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Q3 2019 Valmet Oyj Earnings Call

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PRESENTATION

Pekka Rouhiainen *Valmet Oyj - Director of IR*

All right, ladies and gentlemen, welcome to Valmet's Q3 2019 Results Publication and Webcast. My name is Pekka Rouhiainen, and I'm the Head of Investor Relations here at Valmet; and with me today are President and the CEO, Pasi Laine; as well as Kari Saarinen, CFO. After the presentations, you will have the chance to ask questions here at Keilasatama, also over the phone lines. But without further introductions, Pasi, please go ahead.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Thank you, Pekka. Welcome also on my behalf. So heading of our quarterly result is that orders received were over EUR 1 billion and profitability continued to increase. So nice heading -- headline to start the 24th quarterly result of Valmet.

So what kind of content I have is the traditional first quarterly numbers in brief, and then a couple of words about development in different business lines, then recent achievement in sustainability. Kari will go to financial development, and I'll come back to guidance and short-term market outlook in the end and then the lively question-and-answer session.

So first, quarter 3 in brief. So orders received increased in stable business to EUR 433 million, and in capital business orders received increased to EUR 637 million. Our net sales increased to EUR 857 million. Order backlog increased to a record level of EUR 3.4 billion. And comparable EBITA increased to EUR 81 million, and EBITA margin was 9.5%. And gearing was 6%. So the overall look is quite positive of the results, what we had in quarter 3.

Like I said, orders received -- or I didn't, orders received were EUR 1.058 billion. Net sales was EUR 857 million. And comparable EBITA, EUR 81 million, and comparable EBITA margin, 9.5%, and backlog being about EUR 3.4 billion. We employed 13,500 people in the end of the quarter.

And then if you look at the pie charts, then you see that Europe has been holding good. North America has been holding good. So it's about 60% of our order intake. And South America, this year, has been very active, so that from the quarterly orders, 24% came from South Africa (sic) [South America]. And Asia Pacific, 11%, and China, 5%.

Business-wise, Services was 32% and Automation, 8%, and the rest came from capital. So the biggest share of the orders came from capital this time from our stable -- than from our stable business.

And orders received, like I said, total to EUR 1.058 billion. That's, of course, a nice number, again, over EUR 1 billion. And then if we count the last 4 quarters together, we are first-time ever over EUR 4 billion. So EUR 4 billion, and was it EUR 1 million or EUR 2 million, but in any case, we are over EUR 4 billion and that's a record 12 months order intake in the end of the quarter for us. So we are very, very pleased with that.

And here, you see also that -- a graph telling how the order intake has developed in different -- or has been in developed, the different areas in the first 3 quarters. And South America here is, again, 21%, showing that South America has, this year, been active. We've got



the big paper machine order, and that will come in the second quarter, and I'll come back to this year -- this quarter's order intake later on. North America and Europe, about 60% together, and the rest from Asia Pacific and China. But nice graph and nice to be in total orders first time over EUR 4 billion.

In stable business, our order intake totaled to EUR 1.8 billion . There's growth again. Of course, partly, it's caused by acquisition, partly by organic growth. And I'll come back to those more detailed number later on. But of course, we are happy over the year's development that we started about at EUR 1 billion level, and now we are at EUR 1.8 billion level. So Valmet has changed a lot during these 6 years we have been reporting our numbers, and we are happy with the development that has taken place.

Backlog, EUR 3.425 billion, it's the record in the end of the quarter and of course, gives a good outlook for the coming year, with -- which we can start with a reasonably good backlog. Out of the backlog, about 70% relates to capital business and 30% to the stable business. Because we are so close, again, in the year-end, we are not, in this quarter, telling how big part of the backlog is expected to be materialized as a revenue in this year. But EUR 3.4 billion gives us good, healthy backlog and workload for coming quarters.

Then a couple of words about the business lines. First, Services. So Services, orders received and net sales increased. Our orders received for the first 3 quarters are EUR 1.064 billion . And then if you deduct from there the acquisitions, acquisitions are roughly EUR 77 million. Then it -- the calculation will show that, roughly, we are at the same level in orders received than last year without acquisition. So no growth, but no decline either. And then the growth has been coming with the acquisitions.

