



VALMET  
CAPITAL  
MARKETS  
DAY 2013



Stable, growing and profitable  
EUR 1 billion Services business

Jukka Tiitinen  
Business Line President, Services

November 26, 2013

# Agenda

## Capital Markets Day 2013

- 1 Services business line in brief
- 2 Growth and profitability potential
- 3 Strategy, targets, and future actions
- 4 Summary



# Services business line in brief

# Business line overview: Services

Empowered to serve pulp, paper, and energy industries

**Full offering:** Mill and plant improvements, roll and workshop services, spare parts, fabrics, and life-cycle services

**Stable and growing:**  
Business line sales growth 2010-2012 > 7.4% p.a.

**Predictability:** Service operations have been more profitable and less cyclical than the new equipment business

## Market Position #1-2

Stable, growing and profitable  
EUR 1 billion services business

- 3,800 pulp and paper mills worldwide, of which over 50% purchase services from Valmet
- 400 customers outside the paper industry

Net sales<sup>1</sup> 2012: EUR 1.0 bn

Net sales of Group total: 34%  
(Q1-Q3/2013: 41%)

Employees (30.6.2013): 5,280

Employees of Group total: 44%

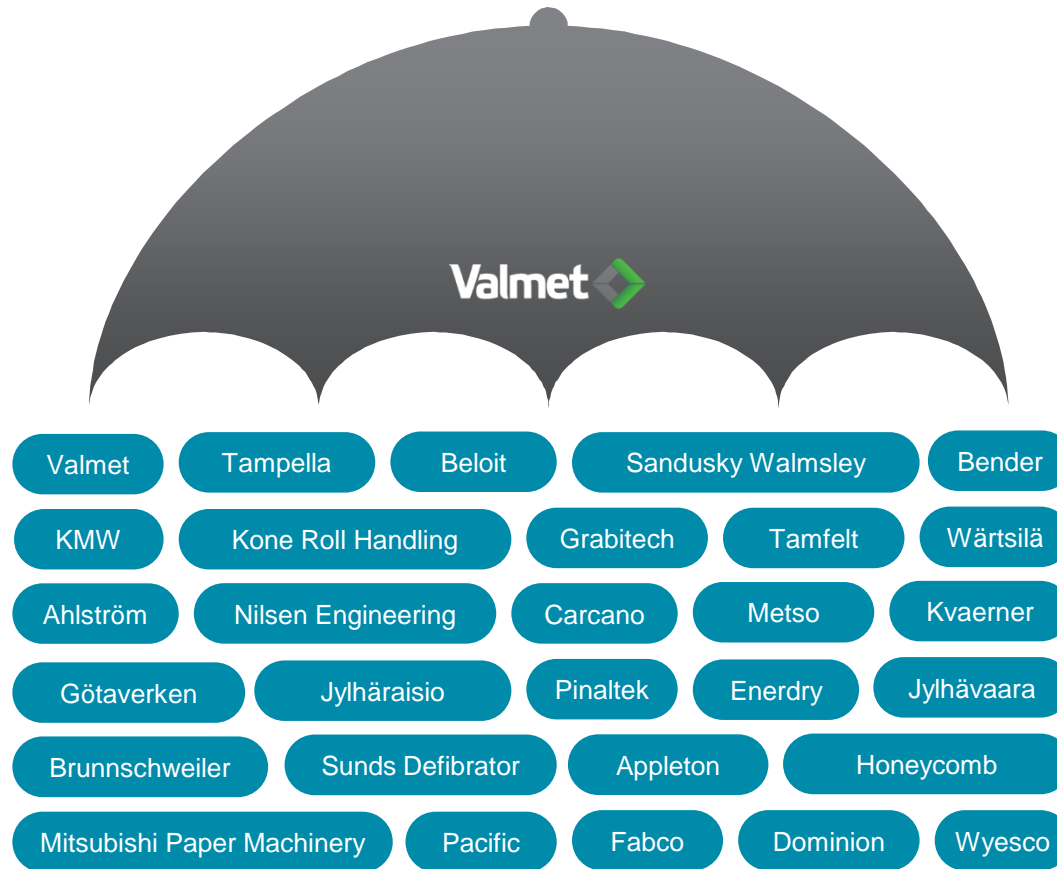
## Net sales<sup>1</sup>



1) Net sales by business line on a carve-out basis for the periods indicated (excl. Intra-Metso net sales)

