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VALMT.HE - Valmet Corp Acquires Process Automation Systems
Business from Metso Oyj Corporate Call

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PRESENTATION

Hanna-Maria Heikkinen - *Valmet Corporation - VP, IR*

Afternoon, ladies and gentlemen, warmly welcome to this news conference.

Valmet announced this morning the acquisition of Process Automation Systems, and the purpose of this news conference is to go through the transaction in a more detailed level.

Before Pasi Laine, our CEO starts the presentation I'd like to introduce some other colleagues from Valmet.

First of all, Anu Salonsaari-Posti, Head of Communications & Marketing; Markku Honkasalo, CFO; and Christer Schonberg, who is in charge of the Strategy, and also M&A. My name is Hanna-Maria Heikkinen, I am in charge of Investor Relations.

Now, Pasi will go through the presentation.

After the presentation there is also possibility to ask questions; please, Pasi.

Pasi Laine - *Valmet Corporation - President & CEO*

Okay, thank you, Hanna-Maria. It's a pleasure to be here to announce Valmet's big new acquisition. As a result of the acquisition we are happy to say that Valmet becomes an even stronger company than it has been up to now.

Before I go to my presentation, I think it's good to thank my team, which has been doing excellent work now in this acquisition process. Especially, of course, Christer, Markku and Anu, and Kari Saarinen, who have been working hard in completing this acquisition, have been doing a lot of hard work during last half a year.

So first, I will little bit tell about the rationale about the acquisition. Then I will tell something about Process Automation Systems business in brief, then something about the pricing and financing, next steps, and summary.

First, the rationale of the acquisition. So, if you remember, our strategy is to become the global champion in serving our customers, and we did the strategy about one and a half years ago.

That's, of course, now the goal. To reach that we want to improve our customer excellence, we want to improve our technology position, our processes and winning team.

I think when I go through, later on Process Automation Systems, you can see that we make big steps in all these must-win areas to become even better Company to serve our global -- customers globally.



So it's very-much tied with our strategy to implement the acquisition.

Some -- three highlights of the acquisition are that, first of all, combining Valmet and Process Automation Systems creates a unique offering for our customers. This is very important for us now and, of course, in the future as well.

Then Process Automation Systems business has its own merit. It's a good business; stable business; a lot of high-tech technology knowhow, good personnel; so it's a good business.

Then, of course, as a result of the acquisition, Valmet becomes more stable and more profitable.

So there are three good reasons to execute this acquisition. If I first go through the first point, then the second, and then the third one.

First is combination of Valmet and Process Automation. Like you know very well we are now leading technology supplier for pulp, paper and bio-power industry. We have a lot of technology knowhow, own technology to support the customers.

Then, like you know, we have about 1 billion services business by which we support our customers locally.

But the third element from customers' perspective is, of course, the automation: how to improve the processes with the modern technologies with automation and computerized systems.

Now, with this acquisition we can get that part of the offering also in our portfolio. So one can say that we fulfilled there after all the needs -- all the major needs of the customer -- of our customers industries and in the center of our offering are, of course, our customers.

So we are the only company now in our -- or will be the only company in our industry segment who can supply all these three things for our customers. In that way, we become, of course, unique with an offering.

Then we have seen in the history, and we will see in the future, that the core operation between service and automation will help both to develop services business, but also help to develop automation offering.

Of course, the same applies to the process technologies, but by applying new modern technologies to our process solutions we can enhance them. Vice versa, we can learn something from process technologies, which we can then later on embed in our automation offering.

So also, the development of the Company becomes more versatile in the future.

Then from customer's perspective, about 80% of PAS, so Process Automation Systems, current sales is coming from our customer industries. So we will get about 240 million sales -- more sales coming from these customers. This, of course, enhances our position and capability to serve the customer base even better.

Here a couple of pictures by which we tried to illustrate how the Company is now -- what everything we can offer to our customers. Here is a picture of pulp mill, where you have all the process islands. Then we have also listed here what kind of automation offering we now -- or we will have available for our customers.

First of all, we will have distributed control system, by which the customer can control the whole plant; so all the monitors, all the controls which are needed to run a modern pulp mills.

Then we have different kind of applications to advance the performance of the plants to optimize flows; to optimize core levels; to optimize efficiency and energy efficiency; and even to improve the safety of the plant. So a lot of applications by which we can improve the performance of our customers.



Then from product perspective you also have quality controls systems, by which we can monitor the quality of the pulp-baling line; pulp-drying line; profilers; analyzers; measurements, by which customers can analyze the pulp -- not pulp, quality and to optimize that as well.

So a lot of things which are very much needed by the customers and in areas, Valmet, in the future, will be the supplier number one.

Then, of course, this will also give a good base to develop automation services further, and also in the future to talk about the industrial Internet in our industry applications.