And if we talk about Services order intake without the acquisition, we can say that, geographically, South America and Asia Pacific has been more active than last year. And then the market has been less active in China, Europe and North America, likely then, maybe that's given the same view than what you can get when you are reading the newspapers about the market activity generally in these regions.

Then order intake has been less in the first 3 quarters in Mill Improvement, more in Energy and the rest roughly at the par. And I'm sure that there will be more questions about this in the question-and-answer session. But we are happy that we are at par compared to last year, and with the acquisitions, we are on growth mode.

Net sales were EUR 973 million in the first 3 quarters, and it shows, of course, growth as well. And there, the acquisition growth has been EUR 75 million, and the rest has been coming from organic growth.

In Automation, orders in the 3 first quarters were EUR 304 million, almost EUR 30 million growth compared to last year. EUR 28 million is, of course, a nice growth compared to last year. And this is all coming organically. In net sales, we were at EUR 256 million compared to last year, EUR 233 million. Market has been active in Pulp and Paper, and then it remained at the same level in the quarter in Energy and Process. And in -- and the growth has been coming from all areas. So good development in Automation continues.

In Pulp and Energy, orders received increased, and net sales remained at the previous year's level. Last year -- or this year, the first 3 quarters, about EUR 805 million, last year, EUR 594 -- EUR 549 million, so nice growth compared to last quarter -- last year's third quarter, which was EUR 272 million. We've got order intake of EUR 395 million, nice growth there as well. And wherefrom the growth came was that, that we received an order for a major pulp technology project in South America, and it's the same one where our competitor has announced also something. So we got something, and we -- they got majority and we got the rest from that project. But I'm not telling the name, and nothing else more specific about the project because we don't have any acceptance for that from our end customer.

Then marine scrubber orders in this quarter were EUR 93 million. And those 2 things, the big pulping order and nice scrubber orders made the order intake to be so nice than they were. So it was good. Net sales is a little bit down compared to last year, EUR 604 million against EUR 631 million.

Then Paper. Orders received decreased, and net sales increased. Orders received were -- or first whole year. So orders received have been EUR 844 million. Last year, EUR 921 million, so decline. But of course, EUR 844 million is a very good order intake level for our Paper business. So like we said last time and maybe we said after the first quarter as well, order intake has been better in Paper than we

expected because we have been more successful winning the big cases that have been on the market to be won. So good development in orders received in Paper. Then net sales, EUR 646 million. Last year, EUR 657 million, so roughly at the same level. But we are happy with the development in Paper.

Then sustainability, like you remember, we say in our strategy as a mission that our mission is convert renewable resources into sustainable results. And of course, putting the word sustainability in the mission statement means that we have to take sustainability seriously also in our internal work. And we have been working hard on sustainability. We have this kind of agenda called the Sustainability360^o decrease. It means that we work practically with everything and try to take sustainability into account and develop it further in all our normal operations. So we have actions to improve our supply chain sustainability. We, of course, work hard on improving health and safety, both for our own workers and contractors. We put a lot of effort in developing our people, the performance, a lot of training programs. Then, of course, a big part of our sustainability work is to offer our customers with the sustainable solutions. And by using our technology, they can replace fossil fuels and plastic in many applications, which is, of course, the core of our business. And then we will, of course, want to be a good corporate citizen wherever we work, and there, we, of course, have had good success as well.

And because of these actions, what we have had, we were again included in the Dow Jones Sustainability Index. And it's the sixth consecutive year, and I think it's a good achievement for our organization. Of course, I want to thank everybody in organization who has been working on these topics and make sure that Valmet, again, has been selected as one of the sustainability leaders in the industry. So thanks for all our persons who have been working on that.

So that's a short summary of our sustainability, and then Kari will have a thorough discussion and presentation of the numbers with you.

Kari Juhani Saarinen Valmet Oyj - CFO

Okay. Thank you, Pasi, and also, good afternoon on my behalf here. So looking at the financial development here for quarter 3, so we actually had a positive percent change in all headlines now during the quarter. And then also, if we look cumulatively, so that looks quite good as well. Quarter's orders received over EUR 1 billion, second time in a row. And also, as Pasi said, so out of 4 previous quarters, 3 have been over EUR 1 billion, EUR 1 billion being a big quarter for Valmet.

