Valmet Y 2021 Earnings Call

Company Participants

Kari Saarinen, CFO
Pasi Laine, President and CEO
Pekka Rouhiainen, Director, Investor Relations

Other Participants

Antti Kansanen
Johan Eliason
Manu Rimpelä
Peter Testa
Sindre Sorbye
Sven Weier

Presentation

Pekka Rouhiainen
Good afternoon, ladies and gentlemen, and welcome to Valmet's Q4 2021 Result Publication and Webcast. My name is Pekka Rouhiainen and I'm the Head of Investor Relations here at Valmet. And the presenters today are President and the CEO, Pasi Laine; and CFO, Kari Saarinen. But without further ado, Pasi please go ahead.

Pasi Laine
Thank you, Pekka. Hello, it's Pasi again. So our main message today is that our orders received increased to EUR4.7 billion and comparable EBITA increased to EUR429 million in '21, so a good year for Valmet. So to conduct this like usually, first 2021 in brief and some words about business lines and how they have been developing. Then Kari will go through the financial development. I'll come back again to talk about dividend proposal guidance and short market outlook and about merger with Neles.

So first 2021 in brief. So our orders received in stable business were EUR 1.954 billion. So I'll come back to that later on couple of times. In capital business, orders received were close to EUR 2.9 billion. Our net sales increased to EUR 3,935 million. Our backlog ended up being EUR 4.1 billion and comparable EBITA increased EUR 429 million and margin was 10.9%, and our gearing was in the end of the period, minus 7%.

Here to say the numbers, on the left side and then on top of that there is a information that we had in the end of the year, about 14,200 employees. We look the order intake by business lines. Then of course, the big news is that even if stable business meaning automation services, had a good year and we are growing nicely. Still, the pulp and paper activity and paper activity is such that the ratio between stable business and capital was heavily on the capital business side.

Area wise, Europe was stronger than normally -- normal years, about 40% in order intake. North America, little bit below the normal, which is 20% and last year it was 15%. And then of course it's very nice to see the South America, Asia Pacific and China where all have a good order intake also in '21.

Then if we look on our developments since 2013. So in orders received, we had a record year. In net sales, we had a record year. In comparable EBITA, we had a record year and in comparable EBITA margin, we had a record year. So we have eight very good years behind Valmet. And I'll come back later on to the future, but of course, we are very, very satisfied how the company and our operations have been developing over the last eight years.

Like said, our orders received ended up EUR 4.7 billion and there you see the quarterly variation, so not develop in the end of the year. And here you see also the order intake by our areas. North America was growing from from EUR 620 million to EUR 720 million. South America had a very, very good year, almost EUR 700 million in the last year close to about EUR380 million. Europe was strong in especially, in capital, ended up having orders over EUR2 billion and last year about EUR 1.4 billion. China is still only area, which declined, but then EUR 755 million is very good number for China as well. And Asia pacific grew from about EUR 350 million to EUR 540 million. So all the areas, four areas were growing and then China, even if it was declining and very good year. So geographically also a strong performance in Valmet.

Then if we look our development in stable business. First, 2013-2014 we had only services business. Then we acquired automation business and then we have made some more bolt-on acquisitions. 2019 was the record year before COVID and then the order intake was EUR 1.875 million, then we dropped a little bit under EUR1.8 billion and know we had a record year in order intake in stable business and order intake in stable business ended up at EUR 1.954 million. So order intake was higher than pre COVID year. That was also the target and we have, of course, very pleased that we achieved that target.
Our backlog was about EUR 4.1 billion and out of that 75% is in capital business, and 25% is in Services business. We estimate now that about 70% of the backlog is expected to clear all -- be realized as net sales during '22. Last year the corresponding percentage was 75% but the backlog was about EUR3.2 billion. So we have a strong backlog now for '22 than we had in '21.

Then some words about the business lines. Services order intake ended up EUR 1,488 million and it's about EUR30 million higher -- close to EUR30 million higher than in 2019. So we are very happy that Services is higher -- order intake was higher level -- at a higher level than pre-COVID and now we are growth mode again. So good development in services.

Net sales, Kari will come back later on, but was growing from 2020 and the top of EUR1,366 million but we are still there behind the pre-COVID level. So this is maybe slight disappointment to us how services net sales has been developing. Kari will come back to the reasons later on.

