

Valmet and Neles to merge creating a leading company with a unique offering for process industries globally

Merger Announcement

2 July, 2021

NELES

Valmet 

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This presentation includes estimates relating to the synergy benefits expected to arise from the merger and the combination of the business operations of Valmet and Neles as well as the related integration costs, which have been prepared by Valmet and Neles and are based on a number of assumptions and judgments. Such estimates present the expected future impact of the merger and the combination of the business operations of Valmet and Neles on the combined company’s business, financial condition and results of operations. The assumptions relating to the estimated synergy benefits and related integration costs are inherently uncertain and are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause the actual synergy benefits from the merger and the combination of the business operations of Valmet and Neles, if any, and related integration costs to differ materially from the estimates in this presentation. Further, there can be no certainty that the merger will be completed in the manner and timeframe described in this presentation, or at all.

Guidance to the media

- Management of Valmet and Neles are available for face-to-face media interviews and photo shooting at 12.15 – 13.15 at Valmet headquarters, Keilasatama 5, Espoo, Finland
- After 13.15 Teams/phone interviews are also possible
- Media is advised to reserve time slots for interviews by contacting Mirkka Aarti, Valmet Oyj, phone +358 50 44 358 9686, email mirkka.aarti@valmet.com

Today's presenters



Mikael Mäkinen
Chairman of the Board,
Valmet



Pasi Laine
President and CEO,
Valmet



Jaakko Eskola
Chairman of the Board,
Neles



Olli Isotalo
President and CEO,
Neles

Agenda

- 1 Introduction to the merger *Mikael Mäkinen and Jaakko Eskola*
- 2 Valmet and Neles today *Pasi Laine and Olli Isotalo*
- 3 The merger creates a leading company with a unique offering for process industries globally
- 4 The rationale for the combination
- 5 Valmet's financial targets after the merger
- 6 Governance, merger structure and indicative timeline
- 7 Concluding remarks *Mikael Mäkinen*

Q&A after the presentation

Valmet and Neles to merge creating a leading company with a unique offering for process industries

- The Boards of Directors of Valmet Oyj and Neles Corporation have today signed a combination agreement and a merger plan to combine the two companies through a merger
- The combined company will be a leading company with a unique offering for process industries and net sales around EUR 4.3 billion¹. It will have a globally balanced expert organization of 17,000 professionals.
- The proposed combination will be implemented as a statutory absorption merger whereby Neles will be merged into Valmet.
- The name of the combined company will be **Valmet Oyj**.
- **Pasi Laine** will continue as the President and CEO of the combined company following the completion of the merger
- Upon completion, Neles' shareholders will receive as merger consideration 0.3277x new shares in Valmet for each share they hold in Neles on the record date. This implies that Neles' shareholders (excluding Valmet) would own approximately 18.8 percent and Valmet's shareholders 81.2 percent of the shares and votes of the Combined Company.
- Neles' shareholders will additionally receive a EUR 2.0 per share extra distribution of funds prior to completion of the merger.
- The combination is subject to, among other items, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings of Valmet and Neles, and the obtaining of merger control approvals.
- Completion is expected on or about 1 January 2022, subject to all conditions for completion being fulfilled.
- Shareholders representing approximately 16.9 percent of the shares and votes in Valmet, and shareholders representing approximately 15.4 percent of the shares and votes in Neles, have subject to certain customary conditions irrevocably undertaken to vote in favor of the combination. Together with Valmet, the above-mentioned shareholders in Neles hold approximately 45.0 percent of the outstanding shares and votes in Neles.



1) Illustrative combined net sales for 2020



Valmet and Neles today

Valmet today

Orders received, 2020

EUR **3,653** million

>220

years of industrial history



14,046

employees



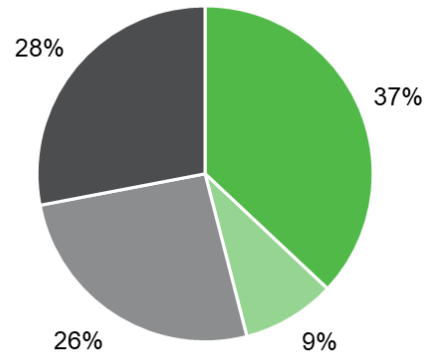
>30

countries

Net Sales, 2020

EUR **3,740** million

Orders received by business line, 2020



- Services
- Automation
- Pulp and Energy
- Paper

Process technologies, services and automation for pulp, paper and energy industries



R&D spend, 2020

EUR **75** million

Protected inventions

1,300

Comparable EBITA, 2020

EUR **365** million

9.8% margin

7

consecutive years in Dow Jones Sustainability Indices

Neles today

Orders, 2020

EUR **590** million



Expertise & innovation
since 1950's



~2,850
employees



~40
countries

Sales, 2020

EUR **576** million

Valves

~400,000
delivered annually

Actuators and positioners

~160,000
delivered annually

Leading product brands

Neles™
Jamesbury™
Easyflow by Neles™

Adjusted EBITA, 2020

EUR **85** million

14.8% margin

Resilient business

~70% of sales customer OPEX driven

Mission-critical product portfolio


- Control valves
- On-off valves
- Intelligent safety valves
- Valve controllers, actuators and limit switches
- Valve spare parts
- Services