Pulp and Energy orders for the quarter increased by 45%. Our Automation increased by 23% and Services by 12%. And out of the area, South America and North America had growth. Asia Pacific was flat, and EMEA and China reduced. Acquired businesses, they were altogether EUR 39 million out of the orders and EUR 33 million out of services orders.

Order backlog, record high, 23% higher than a year ago. So we are, of course, very happy and proud of that. And as said, 70% of order backlog was capital business, 30% stable business, and this is exactly the same ratio of what we had a year ago.

Quarter's net sales, they increased to EUR 857 million. Services, Automation and Paper business lines increased, and then Pulp and Energy was flat. Out of our areas, South America, North America and EMEA increased, and China and Asia Pacific, they reduced. Acquired businesses net sales were EUR 44 million for the quarter. And then quarter's comparable EBITA, 9.5% or EUR 81 million. So this is 32% higher than a year ago and also within our target range of 8% to 10%.

Quarter's earnings per share, they increased almost 50% and to EUR 0.34 per share. And cash flow was EUR 126 million. Gearing was 6% end of the quarter. Cumulatively, orders were just shy of EUR 3 billion, EUR 2.98 billion, and they increased by 10%. Pulp and Energy increased 47%, Automation, 12%, and Services, 7% decrease. And Paper business line, reduction was 8% here. Areas, South America, Asia Pacific increased, then EMEA was flat, North America and China reduced.

Our net sales, EUR 2.44 billion, 4% higher than last year. Cumulatively, Services increased 14% here and Automation, 11%. Capital businesses were actually slightly negative.

Valmet's comparable EBITA, that was year-to-date, was 8.1% or EUR 198 million. Last year, we were at 6.2% or EUR 144 million. Cumulative earnings per share, they increased by 50% -- 56% to EUR 0.80 per share, and cumulative cash flow was EUR 113 million,

which is EUR 28 million less than what we had a year ago.

And then looking at our gross profit and SG&A. So gross profit increased by 2-percent points to 25%. Sales mix was 48/52, stable/capital, last year, it was 45/55. So we had a good quality order backlog and also good sales mix for the quarter.

SG&As, they increased as the full impact of the acquired businesses was included then, and these acquired businesses accounted for over 50% of the quarter's SG&A increase. Overall, we had a very active quarter with a lot of sales activities.

Looking at EBITA, so Valmet's EBITA target is 8% to 10%. And now, looking at our last 12 months' EBITA, so that increased to 9.1%, and our last 12 months' EBITA has now stabilized within the target range of 8% to 10% now for 3 consecutive quarters. And then looking ahead also, please note that Valmet's quarter 4 2018 profitability was excellent and by far, the best ever.

And then looking at cash flow, so after like 2 kind of low quarters, cash flow was now EUR 126 million, so which was -- it was like quite good development, big impact actually coming from net working capital that increased by -- or reduced by EUR 85 million. So quarter's net working capital reduced and the biggest impact here actually coming out of the amount due to customers under revenue contracts, which actually means that Valmet has invoiced customers and received customer payments, but Valmet has not yet recognized revenue out of this. Net working capital was minus 11% of rolling 12 months' orders, so it was in a good level.

Net debt and gearing. So quarter's -- end of the quarter gearing was 6%, and net debt was EUR 60 million. And actually, the EUR 60 million is exactly the same amount that we have booked as lease liabilities under the new IFRS 16 regulation. And so in other words, following last year's regulation and bookkeeping -- book -- both net sales and gearing would have been 0. The equity-to-asset ratio, that was 38%, a bit lower than a year ago. And the reason is that our assets have actually increased almost EUR 500 million in a year.

And then coming to capital employed and also return of capital employed. So return of capital employed, that was 23% at the end of the quarter, and that's well within our target range of 15% to 20%. And then looking at the capital employed, so that increased now compared to last year because of equity, because of lease liabilities and also because of additional bank debt. But with that, we took to finance the acquisitions, increased around EUR 50 million each.