Services business line, business unit-wise was developing well. So all the business unit had a growth order in -- growth in order intake, compared to last year. And that's, of course, very good. And all the areas had grown as well. Especially strong was the performance in North America. And we are, of course, happy that in the end of the year, Europe started -- the activity in Europe started to improve and even Europe ended up in growth numbers compared to last year.

In Automation, we ended up at the order intake in EUR467 million and that was clearly about EUR 50 million higher number than a year ago. So good growth in in Automation.

Net sales likewise wasn't also developing as quickly as one would have may be reached. And we ended up in net sales to EUR 412 million. So the EUR 10 million higher than a year ago.

In Automation, about 74% came from -- 74% came from Pulp and Paper and the rest came from Energy and Energy and Process. Geographically, Europe was strong. China was strong and the other areas developed well as well. But of course, you see that we still have a lot of work to globalize our Automation business. So it's still very much Europe dominant business.

In pulp and energy order intake ended up below EUR 1.2 billion, so good order intake in pulp and energy. In net sales, we ended up a little bit over EUR1 billion, so EUR30 million increase there as well compared to last year. So all in all, steady development in a pulp and energy.

And then the big change compared to earlier years is that 78% of the order intake came from pulp. Energy was 22%. So some of you might remember that, that it was almost 50:50 share when the marine market was very active. So so we have had -- even if we have been losing some projects in pulp, order intake in pulp has been good.
And here geographically, Europe is strong and obvious reason is that we could very big order from from Metsa, that's of course affecting the order intake. South America was strongest well and North America is the market area, where we still have quite a lot of work to be done.

Then paper. So, four years in a row paper, was about EUR1 billion in order intake. And last year it ended up almost EUR 1.7 billion. So Jari and Jari's team have been doing very good job in keeping our market share high, and of course market activity has been high as well, very good order intake in Paper business line and net sales has been developing favorably as well. So we were net sales almost at EUR 1.2 billion level and growth was about EUR 120 million compared to last year. So good development in Paper.
And when we looked at by business unit. So seven -- by customer segments actually, 79% of the orders came from Board. So Board market has -- board machine market has been very active. 7% came out of paper. So we have been selling paper machines as well and rebuilds to paper machines and 14% came out of tissue machines.
Geographically, Europe was the biggest, China was smaller than previous years, but it was still active. So 24% out of this EUR 1.7 billion is of course very good market activity in China. And then South America was active. North America active but compared to the others, little bit less and Asia Pacific active as well. The same story compared to the authors, 13%, but absolute numbers, Asia Pacific had scores good activities as well.
So this quick overview of the business lines and now it's Kari's turn to talk about the numbers.

Kari Saarinen
Okay. Thank you, Pasi and also good afternoon on my behalf as well. So first I will of course like to thank all the Valmetiest who been involved in this closing now during these difficult times. Some folks even having the virus, coronavirus and still like excellent work. Thank you very much.

And now then looking at quarter four in brief. So both capital business as well -- both stable and also capital business orders increased during the quarter. Stable business increased by 10% and capital business by 20%. Net sales where EUR 1.2 billion, quarter four is a seasonally high for us. Order backlog at EUR 4.1 billion. Previous year, we were at

EUR 3.3 billion. So for this is 26% increase order. And then EBITA, that was the same as previous year. So EUR147 million, previous year EUR146. And EBITA this year -- EBITA percent at year 2021, 12.2% and previous year 12.5%. Balance sheet was strong. Our gearing was minus 7%.

And then some more key figures here. so as said our quarterly orders received increased by 16%, total around EUR1.1 billion. Paper business line had increased by 71%. Services business line by 30% and automation by 8%. And that means that pulp and energy actually reduced a bit.

Out of the areas, South America increased by 100%, EMEA by over 60%, biggest countries for the quarter thereby Brazil, Sweden and the USA.

Quarter's net sales EUR 1.2 billion. This is 3% higher than compared to the previous year. Automation and Pulp and Energy business lines increased. Services was flat and Paper business line was minus 5%. So this business line clearly had some delays from subcontractors as well as from transportation impacting the timing of revenue and Paper business line is currently capacity limited with longer delivery times and than usually with its projects. And that also impacts the revenue recognition there.