Serving variety of industries



Pulp, Paper & Bio 29%
Oil 24%
Chemicals 21%
Gases 10%
Other industries 16%*

*Incl. Mining & Metals, Power, Water treatment, Food & Bev



The merger creates a leading company
with a unique offering for process industries

Creating a leading company with a unique offering for process industries

Process technologies



Board and Paper

Market position
#1



Pulp and Energy

Market position
#1-3

Services



Market position
#1-2

Automation



Flow Control

Strong positions in

- Control valves and demanding on/off valves
- Process industry segments including pulp and paper



Systems

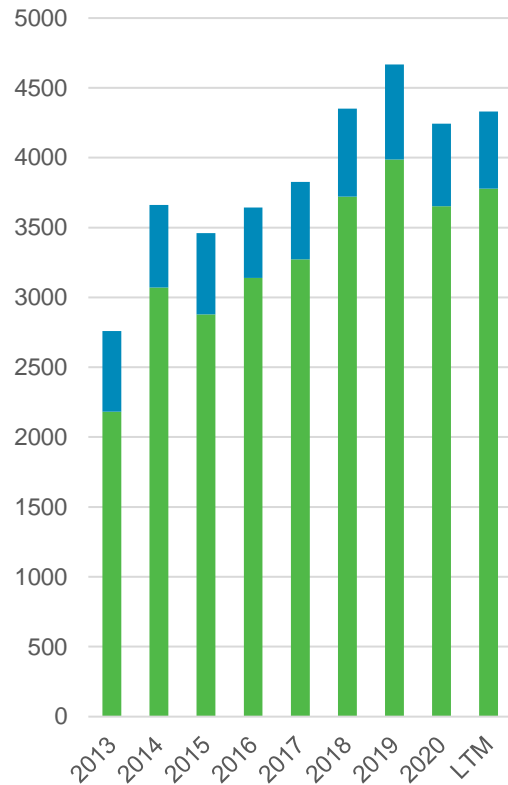
Market position in Pulp and Paper
#1-3

- Large recurring and stable business
- Solid platform to grow and develop all businesses
- Strong confidence and reputation among customers¹
- A winning team with a shared heritage and performance orientation

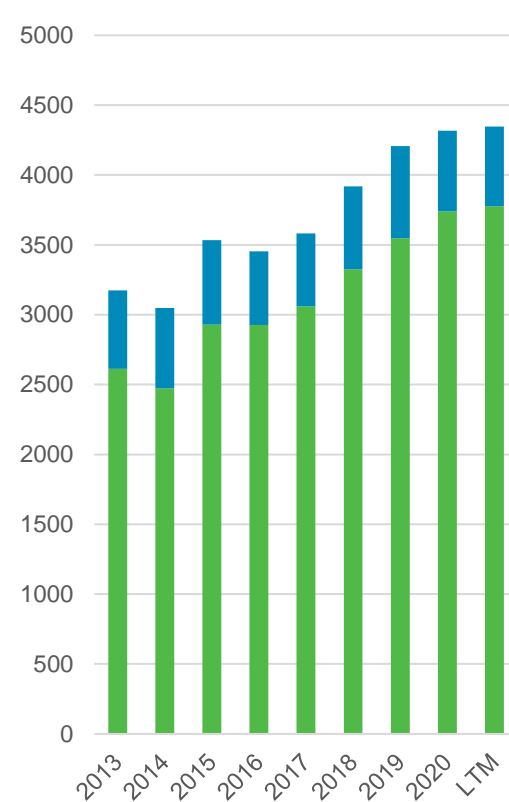
1) Based on global brand and customer satisfaction surveys

Track-record of growth and continuous profit improvement

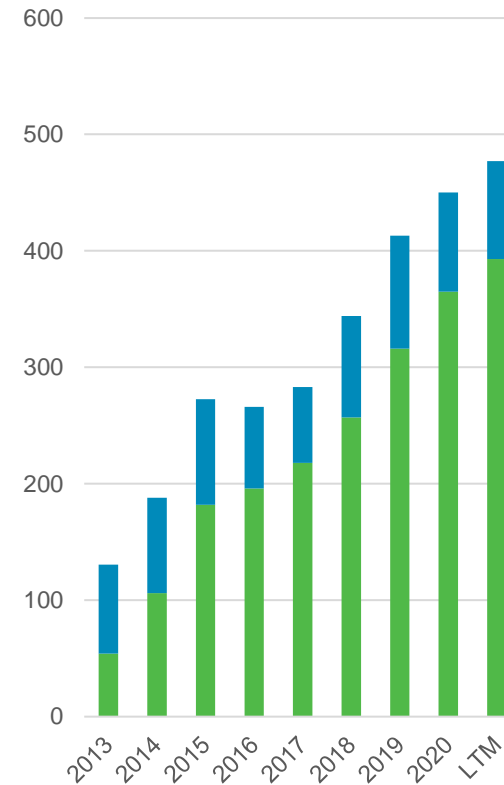
Orders received
(EUR billion)