So back to you, Pasi.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Thank you, Kari. So then guidance and short-term market outlook. So guidance, we keep the same as earlier, Valmet estimates that net sales in 2019 will increase in comparison with 2018. And comparable EBITA in 2019 will increase in comparison with 2018. So no change there. Then short-term market outlook, Services, we keep good. So we have a good workload situation in our units, and order intake is roughly at the same level than a year ago cumulatively, so we have no reasons to change our outlook from good. Automation, good order intake, good workload, and the market activity continues to be good. Pulp, you saw order intake has increased, workload has increased, and market activity, still reasonable, is good. And that's why we keep the outlook as good.

Energy, we keep at satisfactory, and there are actually 2 different kind of markets. So of course, we are happy with the development in marine scrubbers. But then the other side of the coin is that the boiler market itself hasn't been very active, and that's why we keep it as satisfactory totally. Board and Paper order intake, you saw it has been good for many, many years now, which results to good workload in our organization. And market activity is still good.

Tissue, order intake hasn't been that good in the beginning of the year, and that's why workload is satisfactory. Might be that the outlook in market activity is a little bit better than it was earlier, but the workload is not good yet, so that's why we keep the outlook as satisfactory.

So that was everything we had as presentation. And now it's time for a lively question-and-answer session.

QUESTIONS AND ANSWERS



Pekka Rouhiainen Valmet Oyj - Director of IR

Okay. Thank you, Pasi and Kari. Now it's time to take questions. We will start with questions here from Keilasatama. So if you have a question, please let me know, and you will have the microphone. If no questions from Espoo here, we will move to the questions over the phone. So operator, I hand over to you.

Operator

(Operator Instructions) And your first question comes from the line of Manu Rimpelä.

Manu M. Rimpelä Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

It's Manu Rimpelä from Nordea Markets. My first question would be on the strong and very impressive margin you delivered in the third quarter. So could you just help us to understand what are the key drivers and how the bridge looks from 8% EBITA margin in Q3 2018 to the kind of 9.5% you delivered now in this quarter?

Kari Juhani Saarinen Valmet Oyj - CFO

Yes, hello, Manu. So yes, we are quite happy of the margin, of course, as well. And first thing is that we had a good sales mix. So this year, we had this 48/52. Last year, 45/55 between stable and capital. So that was a big impact there. And also, we've been now saying in some quarter -- like 2, 3 quarters already that our order backlog is improving. And this is also a result of that. And of course, one thing is that we had higher sales, which then impacts the EBITA percent.

Manu M. Rimpelä Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

Okay. And when you look at the orders you are taking in now, so do you continue to see that the margins of those are continuously improving?

Pasi Kalevi Laine Valmet Oyj - President & CEO

No, we can't say that it's improving anymore. So I think we are quite much in a stable situation, price-wise, on capital projects compared to the beginning of the year.

Manu M. Rimpelä Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

Okay. And then finally, on margins, can you comment if there's been any change in terms of this execution or kind of warranty and different cost you've been incurring that you haven't been able to lower? So are we seeing any benefit of those being lower in this quarter?

Pasi Kalevi Laine Valmet Oyj - President & CEO

Maybe. So I think if we start from the quality costs, so quality costs have improved over the years we have been operating as Valmet. And now, they start to be at the level that they are, of course, not acceptable. So of course, we have to continue to work on them -- with them, but they are not anymore the major concern that would have a material impact to our profitability. And then sales accuracy has improved, and pricing has improved a little bit, which helps. And then our project execution has improved. So currently, we roughly have positive variation in all the capital businesses, so that if you compare with as-sold as-delivered margin, there is a positive variation. So that, of course, helps also with the profitability compared to the years when we had some challenges with the execution in some projects.

Manu M. Rimpelä Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst

Okay. And final question on the margin, if you can just comment about the -- obviously, a very strong Q4 margin you did last year. So I mean, what is different going into this Q4 and why wouldn't you be able to deliver a similar type of a margin?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, we, of course, know that quarter 4 last year was a strong quarter. And I can guarantee that we do all the best to be -- to like go there, but let's see now. It was a strong quarter. But -- and also, if we look at our order backlog, so as we saw, we have a strong backlog, and we are quite happy of the backlog, what we are having.

Manu M. Rimpelä *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

So you don't see any external or internal issues, except for potentially an execution that would lead to a reason to believe that, that margin cannot be met this year as well.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

That was a very, very nice put, Manu. Kari can answer. I don't know what to answer.