Cash flow for the quarter, EUR 96 million. Full-year orders received increased by 30% and orders were EUR 7.7 billion. All business lines increased, driven by Paper business lines of 65% increase and so, paper business line increased from around EUR1 billion level to EUR 1.7 billion level as Pasi already noticed, Pulp and Energy business line increased by 26%, automation by 14% and services by 10%.

Important here to notice is, that service business line was minus 3% after quarter one and that full-year orders were now 2% above pre-pandemic year 2019. So services is clearly back on growth mode. All areas except China increased but regardless of that, China remains the second highest area with orders.

Full year net sales increased by 5% to above EUR 3.9 billion. Paper business line 11% above, other business lines between zero and 3% growth. Full year sales split was 57% capital and 43% stable, pretty much the same as last year, that was 56% and 44%. So, no major change here.

Full year comparable EBITA, EUR 429 million or 10.9%. So as Pasi mentioned, record high for us, increase from previous year 1.1% points EBITA, that was EUR 448 million, including EUR 14 million profits from Neles' profit.

Earnings per share EUR1.98 cents and cash flow was EUR 482 million, gearing minus 7%. So good development from previous years 13%.

Gross profit for the quarter, 25%, previous year's quarter four was 23%, stable business share of the net sales increased slightly for the quarter from 44% to 46%. Full year gross profit was 25% as well. Last year it was 24%. Our project portfolio remained decent. Project execution as well as project management have been solid and also cost inflation. So we have been able to mitigate cost inflation by procurement savings as well as price increases.

Business activity, so looking at SG&A. So business activity increased during the second half, specifically quarter four, which also shows that development and SG&As. So SG&As

were 15% for -- of the sales for the full year. And comparable EBITA development here, so increase each year. Year '21 has ended at 10.9%. This is in the -- at the middle or -- this is in the middle of our target range between 10% and 12% which we set for year 2020 onwards.

Cash flow and net working capital. So our cash flow was EUR96 million for the quarter and EUR482 million for the full year. Profitability and also a reduction of net working capital were the key components for a strong cash flow, CapEx is -- were EUR97 million for the full year, EUR28 million for the quarter. This is slightly higher than our normal between EUR80 million and EUR90 million. We had EUR 570 million cash at the end of the year. This is 90% more what we had a year ago.

Our net working capital that reduced to minus EUR673 million and it was minus 14% of rolling 12 months orders. Previous year was minus 16%.

Net debt and gearing. So gearing was minus 7% end of the year, previous year's 13% meaning that the net debt actually reduced from around EUR 150 million level to around minus EUR19 million level. So good development here with the gearing and net debt. Retained earnings increased and that means of equity to asset ratio was 42%. Year ago, we were at 39%.

Capital employed and also then return on capital employed. So, comparable return on capital employed was 23%, so good figure. Our capital employed increased, so we can see here because the retained earnings increased. So that's the driver there.
EPS, earnings per share EUR1.98 per -- that's 29% increase from previous year. And this EPS EUR 1.98, so that is pretty much 6.5 times higher than what we had seven years ago once we started.

So, thank you very much. Back to your, Pasi.

Pasi Laine
Good. So next topics are dividend proposal, guidance and short-term market outlook. So dividend proposal, first our dividend policy. So our policy is to pay -- dividend payout is at least 50% of net profit which Kari just explained, Now Board of Directors has a proposal at the annual general meeting that we would be paying EUR1.20 dividend per share, which represents 61% payout ratio. And here you see also the development of the dividend per share. So we started with EUR0.15 last year, it was EUR0.90 and now the proposal to AGM is EUR1.20, being 61% of the net profit.

Then our guidance. So Valmet estimates that net sales in '22 will increase in comparison with '21 and comparable EBITA in '22 will increase in comparison with '21. So both, net sales will increase and EBITA will increase.

Then short-term market outlook. In Services, we keep the good. So order intake was growing 10% like Kari was saying, we have good workload situation and market is active, so also the reasons to keep the outlook as good.

In Automation, you saw the order intake as well. It has been 600 -- sorry, EUR468 million, so good order intake and -- order intake activity and market activity continues at good level.

In pulp, order intake last year was good and we still have many cases under development.

They are smaller ones, may be than last year but still good activity in Asia Pacific, especially in China.

In energy, our order intake improved in the latter part of the year or last quarter. And we have also reasonable pipeline now in business -- energy sales cases and those are the reasons why we now increased outlook from weak to satisfactory.