# Strong basis for Services

Large installed base and innovative concepts and solutions



- Large installed base
  - 40% of world paper is produced using Valmet machines
- Extensive OEM (original equipment manufacturer) know-how and IPR (industrial property rights)
- Experts covering all key Valmet technologies


All mentioned trademarks are not property of Valmet's property.

# Global service network

~70 service centers in 20 countries

- Over 5,000 professionals
- Over 500 at customer sites at any one time
- Strong local presence
- Experts covering all key Valmet technologies



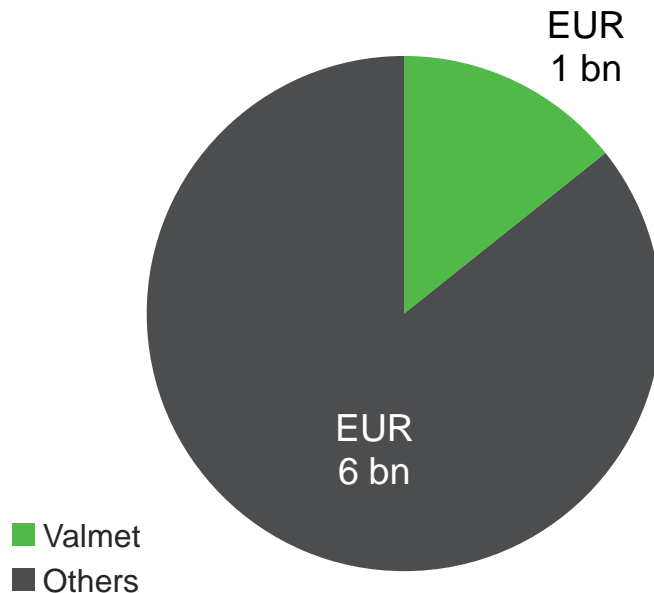


Growth and profitability  
potential

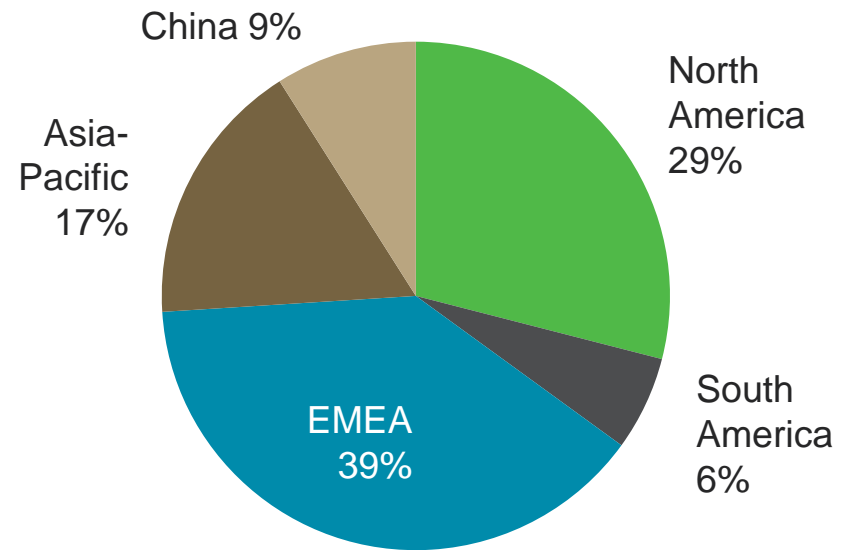
# Our target market: EUR 7 billion and growing

Valmet has room to grow and market share to gain within its target market

Market share of our target market



Target market, by area (2012)