Kari Juhani Saarinen *Valmet Oyj - CFO*

Well, I say that, of course, we can't guarantee anything. So what is difficult...

Manu M. Rimpelä *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

Okay. Final question.

Kari Juhani Saarinen *Valmet Oyj - CFO*

So Manu, it's difficult to give any guarantees, as you know, but we work very hard now in order to have a good quarter.

Manu M. Rimpelä *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

Final question from me. On the Services order intake, we have now 2 quarters in a row had negative order intake. And what's your thinking there? Does that concern you that we are seeing customers slowing down their Service activities? And should we expect more of negative quarters going forward as well?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

I would say that quarter 2, we had negative, and I would claim that it's par with the last year with the accuracy of the measurement. So like I said, the market is not as active than a year ago in China, Europe and North America, but it's more active in South America and Asia Pacific. We continue to push the sales management and execution of sales and try to improve our market share by that way. And it might be that the market is not as active than it was a year ago, but we still want to continue to grow. And that's the target, and we are not giving up.

Operator

Your next question comes from the line of Antti Suttelin.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

I missed the early part of the call, so sorry, if you have commented this already. But this unannounced Pulp order that you had in the order book, is this one of the projects which has been widely talked about in Brazil, for example? Or is this something completely new that hasn't yet been in any order on this continent...

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

It's one of -- it's the same one where our friends made an announcement earlier. So...

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Okay. So it was a split project?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

It was a split project, but not half and half. They got more than we got, but we got fair share as well.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

And can you say which country this is?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

And I can't -- no, no. It's in South America, and I can't comment about customers and not the country either.



Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Okay. And then still on the Pulp outlook, if I compare your commentary on the Pulp market outlook with that of ANDRITZ' recent Capital Markets Day, I can sense a difference. Valmet is more conservative than ANDRITZ which painted a really positive picture on the future project pipeline. So are you still having a kind of a cautious view on the Pulp project pipeline?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

I didn't listen to the presentation, but I looked through and flipped through the presentation. I think when reading the material, you have to be very careful on analyzing in that how many of the projects will proceed and which year they will proceed. So we are saying now that the market is good, 6 months, and then it might be that the big projects will be over for a while. Of course, there are a couple ones where customers announced plans, but the boom after the currently known projects have been decided is over for a while, but thereafter, the activity continues at the good level. So we have actually quite a lot of activity developing smaller- to medium-sized Pulp projects. But we are less bullish than our friends from Graz.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Yes. I've observed that. And then finally, the margin targets that you two have and Valmet is 8% to 10%. Your friends, as you put it, is 9% to 10%. Is this something that you consider is the top for the industry? Or could we see that, over the next years, we will have higher targets from both of you?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Of course, I can't -- I don't know anything about our friends, but we have set the target in 2016 to reach 8% to 10%. And we have been now -- or cumulatively, LTM has been now -- or LTM has been now 3 quarters there, but we haven't had a year inside our new targeted range. So currently, we focus on trying to deliver 1 year so that we are in the margin range. Then, if you take a little bit more philosophical view on target setting, then if you think about our technology content, our market position, our importance to our customers, then one could challenge why our profitability wouldn't be even higher than it's today.

Antti Suttelin *Danske Bank Markets Equity Research - Head of Research of Finland*

Yes. That sounds positive.

Operator

And your next question comes from the line of Robert Davies.

Robert John Davies *Morgan Stanley, Research Division - Equity Analyst*

Yes. I had a question on the Automation business, and what was driving the strength in Automation in the quarter? It would be my first one. Was there any of that big Pulp order that spilled over and went into the Automation division? Or did everything from that large order just land in the Pulp and Energy? So that was question number one.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

I don't remember. I have to look at how much the package order intake was sorry that I --. So this year, package orders were EUR 12 million and a year ago, EUR 11 million. So roughly, that's the same level than last year. So the change came mainly from the direct sales, direct order intake.