Board and Paper, last year was -- we only have terminology up to good but maybe it was a little bit more than good. And we still have good market activity. So we have all the reasons to keep the outlook as good. And this you -- like you saw, order intake was satisfactory last year and so is the market activity, and that's why we keep our outlook at satisfactory level. So guidance increase -- one change in outlook.
Now I'll change the slide. So that Pekka can talk -- official talk.

Pekka Rouhiainen
Thank you. Pasi. So the next part of the presentation and the Q&A session, after it will contain discussion regarding Valmet's contemplated merger with Neles. Securities laws in the United States and in other jurisdictions restrict Valmet from discussing or disclosing information with respect to the contemplated merger. Until the completion of the merger, Valmet and Neles will carry out their respective businesses separate and independent companies.

The materials and oral comments regarding the contemplated merger are not provided for and are not directed at any person that is a citizen or resident of or located in the United States. That's all. Pasi, please.

Pasi Laine
Okay, thank you, Pekka. So merger with Neles. So like we have been saying, Valmet and Neles to merge creating a leading company with a unique offering for process industries globally. So we are very eager in developing this merger.

Like you know both companies AGMs or AGM general meetings approved the merger in September '21. We have an integration planning ongoing. Of course, we have to take into account all the competition authority limitations, but all the teams, which now can work and the actions we can do, we have seen a lot of energy and positive atmosphere in the teams.

We have competition authority process ongoing. We have obtained unconditional clearances in Germany, Poland, Saudi Arabia, Turkey, South Africa, Chile and Russia. And then with the rest, Valmet and Neles, both are working constructively so that we would get the approval from competition authorities as quickly as possible.

Of course, it's clear that until the completion of the merger is completed -- after the merger is completed, we will work as two independent companies without any other cooperation.

The planning close date was target on or before April 1, 2022 and now as we are already in beginning of February, it's not any more practical to have the -- or possible to have the merger happening before April 1. So currently the target is April 1 and of course, it's still depending on competition authority approvals whether we can keep that date.

Atmosphere is good. And long-term target is good. And then we don't see any big obstacles. We don't see obstacles in the competition authority processes either, but it takes more time than we estimated in July, when we announced merger.

Questions And Answers

Pekka Rouhiainen
Okay. That concludes the presentation part and we will now move to the Q&A session once we have both gentlemen here behind the tables. And we don't have physical audience here at Keilasatama today. So we will directly go to the Q&A or questions over the phone line. So, operator, I hand over to you.

Operator
Thank you. (Operator Instructions) Our first question comes from the line of Manu Rimpelä from Nordea. Please go ahead.

Manu Rimpelä
Good afternoon. My first question would be on the services growth. So that was a bit slower than what I had expected. And I guess you had expected in the fourth quarter. How do you think about these challenges with the component availability and logistics that impacted Q4 and when do you think that you will be able to kind of reach more normal delivery schedules?

Pasi Laine
Yeah. Hi Manu. So I assume your question relates now that the
net sales. So I'm happy with the order intake growth which was 10%, but then a net sales growth was like Kari said, on a 3%. Partly it's timing issue but partly it's also a component availability issue and partly it's the component delivery time schedule issue and our organization is working on all those topics.
Of course, I can't tell how much growth we expect, but of course, team has to get the speed of net sales development closer to the order intake what we are having now. Otherwise the backlogs is growing too much. So our organization is working on all those topics. Kari, do you want to add something?

Kari Saarinen
Yeah and of course, Manu, obviously, you can calculate it. It shows that if the orders increased 10% net sales, 3%, so that means that order backlog that we are sitting at this is more than EUR100 million higher than what it was year ago. So it's based on the calculation here. And so it's in the backlog now.

Manu Rimpelä
Yeah. I appreciate that. But maybe I'm trying to understand that do you think that same challenges will continue still in the first quarter or are you seeing that delivery schedules improving, so that we can project the kind of couple of quarters sales in Q1 and Q2?

Pasi Laine
I think it's very difficult to give a yes or no answer, because there are so many moving components there. So in some countries still the COVID restrictions continue and then currently all the -- almost all the European countries are opening more or less. So it will have a positive impact. Then if Omicron will be spreading more in Asia then it might be --

have a negative impact.

