Reinventing reliability in flow control

Olli Isotalo
President and CEO of future Neles

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Neles is positioning for profitable growth and strengthening its industry leadership position

Neles in brief
- Strong and diversified market position in attractive process industries
- Core strengths – high-quality, reliable products & services, proven technologies, global expert team
- Track record of profitable growth, resilient business model and good cash generation
- Strategy for profitable growth
Neles is positioning for profitable growth and strengthening its industry leadership position

Neles in brief

- Strong and diversified market position in attractive process industries
- Core strengths – High-quality, reliable products & services, proven technologies, global expert team
- Track record of profitable growth, resilient business model and good cash generation
- Strategy for profitable growth
History of industry experience and leadership with proven technologies

Predominately organic growth complemented with bolt-on acquisitions
Leading diversified valve, valve automation and service company for process industries globally

Valves & valves automation
Expertise & innovation
Since 1950’s

Orders
EUR 681 million
2019

Sales
EUR 660 million
2019

Adjusted EBITA
EUR 97 million
2019 (14.6% margin)

Resilient business
~70% of sales OPEX driven, recurring business

Cash generating business model

Mission-critical product portfolio, high entry barrier

• Control valves
• On-off valves
• Intelligent safety valves

• Valve controllers, actuators and limit switches
• Valve spare parts
• Services

Diversified across process industries and regions

- Oil & Gas, Industrial Gas 37%
- Petrochem and Chemicals 21%
- Pulp & Paper 26%
- Other 16%

- Americas 40%
- EMEA 36%
- APAC 24%
- Other 16%

~2,900 employees
~40 Countries

NOTE: All figures based on Neles as continued operations numbers as in Metso’s 2019 annual report

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A diversified company across many process industries
Long-term customer relationships formed through direct sales and partners

Growing installed base
Direct sales
EPCs
OEMs

Serving installed base
Distributors
Services and replacement sales

Largest customer ~ 5% of annual sales
Neles is positioning for profitable growth and strengthening its industry leadership position

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Strategy for profitable growth
A leading market position in valves and valve automation products

Flow control

Valves
EUR ~28 billion

Actuators

Valve Instrumentation

Process measurement instrumentation

Valve Controls

Pumps and compressors

Valve automation market
EUR ~11 billion in total

Source: McKinsey

Strong Neles presence

Neles present

Neles not present

Neles

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Valves and valve automation are fragmented and structurally attractive markets

- Established players benefit from strict customer and product approvals, risk-averse buying behavior, know-how and scale benefits leading to high barriers of entry, attractive earnings profiles for leading players
  - Average EBIT 10%, best 20%
  - Average ROIC 10%, best 18%
  - 1.8x the Total Return to Shareholders for flow control companies compared to the average of all industrial equipment companies
- Focused players can also enjoy good profitability due to economies of scope
- Consolidation has been actively ongoing in the industry

Source: Resolute Market Research; McKinsey

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1 Including Emerson (Valves, Actuators and Regulators), Flowserve, Circor, Crane, Rotork, IMI, Kitz, Auma Riester, Neway Valve, KSB Group, Velan, Samson Controls
Megatrends are driving long-term growth for the industry

- Growing and changing demand for materials correlating with global GDP growth
- Sustainability requirements, e.g. new packaging materials
- Consciousness is increasing and contributing to spending more on reliable and better performing equipment
- Renewal investments to upgrade and replace e.g. in Oil & Gas due to tighter fuel regulations
- Driving investments into more automated valves / control valves
- Digitalization enabling predictive maintenance and process optimization leveraging smart equipment and process and plant data (e.g. installed based)
Different drivers and cycles across customer industries capex

Valve and valve controls industry is expected to grow 2%\(^1\) overall in the mid-term