Robert John Davies *Morgan Stanley, Research Division - Equity Analyst*

I see. And I guess just sort of stepping back and looking where you're -- both your Pulp and Energy and the Paper orders are in absolute terms. I mean last year, they were both over EUR 1 billion. I guess is there any reason why that shouldn't start to normalize or come back down? I mean we get a number of questions from people sort of highlighting the high inventories, the falling Pulp prices. Is that any indication that makes you nervous when you see that kind of data? Or from what your customers are telling you, is there no reason to believe that those orders aren't going to continue to proceed higher in 2020?



Pasi Kalevi Laine Valmet Oyj - President & CEO

If I start answering first to Paper, so even for 2018, we were not actually expecting the order intake to be EUR 1 billion and then 2017 and '18. And for this year, we were saying also that order intake will be lower than a year ago. And now, we are roughly at the same level. So I think in Paper, EUR 1 billion is a higher order intake than normally. And if in Paper, order intake will drop, let's say, a number to EUR 800 million. It's not a problem to us. So we have that much flexibility that it's not a problem. So we have not built the costs and organization structure so that we would need EUR 1 billion orders. And then, of course, longer-term, we believe that this EUR 1 billion is on the high side in order intake in, again, in Paper, and that's what we have tried to communicate also to the investors.

Then in Pulp and Energy, if you look at the trend, which we have there on Page 12, sometimes, you have a very high order intake here like in the beginning of 2014, then slow -- low market activity, then reasonable market activity again at EUR 1 billion level, then it went down to EUR 600 million and now, again, at over EUR 1 billion level if you read the graph. And that's how we think also in the future, the market to develop, that it's not a steady EUR 1 billion or EUR 1.2 billion or EUR 900 million, but there is cyclical. And that's why we have very -- no, very much is maybe too strong a word, but we have built flexibility in our whole organization so that if net sales is somewhere at EUR 900 million, 25% of the net sales is our fixed cost in the organization, which means that we have flexibility.

So I would more expect that the market will be like it is -- has been that, sometimes, it's EUR 1 billion level; sometimes, it is a little bit less; sometimes, a little bit high, but not fixed level at any fixed constant level.

Robert John Davies Morgan Stanley, Research Division - Equity Analyst

That's great. And then maybe just the final one. Within the Automation business, the non-Pulp and Paper segment, so where you have exposure to process industries, could you give us some color on which bits you're gaining more traction, or which bits are doing better or worse at the moment?

Pasi Kalevi Laine Valmet Oyj - President & CEO

It's actually in all fronts of -- and we call it Energy and Process in Automation, and we are serving the refiners -- some refiners, some petrochemical, then the waste-to-energy market has been active this year again. Then we are also strong in marine automation, and that market has been active also. So in Energy and Process, the activity has been coming -- or order intake has been coming from many segments.

Operator

Your next question comes from the line of Tomi Railo.

Tomi Markus Railo DNB Markets, Research Division - Analyst

Tomi from DNB. Still coming back to the profitability improvement, if you can give any further light in terms of the capital business source of improvement. And maybe also commenting, if you are not commenting that further, maybe you can comment the profitability of the acquired businesses and what sort of levels of profitability those businesses had -- continued the levels of 12% to 15% when you announced the acquisitions. Or any light on these issues, please?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, maybe you were asking about the capital business profitability. So I think that Pasi was already saying that the quality costs are like -- have been reducing, but still work to be done there. And then also, the execution piece has been now quite steady. And then also that we have had now positive variation on the -- from -- between the as-sold and then the project execution, which are all like positive. So things have gone to a positive direction there and also then looking at the backlog. So we are quite happy with the backlog. And then if we say about acquired businesses, so it's been pretty much keep -- we've been pretty much keeping the profitability, what we said at the time of the acquisitions.

Pasi Kalevi Laine Valmet Oyj - President & CEO

Yes. And then, of course, last year, we still had some project challenges in P&E. And this year, we haven't. So then, of course, it means that the profitability in P&E has improved compared to last year.



Kari Juhani Saarinen Valmet Oyj - CFO

Yes. Yes. So quarter 1 last year, we announced that we booked losses out of one project. And this year, we haven't had that kind of announcements.

Tommi Markus Railo DNB Markets, Research Division - Analyst

That's good. And then on the scrubbers, I think third quarter scrubbers practically flat year-on-year. And you have commented to expect some sort of level for the full year, not perhaps reaching the last year's level. Any comment on the activity and perhaps fourth quarter development, what you expect to see?