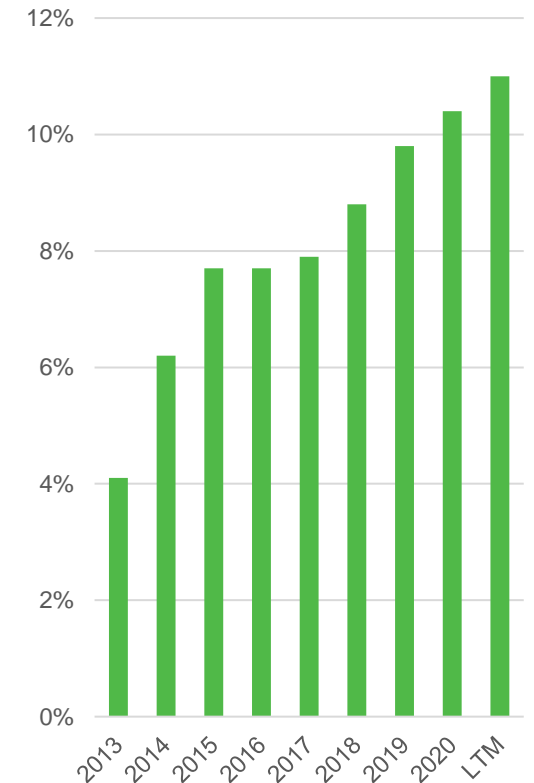
Net sales
(EUR billion)



Comparable EBITA
(EUR million)



Comparable EBITA margin
(%, combined company)



Dark green: Valmet. Blue: Neles. Illustrative combined figures calculated by combining Valmet and Neles figures. LTM (last 12 months): Q2/2020-Q1/2021. Neles' figures for 2014-2015 are estimates based on Metso Flow Control (adjusted for structural changes) and 2013 based on Metso Automation (adjusted for structural changes).