So all in all, we can now supply, or we will in the future be able to supply, both processes and everything in automation that's needed by our customers.

The same kind of logic applies to board, paper and tissue machines. So paper machines... Still one little detail, like we have had this kind of deliveries already together with Metso Automation in the past, like in Suzano project we have supplied the whole pulp mill and also the automation. The automation of that system is about 40,000 IEO, so huge system. We have been supplying it.

Currently, we have one project in Brazil, in Quaipa, where we have the same kind of cooperation with Automation.

Then paper, board and tissue, we have a lot of automation needs in a modern board machine, paper machine, and tissue machines. Metso Automation has product offerings for all these needs.

So again, we have the distributed control systems to control the machine and the processes. We have advanced process solutions to optimize the performance of the machine. We have quality control systems by which we can monitor the quality of the paper line, or tissue line, or board line, profilers to modify the quality of the paper; again, analyze the measurements, to measure the process variables and industrial Internet and automation services.

So same kind of concept applies now also for paper, board, tissue mills like we had for pulp mills in earlier picture.

Then if we go to our power generation, there we make boilers mainly. Now, we have the whole DCS system and all the advanced controls, which are needed to run the modern boilers with very high energy efficiency.

On top of that we have even some analyzers to analyze some process parameters in the boiler house, and of course again the industrial Internet and automation services.

So for all these three segments, we currently are the supplier -- or we will be the supplier, who can supply processes, automation and services to make sure that the customers' performance is going forward.

Then like I said, Systems business is a strong business; has its own merit. I will have a couple of slides later on to tell about it more in detail.

But, first of all, Process Automation Systems has very long-term customer contacts. It has been on the market very long time and it has very good market position from that perspective.

It has very high-level technology and know-how. The R&D spending in that business is reasonably high and Metso has been developing the business very well, and has been managing it well, so that R&D has been well developed and the product offering has been well developed as well.

It has a strong service business where the know-how is given by products, but also by personnel to the customers.

PAS has about 1,600 professionals working around the world in 80 locations. So we will get also a lot of more customer contacts and customer intimacy by acquiring PAS business.



And then of course, like you will see later, PAS has had a solid good financial track record. We are confident that that will be the case in future as well.

As a result of the acquisition Valmet, of course, becomes more stable and profitability improves. So if you look the picture, we have tried to illustrate there that about EUR1 billion of our business is coming from stable services. Now, we can add about EUR270 million on top of that as a stable business, because Automation like you will see later on is reasonably stable.

So from a stability point of view Valmet will have about EUR1.3 billion stable business, with a reasonable, high profitability. That, of course, will make Valmet even stronger in the future to be stable and good business in the future as well.

We are saying that we have had cooperation with Metso Automation earlier, so we have realized -- materialized already part of the sales synergies. We, of course, try to improve them later on.

And because of the long tradition of working together, we are not seeing any significant cost synergies. That's because we, of course, buy a lot of know-how -- a lot of good personnel and we see that this not a cost-cutting exercise; it's more exercise where we should benefit from each other in the future to grow the businesses.

Then a couple of words about the Process Automation Systems itself. So first of all, it has very good market position in pulp and paper, so it's number one in the analyzers in the world to analyze paper quality -- pulp quality.

It's one to two -- number one or the number two in quality control systems to monitor the quality of paper, board and tissue line. And it's number three in distributed control systems for pulp and paper. So it has very strong position in pulp and paper.

Net sales-wise, it has been roughly about EUR300 million and employs, like I said, about 1,600 professionals.

Historically, the EBITA margin has been between 10% to 12%. About 45% based on current category sales is coming from services. There the categorization is different than what we have in Valmet, because of course of the different type of the business. But roughly with Valmet's definition, 45% of the business is coming from services; the rest is coming from capital.

About 57% was coming in from Europe, Middle East and Africa; North America being the second biggest area, 19%; EMEA -- South America about 5%; China about 10%; and Asia Pacific about 8%. So Europe is strong, but it has also a very good position already in the growth markets.

Offering-wise, PAS has very good offering for our industry. So it has, first of all, distributed control system, DCS, by which, like you see in the very small picture, the operators can monitor the whole plant and operate the whole plant. So that's the tool by which process industry operators are managing the process and managing the quality of the processes as well.

Metso Automation has its own DCS technology and has had it since 1978, if I remember correctly, or 1982; maybe it was 1982.

Then Metso Automation has quality control system; that's the frame like you see in the small picture. With that frame, one is measuring the quality of the paper to make sure that the thickness of the paper is correct or that the humidity in the paper is the correct -- or caliber and so on. It's very demanding application and Metso has very good technology and position on that one.

Then PAS has profilers by which one is affecting the quality of the paper: adding water if needed; taking water away if needed; affecting the caliber of the paper and so on. So they have very good range of profilers which, of course, will -- we are currently using to make our production lines. Of course, in the future we will be using them as well.