<table>
<thead>
<tr>
<th>Industry</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up &amp; midstream O&amp;G</td>
<td>Recovering investments, growth driven by Middle East and Americas</td>
</tr>
<tr>
<td>Downstream O&amp;G</td>
<td>Capex on growth projects slowing down, production volumes and regulatory capex expected to hold up, good outlook in Industrial Gas</td>
</tr>
<tr>
<td>Petro-chemicals</td>
<td>Good growth outlook, base chemicals growth linked largely to population growth, pockets of higher growth for specialty chemicals</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Pulp, tissue, and cardboard driving growth, with continued decline in paper</td>
</tr>
<tr>
<td>Pulp &amp; paper</td>
<td>Emerging economies driving fossil investments still, while Europe and US in decline, longer-term outlook more negative</td>
</tr>
<tr>
<td>Power</td>
<td>Investments increasing as metals demand continues to increase</td>
</tr>
<tr>
<td>Mining &amp; Metals</td>
<td>Growth driven by urbanization and industrial production</td>
</tr>
<tr>
<td>Water treatment</td>
<td></td>
</tr>
</tbody>
</table>

Share (%) of Neles sales:
- Up & midstream O&G: 37%
- Downstream O&G: 21%
- Petro-chemicals: 26%
- Chemicals: 16%

\(^1\) Prior to Covid-19, McKinsey and Neles analysis

Source: IHS, ICIS, RISI, McKinsey Energy Insights, GWI
Neles is positioning for profitable growth and strengthening its industry leadership position

Core strengths are high-quality, reliable products & services, proven technologies, global expert team

Track record of profitable growth, resilient business model and good cash generation

Strategy for profitable growth
Built success factors to meet industry requirements, plans to strengthen selected areas

Industry requirements

- Strong brands
- Known for quality and reliability
- Efficient and global supply chains
- Global sales and distributor network
- High service penetration to installed base
- Engineering and application knowledge
- Good availability and short delivery times
- Digitalization and automation capabilities

Neles strengths

- Neles and Jamesbury main brands well-known and respected
- Consistent quality and high-performance products
- Bases in Finland, Germany, United States, China and India; and global network of suppliers
- Global direct sales network supported by distributor network
- ~70% share of MRO sales and high service penetration
- Known for high-end engineering and application knowledge in core industries
- Flexible to needs of customers, room for improvement in lead times and global availability of standard products
- Valve automation offering as well as digitalization programs to improve customer experience and to support customer reliability development
Neles is recognized for leading technology, quality and customer value-add

Quality of products & services – Responsiveness – Problem solving capability

Very good valves and, above all, very good service, both in terms of sales staff and repair.

*Direct sales customer, Germany*

I think the quality of products is very good, trustworthy.

*Distributor, China*

Customer assistance is a strength: recommending products, researching solutions to problems caused by certain conditions of the process.

*Direct sales customer, Italy*

Excellent quality. Technical assistance and services.

*Direct sales customer, Brazil*
Globally modern and balanced operational footprint, China and India provide upside
Neles serves its customers throughout the life cycle

- Plant design and technology development
  - Licensor & approval development
  - Innovations
  - Key-customer specific development

- Investment projects
  - OEM and end-customer projects

- Plant start-up
  - Performance services and service solutions

- Operation and maintenance
  - Replacement equipment
    - Spare parts
    - Field services and repairs
    - Performance services
    - Diagnostics

- Shut-downs
  - Shut-down concepts and services

- Improvements and upgrades
  - Valve upgrades and replacements
    - Process upgrade packages (e.g. Euro6)

- CAPEX driven business

- OPEX driven Maintenance, Repair, Operations (MRO), valve services, replacement and distribution
Mission-critical field services and spare part business

40 service centers & ~400 service experts globally
Leading expertise in shutdown management

Growth potential through large installed base
1,000,000 serviceable valves tagged
~7 million valves in the installed base

Strong growth
since 2017

Digitalization & diagnostics
At the forefront in use of data to improve process reliability since mid-90s
Accelerating growth in valve controls and actuators

Amongst the market leaders in VC&A
Strong, proven brands and expertise

Key element in digitalization

Fast growing business in Neles

Allows growth in new industries
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Strategy for profitable growth
Resilient business model with good cash generation

**OPEX driven**
- Maintenance, repair & operations (MRO)
- Valve services (previously reported as segment’s services, 22%)
- Valve replacement and distribution business

**CAPEX driven**
- Project business
- Valve sales to customer projects

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### Capital expenditure, MEUR