Then our organization has of course learned to live with long delivery times from our sub suppliers, but the delivery times are still longer than they were some months ago. So there are many components which are changing. And then, it's very difficult to say, give you an exact answer, Manu. Sorry about that.

Manu Rimpelä
Okay. No, that's fine. Then second question on the gross margin and the cost base, especially, SG&A part of it. So do you see that be a loss, kind of, now we have reached the normal level. And when we look at the Q1 to Q3 comparison base from 2021, is that on a normal level or that we have more this kind of a step-ups to be expected in '22?

Kari Saarinen
Yeah, yeah. Thanks, Manu. So of course, one thing is that the gross profit 25%. So it's a good -- it's a good gross profit for us and also shows that we have resilience on the cost inflation side. Then if we look at the -- and also the project execution, project management has been good. And then if we look at the SG&A side and the cost side, so you're right. In that sense that first half of the year was lower with SG&As than the second half and second half also saw -- we had increase in quarter four compared to previous year's quarter four, which was unusually low.
And I would say that we are now very -- quarter four was very close to the normal level where we are. So that's how I would say now.

Manu Rimpelä
Maybe just to clarify, so is it fair to assume that also the first nine months of '21 were abnormally low or were they close to normal?

Kari Saarinen
Well, first half was low. First half was low, but I wouldn't say so that the third quarter was low, so that was coming close to normal already.

Manu Saarinen
Okay, perfect. And then not sure what you can comment about this merger with Neles. More than you commented already but any thoughts around or can you share anything about the countries where we have competition authorities looking more at the details. So have you received any requests for more information, or has there been any one of them that is already kind of approved the process and anything you can share why it's taking longer?

Pasi Laine
There are still discussion ongoing, for example in Brazil. And to my knowledge, only one company has been complaining about the merger. And it's Andritz.

Manu Rimpelä
Okay. Thank you. No further questions.

Operator
And the next question comes from the line of Sven Weier from UBS. Please go ahead.

Sven Weier
Yeah, good afternoon. Two questions from my side, please. The first one is on what you

announced on the taxonomy and sorry if you may be commented on that already in the past, but I was just wondering why the stable service business does not qualify and the capital equipment business does. What's the difference here? Thank you.

Pasi Laine
You said it exactly like it is. So we have been calculating that from our business, 51% is eligible for in this taxonomy calculation and the definition is such that if you sell -- according our understanding, that if we sell a bio boiler, it's -- biomass boiler. It's included, if we sell a board machine, it's included. But then if you serve it, its not included.
So that's the definition in taxonomy. And we of course had to take that into account in our calculation. Does it make sense for master of science not.

Sven Weier
For me neither, but I'll accept that. So it has -- it's a kind of independent what you service, service as a general activity, is not applicable.

Pasi Laine
If I remember correctly, and might be that I don't remember correctly, but it`s so that if you make maintenance work for wind turbine, then it's calculated. But if you are making the same kind of activity for biomass boiler, both being CO2 neutral electricity providers, then in biomass boiler remain and that work is not included.
And why it's so, I don't know.

Sven Weier
And was this kind of already expected, this kind of outcomes for you before or, not a surprise to you?

Pasi Laine
Let's put it the other way around. This is the first time when companies are doing it and the taxonomy definitions are new. So let's hope that in coming year, the rules are getting better and we'll make it easier to make good analysis of the company. So maybe that's a politically correct answer.

Sven Weier
Yeah. I guess it's nuclear, it's sustainable. Then there is hope for you as well. Strange taxonomy thing. But let's go to the second question. Then I had was just on the further margin improvement, right, you already now reached the midpoint of the guidance. And when I look at some of the starting points for this year, right. Of course, it seems that capital equipment business could be growing a bit faster than service. So there is maybe a bit of a mix headwind there, but you had the same last year and this to stop you from improving margin. Then we have inflation, of course. We have maybe the mix within the capital equipment business, which to me, seems to be a bit more biased to the both side of things in terms of sales increase, which I guess would be positive. So, yeah, just in terms of how we should think about further margin progression towards the, let's say, higher end of the target?

