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VALMT.HE - Q2 2017 Valmet Oyj Earnings Call

EVENT DATE/TIME: JULY 27, 2017 / 1:00PM GMT

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PRESENTATION

Calle Loikkanen - *Valmet Corp. - Head of IR*

Ladies and gentlemen, good afternoon and welcome to Valmet's Q2 and First Half 2017 Results Presentation. My name is Calle Loikkanen and I'm Head of Investor Relations. Today, Valmet's President and CEO, Pasi Laine together with Valmet's CFO Kari Saarinen will walk us through the highlights and results of the quarter and also say a few words about Valmet's new Industrial Internet offering.

And as always, we will end the presentations with a Q&A session. Without any further ado, let's begin the presentation, so Pasi, please, you may begin.

Pasi Laine - *Valmet Corp. - President and CEO*

Okay, thank you, Calle. Hello, everybody, nice to be here again to present Valmet's second quarter results and first-half, half year of the results for 2017. So like always I will first go through the quarter two numbers in brief, then something about business line development, a couple of words, like Calle said about our Industrial Internet. And then Kari will go through financial development. I will comment guidance and short-term outlook and then a summary and then question and answers like Calle said.

First, second quarter in brief. So our orders received remained at the previous year's level at EUR412 million in stable business, stable business meaning Automation and Services. Our orders received increased in capital business to EUR384 million. Net sales remained at previous year's level being at EUR803 million.

Our backlog increased to EUR2.6 billion. Our profitability remained at previous year's level. Comparable EBITA margin was at 7.1% and our gearing was 4%, so I would say quite solid development also in Q2 in Valmet. Good order intake, reasonable profitability and balance sheet is getting stronger.

So our orders received in the quarter totally were EUR796 million, so almost EUR800 million which is good level for Valmet. Our net sales, like previous year as well, was at EUR803 million and that's like you can calculate from the yearly average, it's higher net sales than in average. Comparable EBITA was EUR57 million and that's reasonable, but of course a little bit disappointing because we were not able to improve our EBITA percentage like our target is. But our Comparable EBITA margin was at 7.1% which is at reasonable level. And we employed about 12,500 people.

Then if you look a little bit from an area perspective, Chinese market has been active in second quarter to us. We announced some board machine projects in China, Services has been active as well and 24% of the orders in second quarter came from China which is of course more than normally. Europe continued to be strong. North America is strong as well and Asia Pacific -- sorry, South America, a little bit slow compared to normal average.

Our orders received, like I said were at EUR796 million, here you see that 12 months trend and now the trend starts to be somewhere in EUR3.4 billion level which is of course very high compared to the lowest when it was EUR2.5 billion. Our orders received also geographically have been strong in China for the first half of the year, so 16% of the orders have been coming from China. So the market has been active and we have been successful there all the time. And like you see, South America is a smaller number than normally in half a year and that's of course because there is not so much activity in pulp mill investment side, otherwise our Services business is doing well in South America.

Then our stable business, to grow our stable business is very important. It's strategic intention for us and now four quarters total order intake is almost EUR1.6 billion, so being EUR1,583,000,000. And of course the intention is to continue to grow that stable part of our business in absolute terms. And there the second quarter was a good quarter, but it was not growing compared to last year, so one can be partly satisfied because order intake was good, but of course not satisfied because it was not growing compared to last year. But all in all, the trend has been on growth since the beginning of Valmet.

Our backlog is EUR2.5 billion, well EUR2.6 billion if you make a rounding correctly and this is of course a very good level of backlog for us. And there's growth about EUR400 million, EUR444 million compared to last year and a decline of the backlog about EUR62 million compared to Q1.

Our backlog, out of the backlog, we expect about 50% to be realized during this year. So [-which then --] you can calculate that our backlog for this year is stronger than it was last year at the same point of time, and about 25% of the backlog relates to the Services. So all in all, our backlog situation is good and backlog for the rest of the year is bigger than it was a year ago.

Then a couple of words about business line development. First, Services. So we had exactly the same order intake than a year ago, so EUR321 million and then if you take two quarters together, our order intake has been EUR676 million, so about 7% growth in the first half of the year compared to last year, but no growth in second quarter, so mixed feelings. First half, we can be satisfied, but of course we cannot be satisfied if the quarter number was not growing.