Then analyzers and measurements is a specialty where Metso has -- Metso's PAS has very strong position. In some products, the market share can go up to 60%. There they have very much technical knowledge how to analyze different qualities of a pulp mill.



This is, of course, very synergistic with us and of course it's a technology which is needed by all the pulp makers in the world. They, of course, have some applications also for paper and even some for power applications as well.

Vision system is a system where you, with very high resolution -- high speed digital cameras, try to attack anomalies in processing industries. PAS has also application for that.

Then, of course, on top of all the hardware products and software products, one has a lot of performance solutions by which the customers can enhance their products and quality of their products.

So all in all, the product offering is versatile; it's in good shape and we are very happy to have this product offering in Valmet's business in the future to support both our capital businesses but, of course, to continue to be as an independent business as -- good business as it has been.

Customers' perspective. We share quite much the same customer base, so Valmet and PAS serve mainly the customer -- same customer base.

About 80% of the customers are belonging to same customer industries; so many of them are such that they are common. Then, of course, some customers are buying process technology from us and automation from somebody else. But many customers we share, but of course we have also customers where we have possibilities to continue to sell the other products as well.

Then important part of the customers of PAS are the process industries, where DCS is applied in petrochemical or refinery processes, like with Neste Oil or Petrobras in Brazil; or with chemical processes, like AkzoNobel, for example, or Borealis.

So, it's very important, of course, that we take good care of the process industry customers in the future and that will be, of course, our intention.

So, a good complimentary offering for our customers from Valmet and PAS.

Recent development. Orders received has been roughly EUR300 million on year-on-year. The blue one where you have the number EUR261 million, it's the three first-quarters of the year. But we are saying that PAS business is reasonably stable and, of course, increases the stability of the whole Valmet.

Net sale has been about EUR300 million and, typically, the last quarter is the highest with revenue. So, of course, I cannot say anything about this year; it's Metso's business to say something. But typically, the last quarter is high, and then typically this business has been generating about EUR300 million revenue.

Like said, it has good services content; it has very good technology and know-how content; and it has had, long term, very good R&D focus. That's why it will be a sustainable business in the future as well.

Then, a couple of words about the price and financing. So, price -- enterprise value has been EUR340 -- or will be EUR340 million, and that has been agreed with Metso.

We will finance the acquisition with committed long-term financing, and then maturity of our long-term debt will increase over four years. We have the financing in place already.

Then, our balance sheet continues to be strong. So we have -- PAS, first of all, has net assets about EUR55 million -- or had in the end of June. Then we have calculated illustratively that if the acquisition would have taken place in September with the June figures, Valmet gearings would have been 23% and equity ratio about 35%.

So even if we make a reasonably big acquisition, our balance sheet continues to be strong to support our operations in the future as well.

So, what are the next steps? Next steps, first of all, today we have signed a contract together with Metso and announced it.

Then, in February we will have our financial statement, and that's of course with Valmet's current reporting structure. This acquisition has no impact to that.

We will have Capital Market Days in March in London. Of course, now we try to make a package of automation as well. So the ones who are eager to learn more about automation are welcome to London on March 19.

We estimate currently that the closing of the deal could be April 1, but it's, of course, still subject to the completion of the competitive -- approval of the competition authorities; so this is the intention currently, April 1.

Then we will announce our first-quarter results April 29. Those will be with old structure of course, because the closing is not in the first quarter. July 13, we will give the numbers out with the new reporting structure.

So, first, 2014 with the old one and Q1 with the old one, and the first one where we have, most probably, automation included will be the second quarter.

And closing, current plan is April 1, and is of course subject to the competition authorities to approve the acquisition.

Then, summary. Valmet becomes even stronger market leader, so we are number one to two in services. We are number one to two in pulp mills. In Energy, in the bio-boiler side, we are number one to two. In Paper, we are number one to two. And now, in process automation for pulp, paper customers, we are also between number one or number three.

So, we will have very strong offering of all the segments to our bulk paper and power customers. Totally, we will be about 12,000 professionals working to support this industry.

So, like we have been saying, we are committed to move our customer's performance forward and we see that this acquisition makes us to make a big step on that route.

So combination of Valmet and PAS creates unique customer offering. That business we are acquiring has strongly-established business and good track record. As a result of the acquisition, Valmet will become more stable and more profitable.

So we are happy to say that Valmet's way forward continues, and we continue to work towards the vision to become the global champion in serving our customers.

So, that's our presentation and now Hanna-Maria.

QUESTIONS AND ANSWERS

Hanna-Maria Heikkinen - Valmet Corporation - VP, IR

Time of the questions. We'll start from here Keilasatama. Do we have questions from Keilasatama? Seems like everything is crystal clear here in Keilasatama. Then, we will continue with the international questions.