The target market is very fragmented with only 3-4 global competitors

- Dozens of companies with a small offering and hundreds of local companies with very a limited offering

Growth focused on China, South America, and Asia-Pacific

- Average annual growth expected to be 5% p.a. in 2012-2016 in these areas



# Good possibilities for increasing our market share

## Market environment



- The market opportunities for services are increasing in all regions
  - In **Europe & North America**, customers' reduced resources and need for more competitive processes is resulting in increased outsourcing and a growth of the services market
  - In **China, Asia-Pacific & South America**, the demand for services is growing due to significant pulp and paper capacity increases during the past 10 years and an aging installed base

## Valmet's position



- Valmet has a good position in the fragmented services market
  - Competitors vary from global companies to local niche suppliers
  - Valmet's advantage is built on a broad and competitive offering with strong process and machinery know-how close to the customer
  - Broadest offering for the pulp, paper, and energy industries

## Actions



- Develop agreement-based business
- Ensure a continuous flow of new products and solutions
- Launch new concepts to integrate Valmet with its customers' operations
- Develop Key Account Management
- Use existing local network for Energy and Environmental Services
- Increase presence in growth countries
- Improve cost-competitiveness

# Comprehensive life-cycle services offering

## Strong competitive position

Category	Scope	% of net sales	Market share	Competitive position	Capital intensity	Growth opportunity	Profitability potential
Spare and wear parts	<ul style="list-style-type: none"> <li>Original equipment manufacturer (OEM) spares</li> <li>Consumables</li> </ul>		High share in our own installed base	Strong position in OEM parts and selected consumables	Low	<ul style="list-style-type: none"> <li>Materials management at the mill</li> <li>Increasing Valmet's presence in growth markets</li> </ul>	Good
Roll and workshop services	<ul style="list-style-type: none"> <li>Spare rolls, roll coverings, and roll services</li> </ul>		Leading global supplier	Strong position in process rolls, roll coverings, and roll maintenance	High	<ul style="list-style-type: none"> <li>Long-term agreements</li> <li>Roll service at mills</li> <li>Increasing our presence in growth markets</li> </ul>	Moderate / High in certain products
Mill and plant Improvements	<ul style="list-style-type: none"> <li>Maintenance outsourcing</li> <li>Improvement projects</li> <li>Shutdown maintenance</li> </ul>		Leading global supplier	Strong position in maintenance and production development services	Low	<ul style="list-style-type: none"> <li>High growth opportunities</li> <li>Increasing our presence in growth markets</li> <li>Long-term agreements</li> <li>Spin-off sales</li> </ul>	Good / Moderate
Fabrics	<ul style="list-style-type: none"> <li>Paper machine clothing</li> <li>Filtration products</li> </ul>		One of the biggest suppliers	Strong position in demanding paper machine applications	High	<ul style="list-style-type: none"> <li>Long-term agreements</li> </ul>	High in certain products



# Strategy, targets and future actions

# Must-Win objectives to achieve strategic targets

## Growth close to customers

### Customer excellence



- Strengthen our presence close to customers and growth markets
- Strengthen Key Account Management to enhance growth at the customer
- Drive service growth through long-term agreements and an expanded customer base

### Leader in technology and innovation



- Improve product cost-competitiveness to increase gross profit
- Create new revenue from biotechnology solutions and new offering

### Excellence in processes



- Reduce quality costs by 50%
- Save on procurement
- Reduce lead times by > 30%
- Improve health & safety
- Improve project and service margin
- Implement global footprint plans
- Implement cost-competitiveness program to reach cost savings of EUR 100 million at Group level