Pasi Kalevi Laine Valmet Oyj - President & CEO

I think we will not -- currently, I don't see that we would reach the levels where -- which we reached last year. So like we have been saying from the beginning of the year that it will be an important market, scrubber will be an important market for Valmet this year, but not as big as last year.

Operator

Your next question comes from the line of Tom Skogman.

Tomas Skogman Carnegie Investment Bank AB, Research Division - Head of Research of Finland

This is Tom from Carnegie. I would like to continue on this theme of scrubbers, but not on the order side but the delivery side. So how much have you delivered and how much do you have in the order book? And of course, I want -- I also worry that you could have some execution problems installing these ones. Is everything on time? And how does it look?

Pasi Kalevi Laine Valmet Oyj - President & CEO

Well, we are not commenting the net sales anymore for scrubber. So that -- it's an exception that we tell the order intake, but -- and that's why it's difficult to say about the backlog. But about the deliveries, we can say that they have gone according our plans and maybe even with a little bit positive variation against as-sold, and then we have another capacity to deliver. And the biggest challenges we have with customers because the customers are changing the time schedule as when we can install the systems or start up the systems, but from our side, everything has been going roughly on the plan and no negative surprises.

Tomas Skogman Carnegie Investment Bank AB, Research Division - Head of Research of Finland

But isn't so that delivery should be exceptionally high in the fourth quarter ahead of the new regulations coming into force?

Pasi Kalevi Laine Valmet Oyj - President & CEO

No. I think it's -- no, I think it's more depending on our capacity to deliver, and that's roughly the constant. So it's not so that there would be a huge amount of installations or start-up in the fourth -- in the last quarter.

Tomas Skogman Carnegie Investment Bank AB, Research Division - Head of Research of Finland

Okay. And then I would like to discuss a bit Service. You have no organic growth this year, but you have some acquired growth. But please help me to understand the growth that you have achieved since Valmet gained independence. Where has it come from in terms of the modernizations and spare part sales and inspections, et cetera? And how do you see the growth opportunity organically, not only for the next 6 months, but if we talk about, let's say, 3, 4 years ahead? How does it look?

Pasi Kalevi Laine Valmet Oyj - President & CEO

If I start from the times before Valmet, there was a belief that we cannot grow organically in Services, and we need to make acquisitions to grow. And then there's a decline in order intake over long term. And then we had some internal discussions whether that's true or not and decided that that's not true. That we have to find ways how to grow Services organically. And now we have a track record of being able to do that 5.5 years. And wherefrom it's coming, it's coming from, first of all, target setting that we set ourselves targets to grow. And we set incentives to ourselves, including myself, that order intake in Services and Automation has to grow. Then target setting is for growth.



And then if you think about our product portfolio, we have the widest product portfolio in this industry to serve our customers. We have from energy to tissue, including pulp and paper and board, all the technologies. So widest technological offering. We have capability -- or we have built a very good sales network. We have still many customers who are buying 1 or 2 products from us, but not all the product categories. So we still have growth potential for ourselves just by selling more to existing customers.

Then, of course, as a negative side, all the time, there will be closures. And roughly, like we have been saying, about EUR 20 million order intake will disappear a year because of the closures of paper machines or pulp mills. And that will be the case this year as well. Then, of course, on top of that, we'll get new installations, which are compensating partly the disappearing of our customer base. But all in all, we still have -- we have a very wide product offering. We have customers who are buying still only 1 to 2 products from us, and they can buy more products from us. And by managing the sales operation, Service operations better, we can still continue to grow also in the coming years.

Of course, if there's a decline in the economic development, we will have challenges to grow like everybody. But long-term, we still have potential to grow our Services organically. And this statement includes also the acquired businesses.

Tomas Skogman *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Can you confirm that the growth that you have achieved have not come from this kind of more cyclical parts like mill upgrades, et cetera? So that actually has been very well-spread, and that's more like sustainable growth that has been achieved.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

It has been coming from both. So again, in the year-end, we will publish the numbers for different BUs, and then you can check it. But we have been growing in Services -- sorry, in spares, then Fabrics a little bit growth, in Rolls some growth, then Energy growth, except last year, and then Mill Improvement growth. So the growth has been -- we are targeting to grow all the businesses and not to grow only the, like you said, more cyclical businesses.