Net sales wise we are lower, EUR554 million and our backlog has more mill improvements and energy-side projects and that's why the order intake hasn't materialized yet as sales like maybe some of you would have expected. But all in all, we can be satisfied with the development in our Services.

Automation continued to grow, so the order intake grew also compared to last year, so it was EUR103 million and now first half, the cumulative number is EUR192 million comparing to EUR170 million last year. And here we can be of course happy because we had growth compared to last year's quarter and we have had also a nice growth in the first half of the year.

Net sales wise typically Automation like we have seen has a tendency that net sales will be recognized in the latter part of the year and that trend continues this year as well. But all in all, we can be satisfied with Automation's development in the first half and second quarter of 2017.

Pulp and Energy, orders received and net sales decreased. So here last year we had EUR417 million and now beginning of the year EUR406 million in orders received. And of course that's a negative trend. We have been saying and it's like we have said, market has been active in Energy side. We have been getting orders in energy like the big order we announced in June from Denmark, from DONG Energy. And then the Pulp side has been not that active like we have been saying. And as a result of that, our order intake is lower compared to last year, so being EUR406 million against EUR417 million the year before.

And net sales is roughly at the order intake level, so EUR449 million and so backlog was getting a little bit smaller compared to last year because net sales recognition is bigger than order intake. So here, Energy has been reasonably good and then the Pulp side has been weak.

Then Paper, orders received and net sales increased. And here, I think, one has to look at least four figures, so quarterly number, EUR243 million for one quarter is good, and then of course we compare with EUR109 million last year then it's extremely good, so twice the order intake last year.

Then if we calculate the first half of the year, it was EUR557 million compared to EUR295 million last year. And then if you count four quarters together, then you will get total order intake in four quarters of EUR979 million. And during last year, we have been saying that EUR600-800 million is maybe normal level for Paper business, so currently we have very high order intake and activity level in Paper business line, both in Paper and Tissue and we are very satisfied with this order intake in one year being EUR979 million.

Net sales hasn't started to increase yet, so net sales was EUR340 million and Kari will maybe give some comments on the reasons behind that, there is so big gap between net sales and order intake. But order intake has been good in the Paper business.

Then a couple of words about the Industrial Internet and all the -- not all, but many companies are now talking about Industrial Internet or Industrie 4.0 or however companies want to name it. And we have selected to talk about the Industrial Internet. And we have thought that quite many companies are approaching this only from a technology point of view and announcing that what kind of technology partnership they have had with different kind of other technology companies.

And we thought that that's maybe not helping our customers that much to talk about whether-- with what kind of technology partners we are working. And we tried to make as pragmatic approach as possible, and the idea is that we combine the core competencies what we have, process technology, Services and Automation which are the core of Valmet and then utilize that knowhow to tell to our customers that which data is relevant and which data is not relevant and how you can get the data, how you can analyze the data instead of talking too much that in which cloud it is stored or with whom server we are using the data.

So we try to be as pragmatic as possible and use the platform what we have developed already in Industrial Internet. So our existing situation is that we have, for example, served like 780 production lines, paper machines, tissue machines, or power plants so that there's our full digitalized automation systems included, so we have very good installed base with highly digitalized production units.

We have already 520 online connections to our customers so that we can help them over web in different kind of situations. We have already 90 remote performance agreements where we can, with this process knowhow and installed base systems [with --] in our supply production lines, help the customers in different kind of situations.

And then when we have already this good starting point, then we thought that the most important thing is now to make it as easy as possible for our customers to understand what kind of offering we are building. And we are building an offering to improve customer's reliability with remote data and data analytics, improve customer's performance with the same and then we have opened now Performance Centers so that we have Performance Centers over which we can help customers in different kind of systems.

So we try to make as pragmatic offering as possible. And then to be good in this Industrial Internet, we of course need the ecosystem and we have already signed cooperation agreements with solution suppliers, and we continue to build that kind of ecosystems around us. And then of course, we continue to develop the applications what we have in the platforms what we have, but the idea is to talk about pragmatic solutions to our customers and not to talk about technology and IT technology to our customers.

And that approach, of course, we have tested it with our customers and they have found it reasonable way to go ahead because then they understand what we are actually talking about. So that's just an update of our Valmet Industrial Internet approach, which is called Dialogue with Data.