Pasi Laine
I think Kari can continue. I give first one -- one answer that, if you look the history, then from 2015, then we have had half a point quite often improvement, then last year we had 1.1 point improvement. Then of course we continue to try to develop the profit -- margin as well as possible. It's not developing maybe all the time as fast as it has been now

developing during the COVID times and there one -- of course we work on improving gross margin, but at the same time, like Manu was asking, we will -- companies like, we will have a heavier SG&A cost when the normal activity level has now -- are is in place, again.
So that's how I would answer, then Kari can continue

Kari Saarinen
Well, of course stable business increased, it's important as we -- as you know us well and then other thing is this volumes and if you just pure to look at our backlog -- backlog is 26% higher than what it was year ago and that means that we have a strong starting point now for this year 2022. So 26% backlog, EUR4.1 million. So it is strong.

Sven Weier
Okay. So you're going to have obviously good operating leverage this year, of course. Okay. Thank you, Kari. Thank you, Pasi. I'll back in line.

Pasi Laine
Thank you, Sven.

Operator
And the next question comes from the line of Sindre Sorbye from Arctic. Please go ahead.

Sindre Sorbye
Yes, hi, gentlemen. I think two of my questions were on. So, but another one on the LNG side there, and they upgraded your near-term outlook. Would you say that this perhaps could be related to the -- and then just squeeze some increasing energy prices to see and also then following the line of the previous questioner, would it now according to your understanding, the taxonomy alignment for bio-based boilers?

Pasi Laine
I think, in energy side, and it's -- the project, the development phase takes quite often one, two or even three years. So now when we talk about energy crisis in the middle of the Europe, then if somebody is now reacting to it, then we will start to see that in our order book may be in a year or two or three years. So currently the ones where we have been getting deals and where we are negotiating deals, of course project where we have been active long time.
This CO2 battle has a positive impact to our boiler business in Europe. And of course in Asia as well. And that's maybe the long-term thing that's impacting our energy business. So, people want to replace coal boilers with biomass boilers and sorted waste boilers and create energy electricity or steam and that's the market where we are active.
Taxonomy, of course, helps because these products have been included in taxonomy. Then there are some details which are not supporting us and those I hope will be corrected in the taxonomy later on but of course, taxonomy helps in that respect.

Sindre Sorbye
And then my final question, there was -- you discussed SG&A and I think you guys said that Q4 was let's say close to normal, but would you say -- is it close to normal in let's say, a percentage of sales or is it more like the nominal levels?

Kari Saarinen
That's of course like the quarterly sales fluctuate and last year SG&As were 15% of net sales and I think that overall, it's a good level to be at 15%. But there is no guarantees that

we would be exactly that next year or this year now.

Sindre Sorbye
Okay. So, I mean if margin -- I mean if you aim to at least nudged up your margins that you have been doing successfully for a number of the years, that would most likely be in the -- seem in the gross margin and not in the SG&A as a percent of sales?

Kari Saarinen
Well, of course, gross margin or gross profit percent would need to increase and also then keeping the SG&As in a decent level and 14%, 15%, there is a good target.

Sindre Sorbye
Yeah. My final, how satisfied are you with the development on quality costs during 2021?

Pasi Laine
I was just looking at five years graph in our quality cost development. And I was pleased with that. So we have been working all the years, now eight years in improving quality and we see clear improvement. So I'm satisfied with the development.

Sindre Sorbye
Okay, thank you.

Kari Saarinen
Thanks, Sindre.

Operator
Next question comes from the line of Peter Testa from One investment. Please go ahead.

Peter Testa
Hi, thank you for taking the question. I have three please. One is, just looking at the environment for, will be closer to book and burn business which is orders received and executed during the year, last year was a pretty good performance. you grew the average for the sales of the Group. So I was wondering if you had any thoughts based upon with reopening of access to sites and commercial activity, the extent to which we should have some thoughts on that part of the business and what you think that the key determinants or drivers of book and burn, please?

Kari Saarinen
Sure. So, of course, if we now look at this year, so Europe is opening up and Europe is our biggest service market, USA or North America is -- US is open as well. So that supports our business clearly.

Peter Testa
Okay. Fine.

Pasi Laine
That's maybe -- if I continue. That's in services and then of course, we have very high backlog now in paper business side. So then it means that may with the capability to do a book-and-bill in a year and capital side is less than it was a year ago.

Peter Testa
Okay. Any thoughts on modernization or other kind of upgrading type parts of service

where you've given in some cases the -- obviously, the pricing and margin environment, the customers is very good that probably be encouraged to run as much as they can. But it's been the case for a while. Any thoughts on how that might work through?