Pasi Laine - Valmet Corporation - President & CEO

Or local as well.



Operator

(Operator Instructions). Antti Suttelin

Antti Suttelin - *Danske Markets - Analyst*

Hello. You talk a lot about Valmet becoming a unique company. But looking historically at your [inaudible] Metso time, you already had everything under one roof; automation, and the paper and pulp business. So, how does this really increase the uniqueness compared to the past?

Pasi Laine - *Valmet Corporation - President & CEO*

Good question. So, of course it depends how you define the past. So, last year we hadn't had automation offering. So if you compare last year and the coming year, then of course the difference is big.

Now, we have our own product offering, or we will have our own product offering business and we can continue to develop both the process technologies and automations together. So, it's big steps to us to continue to make us unique.

Then in the past of course, we belonged to the same company and we have been working together since beginning of 1990s if I -- yes, beginning of 1990s. But -- and cooperation has been good and many products what we have and what PAS have are results of that cooperation.

Then, on the marketplace, we have been recognized as the leader in many respects because of the long-lasting cooperation, the future.

So from my perspective now this acquisition makes it possible that we continue to differentiate with the offering in the future. If we hadn't, done it then slowly our uniqueness would have been getting smaller and smaller or even might have been vanished.

Antti Suttelin - *Danske Markets - Analyst*

Okay, then if I may continue, I would also like to ask, why is it that Valmet has only generated 10% of PAS sales? Does this suggest that customers rather buy separately than from a one-stop shop or how do you see that?

Pasi Laine - *Valmet Corporation - President & CEO*

No, I think it's -- we, of course, buy the automation for our capital businesses.

Then, like you know that if there are 2000 paper mills and we -- paper machine and we sell in a year then more paper machines, then it's less than 5% increase in the amounts per year. So then, of course, not very big share of the automation business can go to OEM. So I think this 10% is good share for us and we have been utilizing it a lot.

Then this 90% tells us that PAS is also competitive on the marketplace without the OEM Valmet. I think it's a proof that the product offering is competitive also without anybody else helping, so I see it actually as a strength.

Antti Suttelin - *Danske Markets - Analyst*

So could one say that the maturity of the business is a kind of a retro-fit business going into -- installed basis rather than with new equipment sales?



Pasi Laine - Valmet Corporation - President & CEO

Yes, and then quite often it goes also so that in the machine package when we sell board machine, we sell a smaller part of the automation. And then might be for the same project, automation is selling continuation of the automation package and it has been counting, of course, direct in their numbers.

Antti Suttelin - Danske Markets - Analyst

Okay, and then please who is the main competitor, is it ABB or who is it?

Pasi Laine - Valmet Corporation - President & CEO

ABB and Honeywell on systems side and BTG in analyzers.

Antti Suttelin - Danske Markets - Analyst

Okay, that's all. Thank you.

Pasi Laine - Valmet Corporation - President & CEO

Thank you.

Operator

Jan Kajjala.

Jan Kajjala - Nordea Markets - Analyst

Nordea Markets. Just pretty much continuing on the previous questions, is there are a part in that business, the process automation business, that is sort of proprietary to Valmet's process business that you would not share with the competition.

I'm trying to ask: how independent is this automation business from now on? And reflecting that backwards, would there have been any difference in this sense during the year when it was not part of Valmet?

Pasi Laine - Valmet Corporation - President & CEO

I think I might have lost a couple of the questions already. But if I start first, last year I think the cooperation between Metso and us has been very good also during last year.

We, of course, personally know each other very well and we trust to our -- we have been trusting to our automation colleagues and they have been trusting to us. So the cooperation between Metso and Valmet has been good.

Then this proprietary, there are a couple of applications where we are not ready to sell to anybody else together with automation some of the packages, like if you are -- like some very core things close to the head box.

But most of the products are such that we are, of course, selling them to installed base to customers and we will continue to do so. Then it is a bit unlikely that our competition is buying directly those products.



Then there are products, like the analyzers, where we, of course, continue to sell to our competition as well, because you cannot build practically a pulp mill without Kajaani analyzers. So, of course, we are very eager to sell them pulp analyzers, in the future to competition as well.

Jan Kaijala - *Nordea Markets - Analyst*

Okay, thank you.

Operator

(Operator Instructions). There appear to be no further questions from the international lines. Please go ahead, sir.

Hanna-Maria Heikkinen - *Valmet Corporation - VP, IR*

Thank you. Are there further questions from Keilasatama? If not, then I'd like to thank you for the presentation, Pasi; and thank you for the active questions, for the audience. So, we are very happy with this acquisition.

Pasi Laine - *Valmet Corporation - President & CEO*

Yes, we are happy. Okay, thank you.

Hanna-Maria Heikkinen - *Valmet Corporation - VP, IR*

Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude your conference for today. Thank you for participating. You may now disconnect.

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