And then after this one, Kari will go through the most important interesting portion of the presentation.

Kari Saarinen - *Valmet Corp. - CFO*

All right, thank you, Pasi. And so ladies and gentlemen, so our quarter two and also first-half results.

So our orders received, they increased 15% from last year, they were EUR796 million. Paper business line was more than double. Automation grew 12%. Services business line was flat and Pulp and Energy actually reduced by 22%.

And looking at the areas, so China was active, orders from China second quarter were actually three times higher than a year ago. Also South America increased. Our order backlog, EUR2.55 billion, so that was actually EUR450 million higher than a year ago and we estimate that around 50% of the order backlog will be recognized as revenue still during the second half of the year.

Net sales, EUR803 million, so that was same as last year's. Stable business was flat. Paper business line increased 12% and then Pulp and Energy business line reduced. Quarter's Comparable EBITA, that was EUR57 million or 7.1%, so that was actually exactly the same as last year's EUR57 million and 7.1%. So we actually did - - last year's quarter two was relatively good.

Operating profit 6% and cash flow for the quarter was EUR31 million, gearing 4%, so big reduction from last year's 27% here. Cumulatively, orders received EUR1.8 billion, that's 21% more than a year ago. Paper business line grew 88%. Automation growth 10%. Services growth first half of the year 7% and Pulp and Energy -3%.

Net sales, EUR1.47 billion, that's 1% higher than a year ago. Paper business line increased. All the other business lines were actually the same as last year. And then year-to-date Comparable EBITA, so that was EUR91 million or 6.2%, last year we did EUR88 million, so slight increase there.

Cumulative cash flow EUR125 million, so that's good. Previous year we were at EUR36 million, so cash flow increased EUR90 million. And also an important thing to notice here is that we changed our revenue recognition method for new projects from milestone method to cost-to-cost method in the beginning of this year. And even though the end result of these methods is equal, the timing of revenue recognition is slightly different. So with the cost-to-cost method, the beginning of the project, the revenue recognition is typically a bit lower.

All right, gross profit, so gross profit was at previous year's level at 23%, so the activities that we have ongoing on procurement and quality, they continue, as well as the project management programs. SG&As were also the same as last year, both at euros as well as percentages of sales.

Looking at Comparable EBITA, so EBITA as said is 7.1%, so that's 2 percentage points higher than the quarter one that's seasonally usually the lowest with us.

And then looking at cash flow, so we have three quarters before quarter two actually excellent, and now this quarter two was EUR31 million cash flow. Our receivables increased, inventories reduced a bit and then our CAPEXes were the normal, around EUR15 million, for the quarter.

Net working capital, net working capital was - - came back to a normal level of -9% of rolling 12 months orders. So worth to notice here is that quarter one was actually extraordinarily good.

And then net debt, so our net debt was- or gearing was 4%, net debt EUR31 million. So compared to a year ago, we have now net debt EUR200 million less and a year ago gearing was 27%. And also we paid dividends worth of EUR63 million during the second quarter.

Now our net debt to -- equity-to-asset ratio, that was 38%, so slight improvement from last year's 36%. And then capital employed and also then Comparable return on capital employed, so this Comparable return of ROCE, that was 14%, so we are getting very close to our target range of 15% to 20%. So this is the financials in brief. Thank you.

And back to you, Pasi.

Pasi Laine - *Valmet Corp. - President and CEO*

So then, guidance and short-term market outlook. So we keep our guidance, Valmet estimates that net sales in 2017 will increase in comparison with 2016 and Comparable EBITA in 2017 will increase in comparison with 2016. So we'll keep the same one. Then a couple of words about the short-term market outlook.

In Services, we had good beginning of the year and we see that the market activity is still there and of course we have good workload also in our units, so we keep our market outlook at good level.

In Automation, we keep satisfactory which is a little bit challenging because our growth has been about 10%. But the fact is that the market activity in one-third of our business, in Process and Energy, is very low. So actually it's a combination of good and weak and then the average is satisfactory and that's why we keep the market outlook at satisfactory.

Pulp we keep as weak. We don't see that there would be any big decisions done by our customers in the latter part of the year, so we talk about six months' outlook here. And then of course we will focus on smaller to medium size projects and try to get as good order intake from there as well as possible.