Pasi Laine
The conversion market, we book quite often in capital. It's a bigger conversion. And then of course, the graphical paper machines, which being rebuilt to packaging grades and that market was active in '21 and we estimate that it continues to be active in '22.
So maybe one or two years ago, I was saying that now the market of the suitable machines to be converted, is empty. But then of course, what happens is that when more newer graphical paper machines are being shut down, then there are new possibilities for rebuild as well and that's why the rebuilt market has continued to be active, even if maybe two years ago, we were saying something else. So currently we see that this rebuild market is active in Paper side and board side.

Peter Testa
Okay. Yeah. Okay, that's interesting. And then on the, you talked a bit about the timing of execution at the end of the year due to maybe component delays delivery on both Pulp and in Paper. I was wondering if you had any thoughts as to what -- as to how substantial that was kind of like the question asked earlier on the service side, the extent to which you feel that would be cleared through, whether there is a cost impact of that, what you need to mitigate, just to understand how that supply chain factor may be impacting the capital equipment part?

Kari Saarinen
Well, maybe one thing is that this component shortage, so that's impacting more on the automation and also somewhat to services as well. And then Pulp business as such was not so much impacted on this these. But Paper business line is capacity limited, so we do big piece manufacturing ourselves and we are quite full now.
So it means that once we take order so the project deliveries are -- take longer time than usually. So biggest impact as said for automation or services and also somewhat to automation as well. And impacting to revenue recognition end of last year.

Peter Testa
Okay, because you made a point to revenue recognition is maybe bit slower in some of those -- the capital of -- larger capital equipment, that's basically just due to your pace of capacity, not due to suppliers or others, okay.

Kari Saarinen
At Paper business line, correctly.

Peter Testa
Fine. And then the last question is just on China, which added terrific order intake in 2020, obviously, came off that what was still good in '21. You mentioned earlier on when going through the business line that you had some interesting visibility in China. I was wondering if you could just give any comments on how you think given the annual phasing we've seen, views on China by pipeline and opportunity?

Pasi Laine
China was all active in '21 than I thought and currently we see good activity in China still.

Peter Testa
Great. Okay, thanks so much for the answers.

Kari Saarinen
Thank you.

Operator
The next question comes from the line of Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason
Hi, Pasi, hi Kari. Just a question here. We were on this margin and you still have upside to your high-end of your margin targets. Historically when we have asked you about where should this improvement come from, you basically say that all business lines can improve the margins at somehow. Is this still the case?

Pasi Laine
It's still the case. And the answer is still the same that if we want to improve by 2%, then if only half has to do it, then they have to improve by 4%. And then it's fair in management that we divide the pain even to our teams. So we still try to improve profitability in all the business lines.

Johan Eliason
Okay, good. Then I was curious about one comment you made about the pulp market. You mentioned you had a very small share of orders from North America. And I was sort of wondering, I mean, the pulp mills in North America is pretty old and then we've seen a big upgrade of the mills in Scandinavia here. Shouldn't that be sort of an upside -- upcycle coming to the North American mills as well and should that be an opportunity for you or is this small share of North America were related to the fact that you don't have a strong market position over there in pulp?

Pasi Laine
Our market position is not very strong but it's strong in, let's say, strong enough, I can say, we can improve it but interestingly pulp mills haven't been rebuilt in North America. So if I go a little bit in the history, then there were maybe 20 years that the North America, there were no new paper machines or board machine built.
First, new one came maybe 2010 in operation and now we are selling maybe one machine a year or even a little bit more. And the same rebuild or new machine market hasn't started in pulp, production assets are there very old. We expect that the market will come and we are preparing our sales for that market.
But then, will it take off in '23, '24 or '25, I don't know. But in a way, it would be very difficult to see, that it wouldn't be taking off at one point of the time. North America has very good wood assets. So -- and they have industry and tradition to make Pulp. So that's a market, where at one point of time Valmet will be active.

Johan Eliason
Okay. Excellent. Many thanks.

Operator
The next question comes from the line of Antti Kansanen from SEB. Please go ahead.

Antti Kansanen
Yeah, hi, thanks for taking my questions. It's Antti from SEB. I was just trying to get my head around the gross margin expectations for this year. I mean that's quite impressive result from '21, but if you look what you have in your backlog and to be delivered this year and the cost pressures that we're seeing across the board, potential delays and so on, can you kind of achieve the same gross margins with the same project execution?
I mean, do you need to improve it further? Pasi, I guess you said you are happy or pleased how it went in '21. So is there a risk of a bit -- bit of a margins squeeze from cost side in '22?