A strong financial profile and balanced business portfolio

Illustrative key figures of the Combined Company after the merger

Orders received
EUR 4,243 million

Net sales
EUR 4,309 million

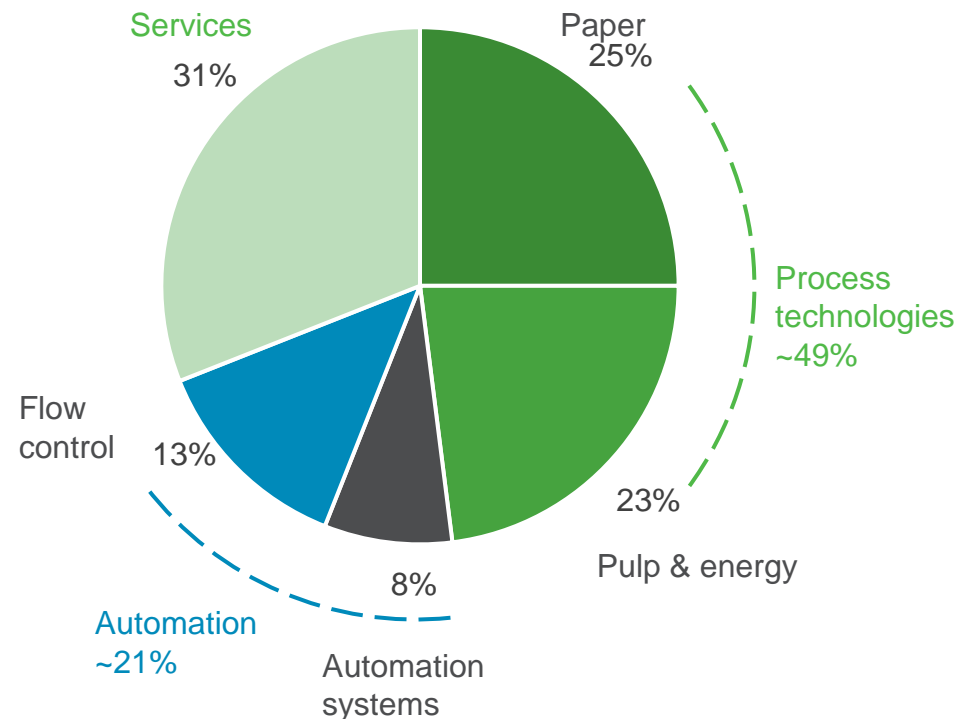
Comparable EBITA
EUR 449 million

Comparable EBITA margin
10.4%

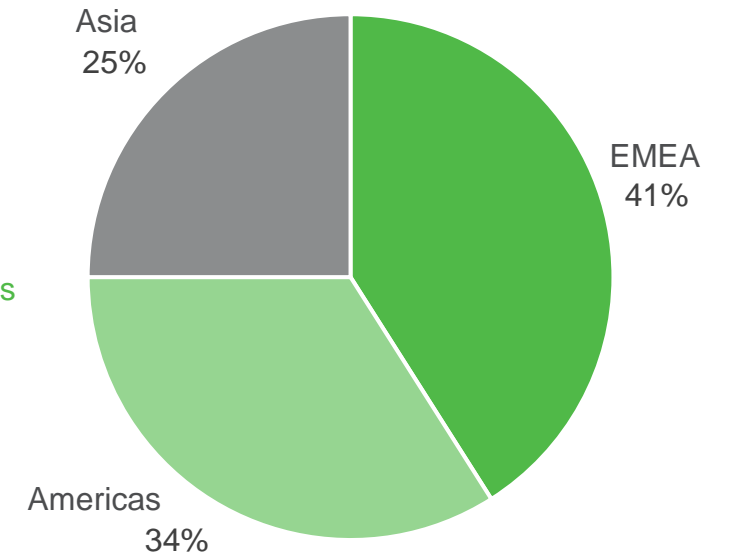
Order backlog
EUR 3,527 million

Employees
16,886

Net sales by segment



Net sales by area



All figures are illustrative, based on combined company 2020 figures. Neles' sales in India included in EMEA.

Global presence creating a good platform for growth



~140
service centers



54
production units



23
R&D centers



8
Performance
Centers



Sustainability as a success factor

Acknowledged sustainability work and ability to bring tangible improvements to customers' sustainability performance

Sustainable offering
enhancing energy, water and raw material efficiency, improving safety of customers' operations and promoting circular economy

Ambitious climate program
targeting to reduce CO₂ emissions in the entire value chain and help customers to meet their CO₂ targets

Systematic supply chain development
Sustainability engagement program and global supplier management process to build sustainable and efficient supply chain

Strong HSE culture
Focus on health, safety and environmental performance of own operations and the industries we serve

People focus
Systematic development of our people and promotion of equal opportunities, diversity and well-being

Active global and local citizenship work
with focus on having positive impact on the society and environment, respecting human rights and ensuring transparent reporting

7 consecutive years in Dow Jones Sustainability Index

Best AAA rating in MSCI ESG rating

A- rating in CDP Climate

Growth potential in all businesses and in new emerging sectors supported by favorable megatrends

Growth in process technology

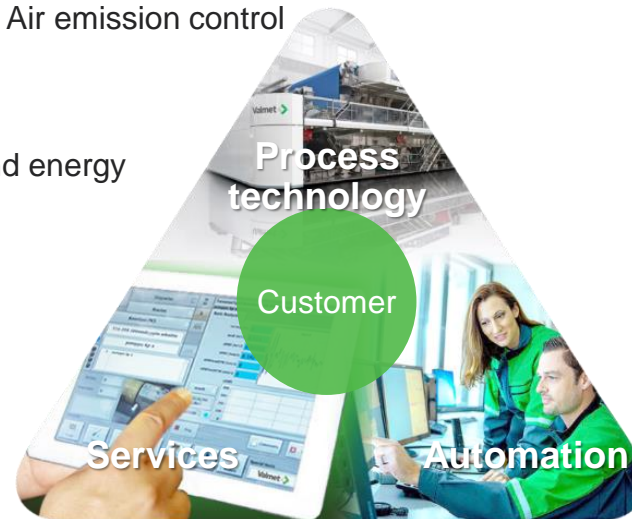
- Driven by e-commerce and emerging markets growth, shift to renewable materials, and rise in living standards

New emerging opportunities especially in

- Cellulose based and recycled textile production
- Plastic replacement and fiber-based products
- 3D molded fiber
- Second generation bioethanol
- Air emission control

Growth in services

- Driven by increasing pulp, tissue, board and energy production and demand of raw material, environmental and process efficiencies
- Growth opportunities especially in
 - Spares and consumables
 - Process support and optimization
 - Filtration



Growth in flow control and automation systems

- Similar growth drivers with process technologies and services added with demand for Industrial Internet based and digital solutions
- Growth opportunities especially in
 - Automation specialty systems
 - Network control
 - Process industry analyzers and measurements
 - Diversification into new process industries
 - Energy transition

Global megatrends

Resource efficient and clean world

Digitalization and new technologies

Urban, responsible and global consumer



The rationale for the combination

Strategic rationale – Creating a leading company with unique offering



- 1 Unique, competitive and balanced total offering for process industries
- 2 Large recurring and stable business providing resilience to business cycles
- 3 Strong industrial logic from the combination of flow control and automation systems
- 4 Solid platform for further growth in flow control and automation systems
- 5 Revenue, technology development and cost synergy potential contributing to shareholder value creation
- 6 Valmet's track record in developing the integrated businesses

Unique, competitive and balanced total offering for process industries

Paper

- Board, paper and tissue production lines
- Rebuilds
- Stand-alone products

Pulp

- Wood and pulp handling
- Fiber processing
- Recovery

Energy

- Heat and power generation
- Air emission control
- Biofuels

Services

- Spare parts and components
- Maintenance and shutdown services
- Outsourcing services
- Production consumables
- Process support and optimization