### Winning team



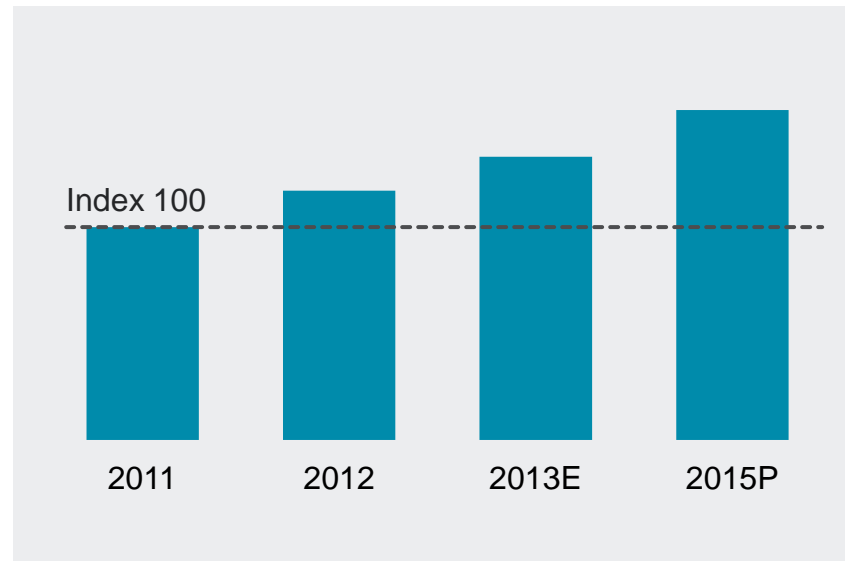
- Strengthen high-performance culture
- Continue globalizing our capabilities to bring us closer to our customers

# Service growth will be driven through long-term customer agreements

Customer  
excellence



Long-term agreement volume (EUR) growth  
Over 400 long-term agreements



Customers' demand for outsourcing is growing and Valmet is well-positioned to capitalize on this opportunity

## Market drivers

- Cost optimization and working capital reduction
- Optimization of own resources at mills and power plants

## Valmet's advantage over product-focused competitors

- Broad offering and process expertise
- Business capabilities and strong financial position
- Wide geographical coverage and proven concepts

## Why long-term agreements are attractive for Valmet

- New high-volume business with good predictability
- Add-on business potential due to integration with customer operations