<table>
<thead>
<tr>
<th>Year</th>
<th>Capex (Ex. M&amp;A)</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>7</td>
<td>1.3%</td>
</tr>
<tr>
<td>2017</td>
<td>6</td>
<td>1.1%</td>
</tr>
<tr>
<td>2018</td>
<td>8</td>
<td>1.3%</td>
</tr>
<tr>
<td>2019</td>
<td>XX</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

### Cash Conversion

- 2016: 91%
- 2017: 92%
- 2018: 92%
- 2019: 83%

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1. 2016-2017 financials based on carve-out numbers; 2018-2019 financials based on Metso’s “Continuing operations” as in 2019 annual report
2. Capex numbers exclude M&A
3. Cash conversion rate = (Adj. EBITDA - CAPEX)/Adj. EBITDA; EBITDA and Capex based on carve-out/continuing operations figures
Proven profitable business model

Orders received¹, MEUR

<table>
<thead>
<tr>
<th>Year</th>
<th>Orders received</th>
<th>Adj. EBITA margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>475</td>
<td>10.1%</td>
</tr>
<tr>
<td>2012</td>
<td>518</td>
<td>11.6%</td>
</tr>
<tr>
<td>2013</td>
<td>577</td>
<td>15.6%</td>
</tr>
<tr>
<td>2014</td>
<td>607</td>
<td>16.7%</td>
</tr>
<tr>
<td>2015</td>
<td>591</td>
<td>17.3%</td>
</tr>
<tr>
<td>2016</td>
<td>504</td>
<td>14.4%</td>
</tr>
<tr>
<td>2017</td>
<td>555</td>
<td>13.5%</td>
</tr>
<tr>
<td>2018</td>
<td>627</td>
<td>15.2%</td>
</tr>
<tr>
<td>2019</td>
<td>681</td>
<td>15.8%</td>
</tr>
</tbody>
</table>

¹ Segment numbers

CAGR +10.5% (Multichannel growth Services and VC&A growth Offering renewal)
CAGR +4.7% (Operations improvement and global operations platform)

Profitability growth based on actions
Profitability growth based on volume leverage

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Growing faster than the industry with strong profitability

**Sales**
Indexed to 100 since 2016

**Operating profit margin**
%

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1Segment numbers

2Including Crane (Fluid Handling), Flowserve (Flow Control), IMI (Critical Engineering), Velan, Emerson (Valves, Actuators & Regulators), Rotork

Source: S&P Capital IQ for revenues, company annual reports
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Strategy for profitable growth
Reinventing reliability in flow control – improving processes and ensuring safety and sustainability

Increasing process safety and reliability to:

- Ensure safe operations and reduce risks
- Reduce emissions
- Reduce energy consumption
- Reduce waste
- Reduce waste process unavailability

Neles delivers this through:

- Safe, high quality and proven performance products
- Mission critical services covering the whole plant life cycle
- Industry leading flow control expertise supported by our never-give-up entrepreneurial culture

Sustainability integrated into everything we do
Strategic actions to achieve profitable growth while keeping a tight focus on value creation

Growing organically and through acquisitions:

• Gain market share by expanding in selected markets and broadening product offering
• Accelerate growth of valve controls & actuators
• Strengthen service business supported by digitalization
• Execute targeted acquisitions which support these initiatives

Investing in growth while maintain profitability:

• Improve project delivery and working capital optimization
• Leverage investments in China and India
• Ongoing cost saving actions to neutralize cost increase related to demerger and to create room for growth investments (e.g. R&D, sales channel expansion)
• Short-term focus on cash flow and cost savings in the current Covid-19 pandemic
Mid-term financial targets derived from solid performance track record

- **≥5%** organic growth ambition
- **>€1bn** orders received around 2025
- **>15%** EBITA while investing in growth
- **<2.5x** Net Debt/EBITDA maintaining a healthy balance sheet while investing in growth
- **~40%** of underlying net earnings paid as dividends

1Net Earnings excluding amortizations resulting from future M&A
Neles is positioning for profitable growth and strengthening its industry leadership position

- Strong position in attractive industry
- High-quality products and services, appreciated application knowledge
- Proven track record of profitable growth, resilient business model and good cash generation
- Strategy for profitable growth
NELES

Reinventing reliability