Tomas Skogman *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Okay. And then finally, I wonder about this Lenzing pulp mill in South America. Is that of interest to you? Or is it kind of not in your technological scope?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Of course. Of course, it's of interest to us. And of course, we would be very happy to work with Lenzing Duratex. Lenzing has its own technology for cooking. And then the -- and the rest, we, of course, would like to be working with them, but let's see what happens there.

Tomas Skogman *Carnegie Investment Bank AB, Research Division - Head of Research of Finland*

Okay. And do you know any timing? What have the Board...

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

I don't know. You have to ask Lenzing.

Operator

Your next question comes from the line of Manu Rimpelä. And your next question comes from the line of Antti Kansanen.

Antti Kansanen *SEB, Research Division - Analyst*

It's Antti from SEB. A question on the backlog in Paper versus the orders that you are taking right now. I mean the market is fairly different. It's more geared towards the single large projects and large machines. So is the -- going forward, is the margin in the backlog going to differ a lot versus what you have been now delivering in the past quarter?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

No.

Antti Kansanen SEB, Research Division - Analyst

Okay. That's very clear. And then secondly, you've been positive in the order intake level of...

Pasi Kalevi Laine Valmet Oyj - President & CEO

Sorry, first question, where it was simple as it was easy to answer either yes or no. Sorry. Now you can continue.

Antti Kansanen SEB, Research Division - Analyst

Yes. Very clear. Very clear. Now just a follow-up on the same theme. I mean, you've been saying that you've been positively surprised on the order intake level in that division. Have you been more surprised on the opportunities available in the market or your, let's say, hit ratio on these projects?

Pasi Kalevi Laine Valmet Oyj - President & CEO

Hit ratio has been higher than what we traditionally have had in Paper. So the amount of the projects has been the one we saw, and then our hit ratio this year has been higher than traditional.

Antti Kansanen SEB, Research Division - Analyst

So have you seen any similarities on the cases that you have won this year versus the few ones that you have lost either technology advantage in certain types of projects? Or what's the -- what's usually the cause that you win a big order?

Pasi Kalevi Laine Valmet Oyj - President & CEO

I think we have -- now, of course, I have to be careful because I don't want to say anything negative about Voith. Voith is very respectful and good engineering company. But it seems that for certain customers, we have been developing that kind of concepts and small details in our products which have been helping us to win very special big machine projects. We have products which are improving the energy efficiency or the quality of -- or runability of the machines, and that has been helping. And then we have good pilot facilities in Jyväskylä and Järvenpää, where we can test different kind of things, what the customers want to test. And by utilizing those pilot facilities, we can get to close relationships with our customers. And then, of course, we have very dedicated and hardworking salespeople in our organization. So I think those 3 things have been the reasons why we have been more successful this year.

Antti Kansanen SEB, Research Division - Analyst

Okay. And then a final question. And sort of coming back to the scrubber revenue issue, could you tell -- remind how do you actually book the revenues from the scrubber projects? And did I understand correctly that, that has been kind of steadily contributing to the revenues already throughout the year, and it's kind of reasonable to expect a similar contribution on Q4 and Q1 quarters around the IMO 2020 implementation?

Kari Juhani Saarinen Valmet Oyj - CFO

Yes, Antti. So each scrubber is a project of its own, and it's booked as a completed contract, so once we are ready.

Antti Kansanen SEB, Research Division - Analyst

And you're going to see now a steady revenue bookings already Q1 throughout Q3 from these projects?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, there has been revenue each quarter.

Antti Kansanen SEB, Research Division - Analyst

Okay. And then are you willing to say anything about the profitability of these projects compared to your kind of traditional businesses?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, I think that Pasi was already saying that we have not had any issues or hiccups so far with the project. So...

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

So we are happy with the profitability of that business.

Operator

(Operator Instructions) No further question at this time. Please continue.

Pekka Rouhiainen *Valmet Oyj - Director of IR*

Okay. Thank you, operator. Thank you, everybody, for active participation. And this now then concludes the event. We'll be reporting the financial statements review on the February 5, so see you all then. But up until then, have a very nice day and rest of the autumn. Thank you.

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