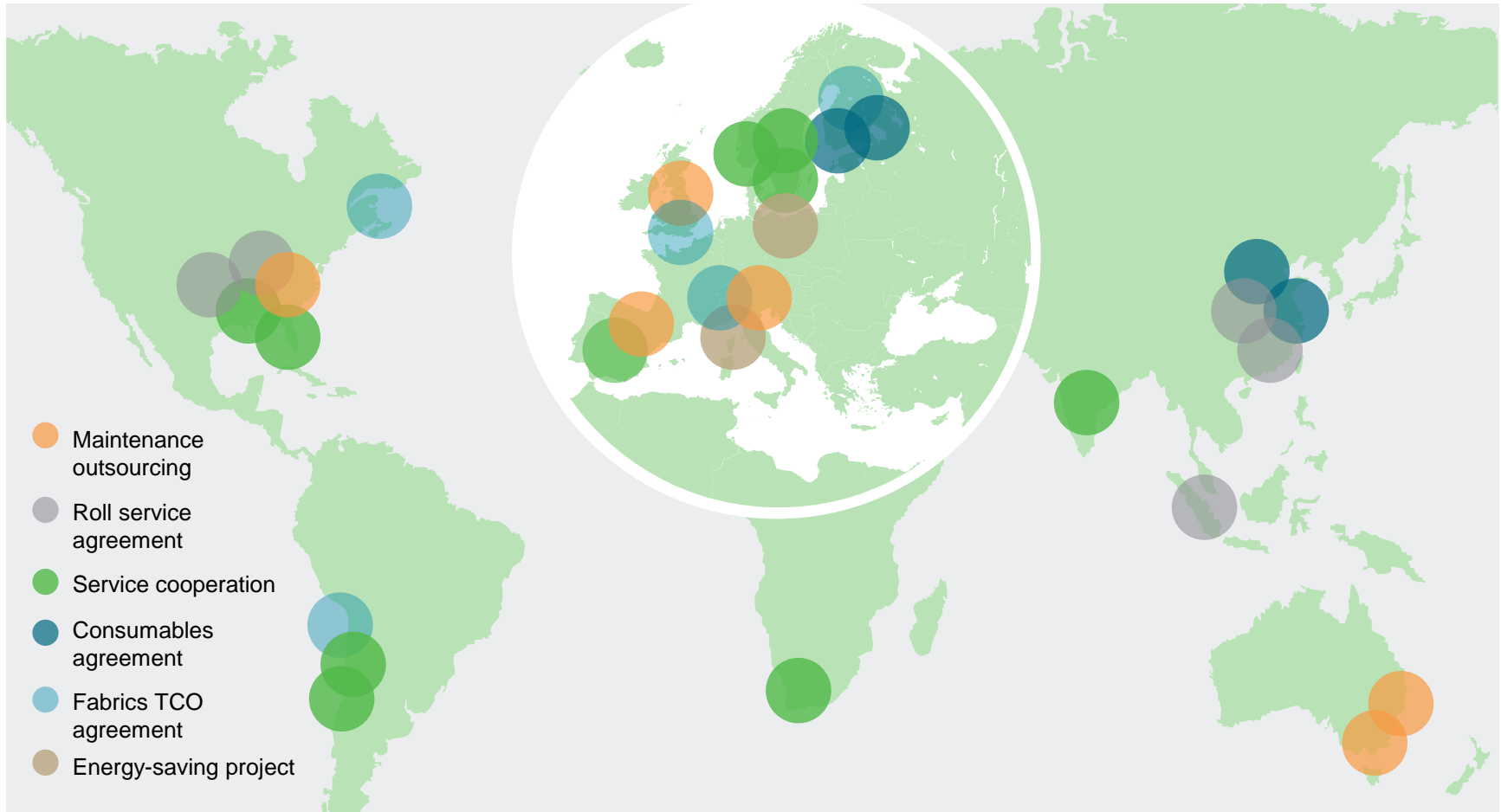
## Main initiatives

- Dedicated resources in business units and areas
- Maintenance outsourcing growth strategy
- 'At The Mill' business launch (**PlantWise™**)