Then in Energy side, we keep good -- we have had very good order intake over the last year and also at the beginning of the year, we have very good workload for our units. But market activity is not as high for the future, or for the coming months, as it has been, but we have a lot of workload and that's why we decided to keep market outlook as good.

Board and Paper, like you saw order intake has been good. Backlog is good but we still have also very good activity on the markets, so that's why we keep it as good. And the same goes with Tissue that the order intake has been good, but there is also good activity in the marketplace.

So we keep the market outlook as earlier and maybe the small twist is that in Energy, work load is very good, but maybe a little bit less activity than three months ago.

So as a summary, orders received in stable business was stable, remained at the same as last year's level. And capital business it grew to EUR384 million, net sales was EUR803 million, backlog is EUR2.6 billion, profitability was at last year's level and Comparable EBITA percentage was 7.1% and then gearing was 4%, so a little development also in quarter two in Valmet.

QUESTIONS AND ANSWERS

Calle Loikkanen - *Valmet Corp. - Head of IR*

Very good. Thank you, Pasi and Kari for the presentation. Now, let's continue with questions and answers, so if you gentlemen move behind the Q&A table. Now, let's do it so that first off we start with questions here at Keilasatama and then we move on to questions on the lines. So do we have any questions here in Keilasatama?

It seems like we don't have any questions here right now, so let's go over to the lines. So, operator, please do we have any questions on the lines?

Operator

Yes, sir. (Operator Instructions) And the first question comes from the line of Manu Rimpela from Nordea. Thank you. Your line is open.

Manu Rimpela - *Nordea - Analyst*

My first question would be on the impact of this accounting change, so will you be able to quantify the impact in Q1 and Q2?

Kari Saarinen - *Valmet Corp. - CFO*

Well we have very, very rough estimates on this and as I said that typically the milestone method has higher revenue recognition in the beginning of the project and whereas the cost-to-cost method then like kicks on a bit slow. And our very rough estimate is such that net sales impact is around EUR50 million and EBITA impact around EUR10 million which is now sitting in our order backlog. But that's --

Manu Rimpela - *Nordea - Analyst*

So does that mean that the --

Kari Saarinen - *Valmet Corp. - CFO*

But Manu, as I said that this is a very, very rough estimate.

Manu Rimpela - *Nordea - Analyst*

So should we interpret this that this EUR10 million in EBITA in the old accounting would have been reported in H1 and now it will be reported in the second half of the year.

Kari Saarinen - *Valmet Corp. - CFO*

Well, exactly like that.

Manu Rimpela - *Nordea - Analyst*

Okay. And then the second question would be on the -- the margin, it was, flat sales and flat margin year-over-year, so the accounting change maybe does slightly explain why we didn't see any improvement because you still continued to do on all these internal cost saving measures. So have you been able to keep up with the cost saving measures and why didn't we see any impact of those in the second quarter margins? And you also said yourself that you were a bit disappointed for not being able to improve the margin.

Pasi Laine - *Valmet Corp. - President and CEO*

Yes, you hit exactly the point. So we have -- we can of course be happy with the 7.1% but then if you compare that we had last year exactly the same figures and now we have same gross project margin or gross profit and same SG&A, same EBITA percentage, which shows that we still need to do a lot of work in all these profit improvement programs. And progress, if you compare quarters, hasn't been good enough. So we have to -- of course we have work on-going, but now that development hasn't materialized and that must be one of the focus areas for Kari and myself in coming quarters. We are not happy with that.

Manu Rimpela - *Nordea - Analyst*

Okay. And how do you think about the mix change that we are probably going to see the the equipment business deliveries accelerating towards the second half of the year. So how should that impact the margin because it's obviously a lower margin business than the Services?

Pasi Laine - *Valmet Corp. - President and CEO*

Exactly like you said, and mathematically, it goes exactly like you said.

Manu Rimpela - *Nordea - Analyst*

And the final question is can you just help us to a bit better understand the timing of these services orders, when will they start showing in the sales, do you already expect to see those taking place in the third quarter?

Kari Saarinen - *Valmet Corp. - CFO*

The mix in Services has been such that it's been - the orders, it has been a bit higher with the like smaller projects and also business units, where actually the conversion from orders to sales takes a bit longer time. So that has been just a mix for the first half now.

