This discussion is difficult when you have cost-cutting. Basically, what I'm trying to figure out is will this cost-cutting of €80 million will hit the bottom line if you have flat sales.

00:56:26 - 00:56:29

Thomas Hinnerkov: Sorry, Tom, I couldn't hear you. You haven't heard anything about what?

00:56:30 - 00:56:53

Tom Skogman: About pricing in orders booked. I think it's just important for the market to understand will these €80 million of savings in the P&L hit the bottom line or are you using part of the savings to cut prices to gain market share, basically in a tough market?

00:56:54 - 00:58:04

Thomas Hinnerkov: Good question, Tom. As we talked a lot about at the Capital Markets Day back in Tampere, June 5th. You have the 80 million, which relates to the whole operating model change. Some of that is also being fueled into funding the strategic journey, the investment into growing the business, growing the service business, growing the flow control business. Therefore, actually capturing that commercial excellence there. That's one part, then the 100 million from the global supply. What we said there was also some of that will be used to actually be more competitive in the market and therefore capture growth and install going forward. Then the question that I haven't heard about Global supply so far, but I think it's an important question, because you also talked about timing, and it basically comes from two levers. There's the procurement savings and then there's the footprint. Footprint going about both the manufacturing footprint, facilities footprint. How do we actually optimize that? Also, with the current geographical or geopolitical situation.

00:58:04 - 00:58:57

Thomas Hinnerkov: It's a good time to look into how you want to structure that supply chain going forward. The procurement savings will come faster than the actual footprint. That is a bit of a longer thing, but with something we need to attack, and we need to address. Then also to drive that we are clearly opting for the game, as we are investing in new capabilities. Therefore, four new team members in the Global supply chain have been recruited and will be joining in the second half of this year, or with an international background. A very international team where we've upped the capability significantly in order to make sure we drive the 100 million savings targets, which will both expand the margin and will also drive cost competitiveness and therefore more sales.

00:58:59 - 00:59:20

Tom Skogman: Just to understand this a bit better, should we think this kind of supply chain savings of €100 million on a part of that can be used to cut prices between orders, but with €80 million in a white collar cost saving, that is a real saving that you will not use in pricing discussions with customers.

00:59:21 - 00:59:40

Thomas Hinnerkov: As I said, the €80 million has nothing to do with pricing or cost competitiveness, but it's about having an efficient organizational structure. That will impact the SG&A, but it is also to fund some of the expensive investments that are actually in the strategy plan so that we can deliver the 5+15 equals 20.

00:59:40 - 00:59:52

Katri Hokkanen: Maybe just to add to the 80 million, Tom, if I may. It's not only SG&A. There is a COGS part, and it's somewhat a bit more on the SG&A side, but maybe just to give a flavor that how this 80 million is divided.

00:59:52 - 00:59:54

Thomas Hinnerkov: A good point. Exactly.

00:59:56 - 01:00:16

Tom Skogman: Okay. Thank you. A final question from me. When you have these tariffs and so on, could it open an opportunity for you to go into the fabric business in the US? If a lot of fabrics are imported to the US market, there's a big competitor there with local production, but I guess otherwise, there is some import as well. How is it?

01:00:16 - 01:00:23

Thomas Hinnerskov: The fabrics market in the US is a mix of imported fabrics but also locally produced fabrics.

01:00:25 - 01:00:36

Tom Skogman: Yes. Could you end up only having production in Europe in this business? Could this be like an opportunity to go into the US fabric business if some other one will face challenges with tariffs?

01:00:38 - 01:00:45

Thomas Hinnerskov: I think that's a bit too detailed, Tom, to go into at a Q2 meeting right now, but we'll let you know if we do.

01:00:46 - 01:00:48

Tom Skogman: Okay. Thanks.

01:00:48 - 01:00:48

Thomas Hinnerskov: Thanks.

01:00:48 - 01:00:49

Katri Hokkanen: Thanks, Tom.

01:00:49 - 01:00:50

Thomas Hinnerskov: Thanks, Tom. Have a good summer.

01:00:55 - 01:01:00

Operator: [silence 01:00:49-01:00:54] There are no more questions at this time, so I hand the conference back to the speakers.

01:01:02 - 01:01:13

Pekka Rouhiainen: All right. Thank you so much for the Q&A. There are no questions here on the platform either. It's now time to conclude this event.

01:01:13 - 01:01:34

Thomas Hinnerskov: Thank you very much, everyone, for having joined the webcast. I was really happy that you spent your warm summer day on this. Have a great summer. Then, I want to thank all the Valmeteers who've delivered a good Q2 result that we can all be proud of. Thank you very much to everyone and have a great summer. [silence 01:01:34-01:01:39].