# Focus on long-term agreements

Stable revenues over the business cycle

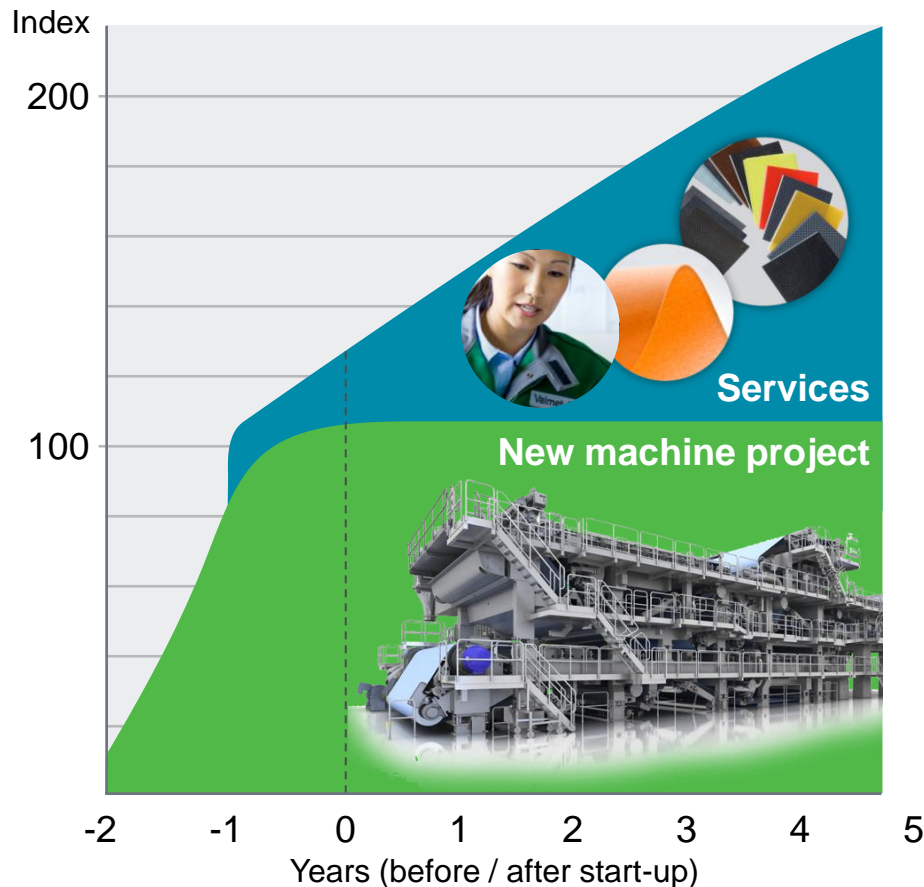
Customer  
excellence



# Combining services with new line deliveries

Customer  
excellence

The value of long-term service contracts exceeds the value of original line orders



## Long-term Services contracts

- Maintenance outsourcing
- Fabrics TCO (total cost of ownership) agreement
- Consumables contracts

## Typical contract duration

- Maintenance outsourcing: 6 years
- Fabrics and consumables: 3 years

# Stable and profitable business

Customer  
excellence



- Agreement business growth of over 10% YOY
- Over 90 new services products in the pipeline
- Profitability improvement actions are proceeding:
  - Capacity transfers to cost-competitive countries
  - Capacity adjustments in the Nordic countries
  - Development programs
- Size of the customer base utilizing our full offering is growing



Sales of over EUR 1 billion provides good visibility  
and resilience





# Greenpac Mill, Niagara Falls, N.Y.

## Multi-year mill maintenance agreement

Customer  
excellence



The agreement includes:

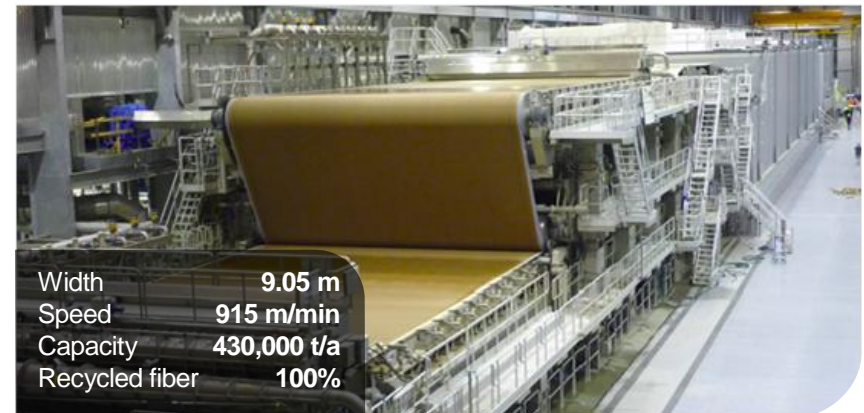
- Recruitment of all maintenance personnel prior to start-up
- Establishment of Total Productive Maintenance (TPM) and condition-based maintenance procedures in SAP
- Full responsibility for mill maintenance operations for all production facilities
- Focus on improving reliability and maximizing availability
- Several additional long-term service agreements covering areas such as roll service and paper machine clothing

“We are pleased to collaborate with Valmet in creating a unique world-class operation at our Greenpac site.”