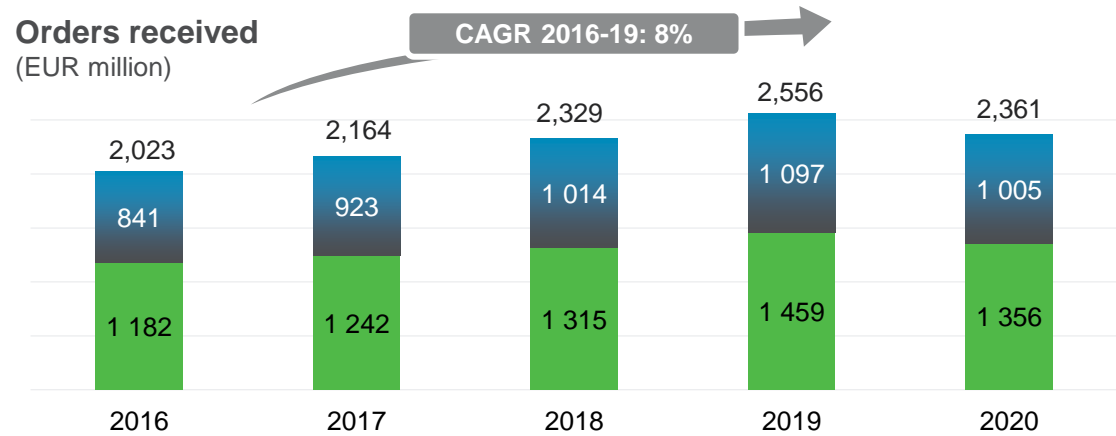


Flow Control and Automation Systems across process industries

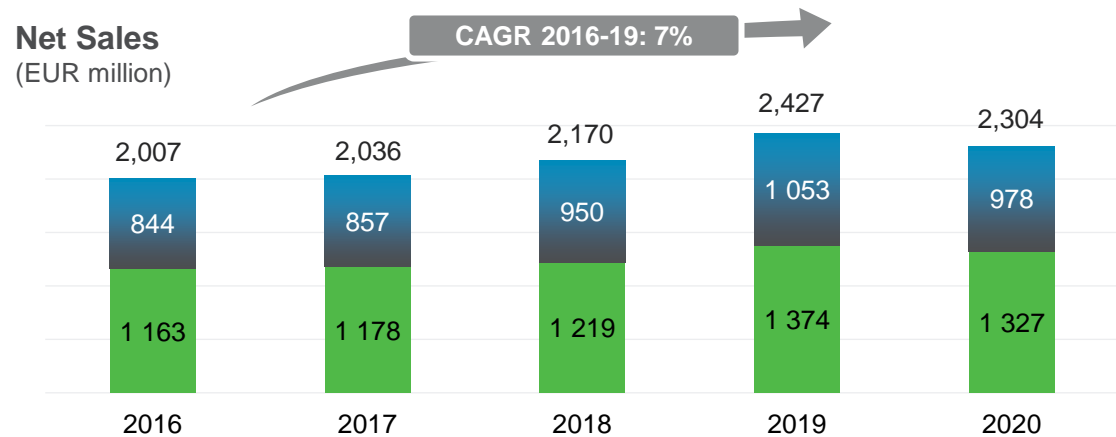
- Flow Control solutions
- Automation Systems
- Industrial Internet solutions

Large recurring and stable business providing resilience to business cycles (illustrative figures)

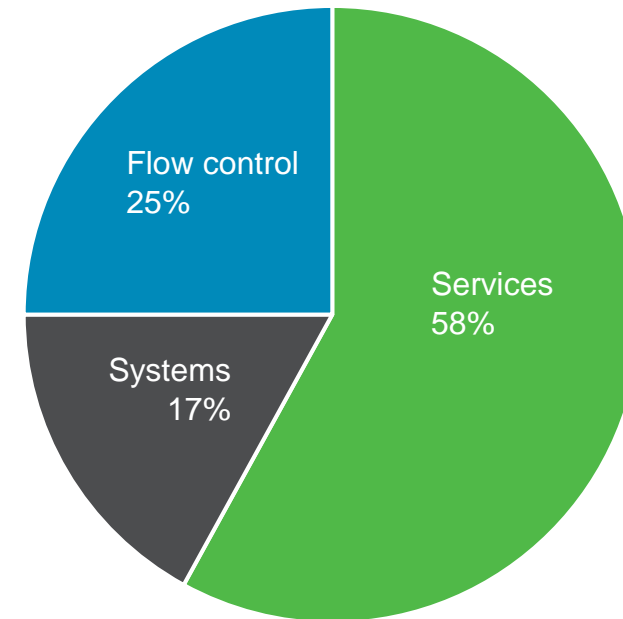
Orders received
(EUR million)



Net Sales
(EUR million)



Services and automation business net sales split in 2020



Figures in dark green for Valmet services and blue for Flow control (Neles) and Systems (Valmet's Automation, which includes internal orders received and net sales from other Valmet business lines)

Strong industrial logic through the combination of flow control and automation systems

Future Automation business offering



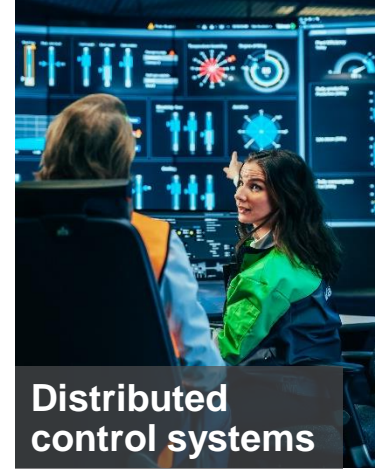
- Control valves
- Automated on/off valves
- Emergency shut-down valves