Kari Saarinen
Well Antti, that's actually quite difficult to say. But if we look at the backlog that we are having, so of course like we have projects that where their sold margin is higher. And then we -- there is some projects where their sold margin is a bit lower and so it really depends on the portfolio what we are having and our target is that whenever we take a project, we also then improve their sold margin, so that we deliver it to them even better than as we sold it. And once we do it, we improve.

Antti Kansanen
But in a sense that '21 performance, is nothing exceptionally good. It's a repeatable, performance is going into '22 and onwards.

Kari Saarinen
Maybe, still one thing to say here that overall, we've been saying now some time already that we are quite happy with our project portfolio. And last year we had good projects.

Pasi Laine
And good execution, like you said.

Kari Saarinen
Yeah, exactly.

Antti Kansanen
Okay, fair enough. Then secondly, if we look at the Paper orders. I mean EUR1.7 billion is quite much higher than it was on the couple of previous years and driven by board, how would you kind of count for the market share gains. Is it in a certain product like a larger machine, a certain region more across the board. Could you talk a little bit more about that, and perhaps the Board pipeline going into 2022. I mean the outlook is good, but is it normal good or as good at is what was last year.

Pasi Laine
We have been successful with big and fast machine. So, and when our customers want to make light and lighter board, then to be economical efficient, they have to build bigger and faster machines. And our R&D has been developing very good products, which are helping customers to run board machines, white board machines fast and and we have had good start-ups and we have been gaining good references based on that. And that's why paper has been improving the market share against close competition.
Then market outlook. Like I said, it's good. So we still have good size of projects in the negotiation phase. And of course the challenge in our case is that the delivery time starts to be long because backlog is big. And like Kari said that the delivery capability can't be increased quickly too much but paper business has been developing well. And I'm sure that Jari Vähäpesola, who is running it, will make everything that the development

continues in favorable terms in '22 as well.

Antti Kansanen
Yeah, I mean, my follow-up question was how do you manage it going forward? I mean, I'm sure you don't want to just build up backlog. Is it feasible to ramp up growth investments into capacity to be more selective on taking new orders? What's kind of be a target at this type of backlog level?

Pasi Laine
We have investment program ongoing in Jyväskylä to increase the capacity and that program will have some impact in latter part of '22 if everything goes like planned.

Antti Kansanen
All right. That's all from me. Thanks.

Kari Saarinen
Thanks, Antti.

Operator
And we just have a follow-up from Manu Rimpelä from Nordea. Please go ahead.

Manu Rimpelä
Alright. Thank you. Just getting back to the paper division and the backlogs, also the capacity, which is full at the moment. So how should we think about the potential for you to generate revenue from the deliveries, is the kind of Q4 level of around EUR350 million of sales, is that kind of pretty much the maximum. I'm just kind of trying to understand what kind of revenue growth we should expect since the backlog provides you more than enough revenue growth, but kind of how to think about the limitations?

Pasi Laine
We, of course -- we are not guiding direct what is the revenue for paper business line. If you look the graph, the net sales was EUR 900 million, then it was EUR 1.07 billion and now almost EUR 1.2 billion and then that increase includes of course be in Poland as well. So that's the historical pace we have had in our revenue increase.

Manu Rimpelä
Okay, that's clear. And then maybe another question, just on the paper outlook. So with EUR1.7 billion of order intake in the last couple of years before that EUR 1 billion. So if your orders would be closer to that EUR 1 billion in '22, that still mean that the outlook for you is good. So, utilization rates are probably going through the roof at the moment?

Pasi Laine
It would mean, because we have been saying that EUR 1 billion is a good level. But then, I'm not saying whether we would be happy with EUR 1 billion.

Manu Rimpelä
Okay. That's all. Thanks.

Operator
And there are no further questions, I'll hand it back to the speakers.

Pekka Rouhiainen
Okay. Thank you for the questions for everybody. And this now concludes the event. We will then see each other next time on April 27, when the Q1 interim report will be published by Valmet. But until that, have a nice rest of the week.

Kari Saarinen
Thank you.

Pasi Laine
Thank you.