*Marc-André Dépin,  
President and Chief Executive  
Officer of Norampac*



Successful start-up on July 15, 2013  
and maintenance is now 100% up  
and running



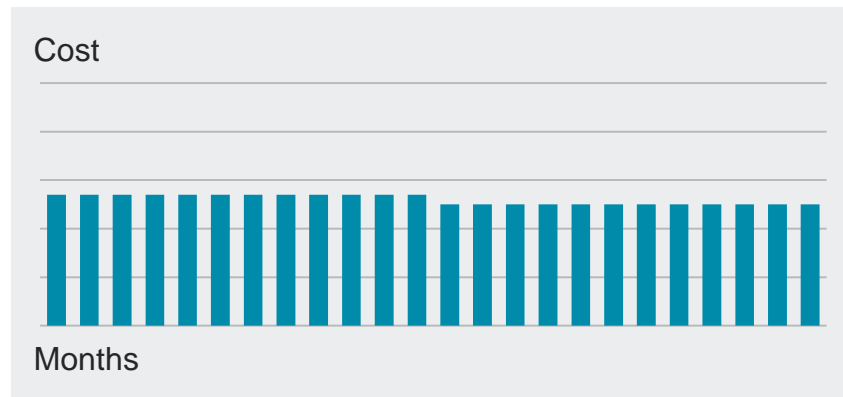
# Fabrics TCO agreement (total cost of ownership)

Customer  
excellence

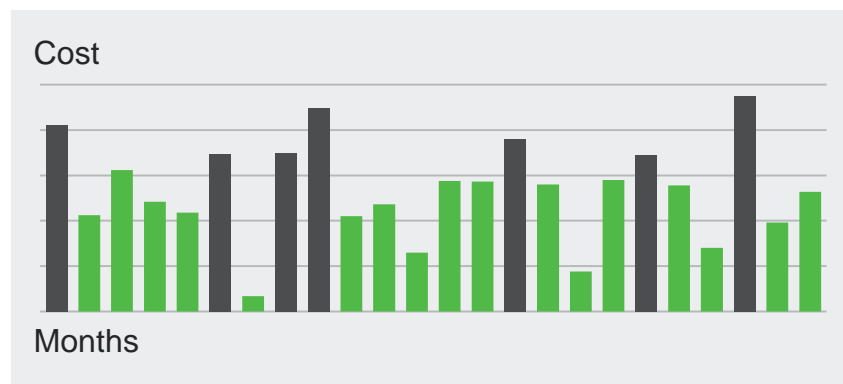


Real win-win

## TCO agreement



## Traditional way of buying fabrics



## Agreement benefits:

- Full predictability of costs with annual or semiannual adjustments
- Unique concept: both parties have an incentive to maximize production and minimize fabric consumption
- Optimized net working capital

# Services leadership through technology

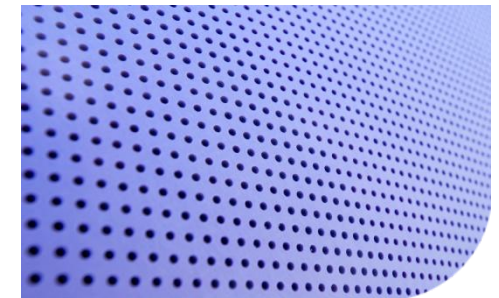
Leader in  
technology  
and  
innovation >

## Strong focus on customer benefits

- Reducing energy, water, and raw material consumption
- Complying with environmental and safety requirements
- Increasing cost-competitiveness