- High-performing pneumatic, electric and manual actuators designed to maximize cycle life and improve process efficiency



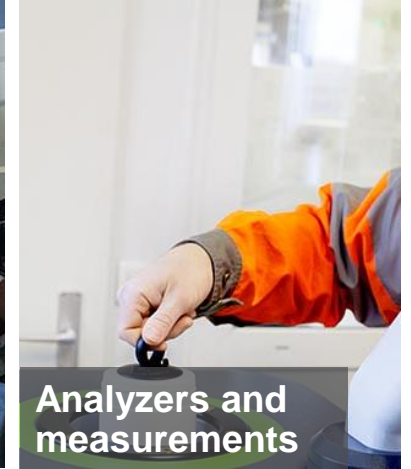
- Automatic valve controllers and valve positioners to improve process efficiency and enable predictive valve maintenance



- Highly integrated automation system for process control and condition monitoring



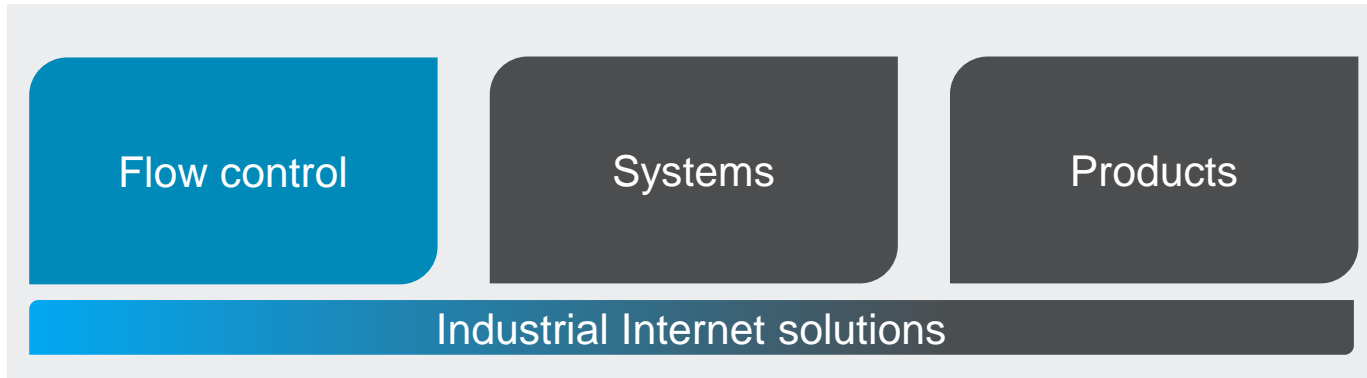
- Quality control system, quality management applications



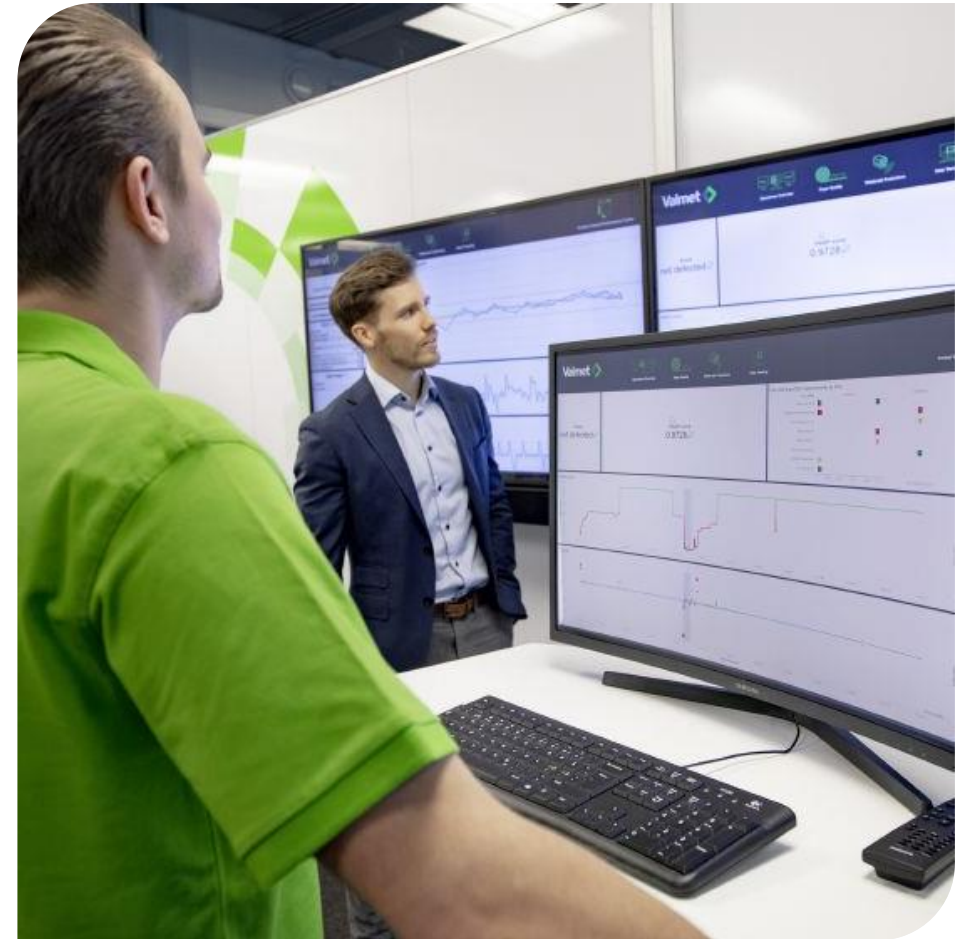
- For measuring and optimizing different variables in industrial processes