Manu Rimpela - *Nordea - Analyst*

But should that change? So do you expect to see those orders turning into sales now in Q3 already?

Kari Saarinen - *Valmet Corp. - CFO*

Typically, it's also Manu so that typically our second half sales is higher than first half sales and then it goes the other way around with orders, at Services.

Operator

Thank you. And your next question comes from the line of Antti Suttelin from Danske Bank. Thank you. Your line is open.

Antti Suttelin - *Danske Bank - Analyst*

Thank you. I would like to continue on the accounting change theme. Can you just repeat what change did you actually do and when exactly was this? Let's start with that.

Kari Saarinen - *Valmet Corp. - CFO*

Yes. So we changed --

Pasi Laine - *Valmet Corp. - President and CEO*

And the reason for the change as well.

Kari Saarinen - *Valmet Corp. - CFO*

So next year, there will be new IFRS 15 regulation and in order to prepare for that, we changed the accounting method for projects from milestone method to cost-to-cost method, and it was for all new projects that we started this year. So this change did not have any impact for projects that started already last year.

Antti Suttelin - *Danske Bank - Analyst*

Okay. So it was started at the start of 2017, is that correct?

Kari Saarinen - *Valmet Corp. - CFO*

Yes. For the project that started this year, yes, exactly so.

Antti Suttelin - *Danske Bank - Analyst*

And if I got it right you said that second quarter sales was negatively impacted by EUR50 million and second quarter EBITA negatively impacted by EUR10 million, was that right?

Kari Saarinen - *Valmet Corp. - CFO*

That's cumulative, Antti, so that's cumulative, it's first half.

Antti Suttelin - *Danske Bank - Analyst*

First half, okay.

Pasi Laine - *Valmet Corp. - President and CEO*

And that's very rough estimate.

Kari Saarinen - *Valmet Corp. - CFO*

Yes.

Antti Suttelin - *Danske Bank - Analyst*

All right.

Pasi Laine - *Valmet Corp. - President and CEO*

Yes. So just to give you a picture there.

Antti Suttelin - *Danske Bank - Analyst*

Okay. And then still on procurement cost cutting and quality cost cutting, you have set a target of cutting procurement cost by 3% per year. How are you running this year against that target?

Pasi Laine - *Valmet Corp. - President and CEO*

I actually checked this procurement and the procurement is running like we have planned and then of course like we have been saying that when we get procurement savings, not everything stays in our profit and loss statement, so part of that will go to improve the competitiveness on the marketplace. But procurement is going according to plan.

In quality, we have had in the beginning of the year still challenges. Now it looks a little bit better, but not good enough yet. And then of course we have also activities in sales to try to push up the sales prices as well as making sure that project management improves the project margin further. So we continue to work on all these issues and then if we compare quarter two last year and this year, then we haven't been successful enough. So one has to admit that.

Antti Suttelin - *Danske Bank - Analyst*

Yes, okay. Then next, Services, would you say that one should rather look at the first half as a whole, or would you say that even if taking into account that first half as a whole is pretty okay for Services, you are disappointed in how the second quarter went in orders and sales?

Pasi Laine - *Valmet Corp. - President and CEO*

Maybe disappointed is a too strong word because last year's second quarter was so good. But let's say that this 7%, what we have for the first half of the year is good.

Antti Suttelin - *Danske Bank - Analyst*

Yes, okay. And then finally on pulp prospects, we've seen pulp prices increase and there has been some time without any big orders. I know that you guide weak for the next six months, but do you think there is any chance of improvement next year in this prospect?

Pasi Laine - *Valmet Corp. - President and CEO*

I think it's -- that's very interesting question because now there haven't been lately any announcement of any big decisions. And then if you look at the investment situation in paper machine side and tissue machine side, and there is contradiction on those markets now. So my estimate would be that Pulp will become active in the coming years again.

Antti Suttelin - *Danske Bank - Analyst*

Yes. All right, let's hope for that, thank you.

Operator

Thank you. And we don't have any further questions at this time. Please continue.

Calle Loikkanen - *Valmet Corp. - Head of IR*

Okay, thank you, operator. Then this concludes the event for today. Thank you very much for the participation and thank you for the questions and thank you for the answers. I wish you a really good rest of the day and I hope to see you at the Q3 results in October. Thank you.