## Leading the field

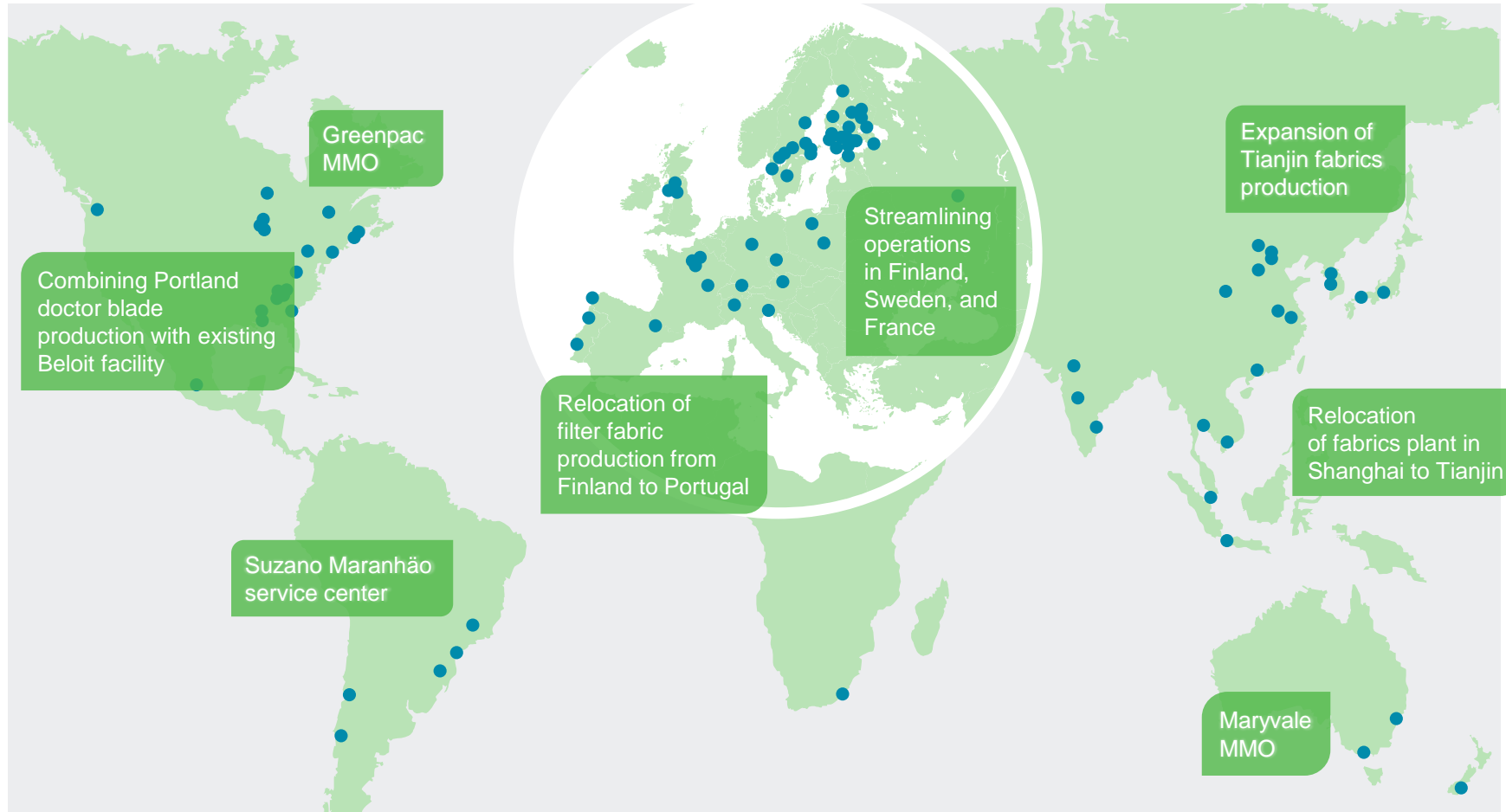
- New service concepts
- Constant flow of spearhead products
- Fit-for-purpose product offering
- Integration with customer operations



# Global service network

## Major developments

Excellence in processes



# Winning team – Committed, and high performance personnel

Winning team





# Summary

# Our journey is set to continue

## Growing and staying competitive





# Key messages: Services

1

## **Growth business with satisfactory profitability**

- With sales of over EUR 1 billion, the services business provides good visibility and resilience.

2

## **Large target market**

- Target market size estimated to be EUR 7 billion<sup>1</sup>.
- Biggest markets are North America and EMEA
- Average annual growth expected to be 5% p.a. in 2012-2016 in China, South America, and Asia-Pacific.

3

## **Balances out cyclicity**

- Relatively stable, balances out the overall cyclicity of the capital business.



1) Management estimate based on the size of Valmet's services markets by using an average services cost per volume produced based on Valmet's existing customers and estimates of current and forecasted growth in total production volumes