Services and Industrial Internet solutions

Solid platform for further growth in automation business



- A leading position in process-critical valves and valve automation products
- Growth in current markets with valves, valve automation and valve controls
- Further penetration in selected segments
- Potential new applications including green hydrogen
- Growth by increased penetration into energy and process industry end-markets
- Enhancement of existing process automation capabilities
- A leading position in pulp and paper analyzers and measurements
- Growth by expansion in analyzers, measurements and sensors



Revenue, technology development and cost synergy potential contributing to shareholder value creation

Sales & Offering	Improved combined sales to pulp & paper customers
	Cross-sales to energy and process industry customers
	More comprehensive service offering and extended service network
Technology Development	Increased remote monitoring and predictive maintenance offering
	More capabilities to process automation technology development
Costs	Combined global and country-driven functions
	Common locations
	Listed company related cost savings
Integration	Same heritage, similar management models and values
	Strong track record of successful integration

Expected annual run-rate synergies of

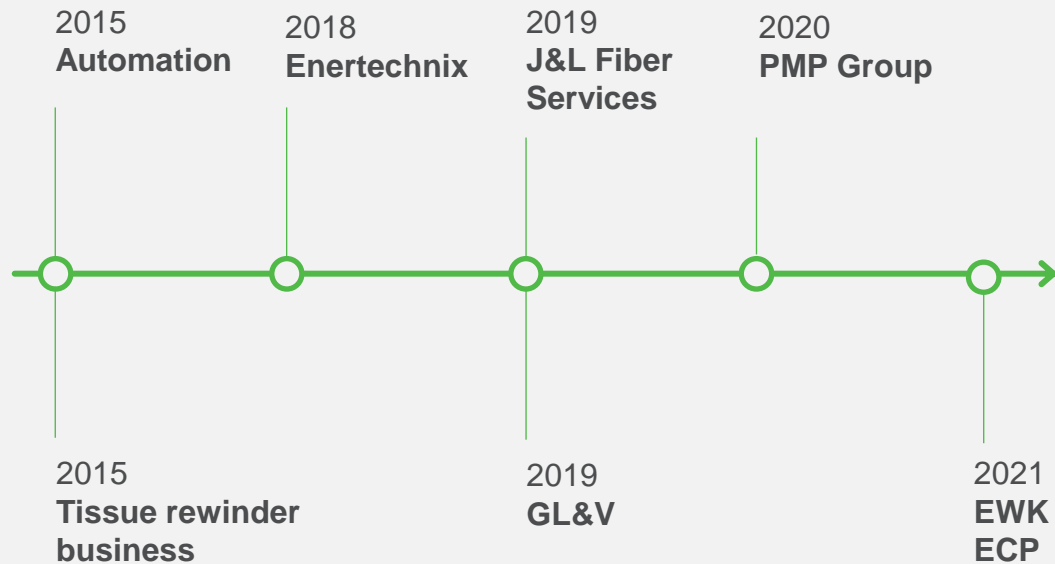
EUR 25 million

~60% achieved by 2023 and ~90% by 2024

Total one-off implementation costs of EUR 25 million

Valmet's track record in developing the integrated businesses

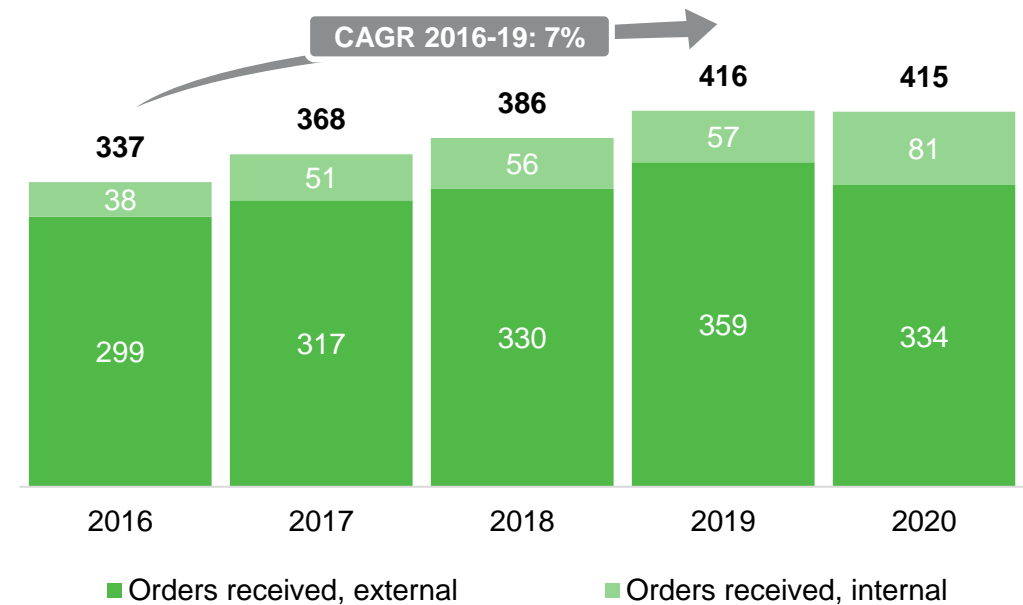
Track record of successful acquisitions



The growth path of Automation business is a good example of Valmet's ability to extract synergies and successfully integrate as well as develop the businesses combined.

Automation business line

Orders received (EUR million)





Valmet's financial targets after the merger

New financial targets aiming at consistent development path forward approved by the Board of Directors of Valmet

Growth

Net sales for services and automation¹ business to grow over two times the market growth

Net sales for capital business to exceed market growth

Profitability

Comparable EBITA:
12–14%

ROCE

Comparable return on capital employed (ROCE) before taxes² at least 15%

Dividend policy

Dividend payout at least 50% of net profit

The new financial targets are approved by the Board of Directors of Valmet Oyj

1: Automation = Flow control (Neles) and Systems (Valmet's Automation)

2: Comparable ROCE before taxes = (profit before taxes + interests and other financial expenses +/- items affecting comparability) / (balance sheet total - non-interest-bearing liabilities (average for the period))



Governance, merger structure and indicative timeline

Summary of the merger

Structure & Valuation Considerations

- The combination will be implemented by way of a statutory merger whereby Neles will be merged into Valmet
- Neles shareholders will receive as merger consideration 0.3277x new shares in Valmet to be issued for each share in Neles
- Neles shareholders will additionally receive a EUR 2.0 per share extraordinary distribution of funds prior to the completion of the merger
- Neles shareholders (excluding Valmet) will receive an approximate 18.8 percent ownership in the combined company

Decision Making

- Combination Agreement and Merger Plan between the parties signed by Valmet's and Neles' Boards of Directors on 2 July 2021
- The final decision on the merger is made by the Extraordinary General Meeting (EGM; 2/3 majority) of both companies

Governance

- Proposal to the EGM: Mikael Mäkinen will chair the Board of Directors of the combined company. Jaakko Eskola and Anu Hämäläinen, who are current members of Neles' Board of Directors will join the Board of Directors of the combined company upon closing. Aaro Cantell, Pekka Kemppainen, Per Lindberg, Monika Maurer and Eriikka Söderström, who are current members of Valmet's Board of Directors will continue as members of the Board of Directors of the combined company.
- Pasi Laine will continue as the CEO of the combined company following the completion of the merger
- Olli Isotalo will work closely with Pasi Laine in the integration of the companies

Deal Certainty

- Completion of the merger is subject to approval by EGMs in both Valmet and Neles as well as obtaining necessary merger control and other regulator approvals and customary closing conditions
- In addition to Valmet (holding 29.6% of the outstanding shares in Neles), Neles' second largest shareholder, Cevian (holding 10.9% in Neles) as well as Ilmarinen, Elo and Varma have undertaken to vote in favour of the merger at the EGM of Neles
- Valmet's largest shareholder Solidium (holding 11.1% of the total shares of Valmet) as well as Ilmarinen, Elo and Varma have undertaken to vote in favour of the merger at the EGM of Valmet.

Timeline

- Prospectus is expected to be made available in September 2021
- Valmet's and Neles' EGMs are expected to be held in September 2021
- The merger is expected to be completed on or about 1 January 2022 subject to the successful completion of regulatory approvals



Concluding remarks

The merger creates a leading company with solid business fundamentals



Solid business fundamentals and industrial logic

- Unique, competitive and balanced offering for process industries
- Leading market positions
- Sustainability as a success factor
- Broad global footprint and services network

Strong financial profile

- Net sales* around EUR 4.3 billion
- Comparable EBITA* EUR 449 million
- Comparable EBITA margin* 10.4%
- Large recurring and stable business
- New EBITA margin target 12-14 %

Attractive growth potential

- Global megatrends are expected to drive growth in all businesses and create new emerging business opportunities
- A strong competence platform and resources for further growth in all businesses

Excellent value for shareholders

- A solid and strong company with convincing financial track-record, continuous improvement and future growth opportunities
- Tangible revenue, technology development and cost synergy potential
- Integration with expected synergy realization

Excellent reputation, customer trust and reference base globally

Strong innovation capabilities

A globally balanced organization of 17,000 professionals

*Illustrative figures based on combined company 2020 figures



Q&A

