Transcription

Valmet Q2 2023 Half Year Financial Review webcast

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Pekka Rouhiainen: Good afternoon ladies and gentlemen, and welcome to Valmet's Q2 2023 Result Publication and Webcast. My name is Pekka Rouhiainen, I'm the head of Investor Relations here at Valmet and the speakers today will be Valmet's President and CEO Pasi Laine, as well as CFO Katri Hokkanen. After the presentations, you will have the chance to ask questions over the phone lines. Without further ado, Pasi, please.

Pasi Laine: Pekka, thank you. Welcome, everybody. So, today's headline is orders received amounted close to 1.3 billion and comparable EBITA increased by 153 million in the second quarter. We have the same setup than earlier and usually, I'll go first through quarter two, then some words about the segments and business lines, then some, an extra topic about the execution of acquisition strategy. Then Katri will go through the financial development and I'll come back to say some words about guidance and short-term market outlook. So first quarter two, in brief. So, our orders received were about 1.3 billion. Net sales was about 1.4 billion. Backlog at the end of the period were about 4.4 billion and comparable EBITA increased by 153 million and the margin was 10.8 percent. Gearing in the end of the period was 23. And here you see the graphs as well. So, so, Process technologies in net sales was about 44 percent, services 32, and automation 24 percent. Geographically, quite normal distribution, so roughly 40 percent in Europe, a little bit over 20 in North America, and then the growing areas, China, South America, and Asia-Pacific, between 11 and 14 percent.

Pasi Laine: Then if you look if we look at the orders received trend, our orders received were almost 1.3 billion. An then if you look at the trend, the trend was about close to or is ending up somewhere at 5.3 billion, 5.4 billion. We have been growing constantly through acquisitions and organic growth and now we are in 12 months cumulative terms we are somewhere at 5.3 – 5.4 billion euro order intake. Then if we look geographically, the first six months of order intake, North America has been active, 26 percent. Europe about a little bit less than 40 percent, Asia Pacific active, 16, China 11, and South America 10 percent so good distribution in order intake geographically as well. Then we have been talking many years about, first about service and then after the acquisition of the automation business about stable business. Here, you see the development of Valmet’s stable business over the years. So when we started, our order intake was about 1 billion and now last 12 months, cumulative is about 3.2 billion.

Pasi Laine: So we have acquired automation, we have merged with Neles. We have done some other acquisitions as well. Organic growth, we have calculated, has been about eight percent. The big change in Valvet is that now order intake from stable business is about 3.2 billion. And that, now, when the capital or process technology hasn't been that active, then it means that stable business represents about 60 percent of our order intake during the last 12 months. A big change compared to the year 2014 when only one-third of the order intake came from services. So good development in long run and in short run. Backlog, as I said, about 4.4 billion. 60 percent of the backlog is coming from process technologies, 25 from services, and 15 from automation. And we are now saying that about 50 percent of the backlog is expected to be realized as net sales during this year. And like said, about 40 percent of the backlog is related to stable businesses. Last year, the corresponding figure was 35 percent.

Pasi Laine: Then some words about segments and business lines. First Services. Services order intake during the first six months has been a little bit over 1 billion, so a growth of 11 or 12 percent compared to last last last year's first six months. Katri will come back later on to the quarterly numbers, but first half-year services have been growing nicely. Net sales has been growing also from 720 million to 846 million and and profitability now for the last 12 months is 16.8. So Aki and areas have been doing good work in improving the profitability of our Services. Now LTM is at 16.8 percent. So I'm very happy with the performance of our Services, both in order intake and also in profitability development.

Pasi Laine: Then Automation segment consisting of Automation Systems and Flow Control's. So now we have first time for whole one year in – no, second time – first the whole year in LTM. So the order intake LTM is now almost 1.4 billion. Like said, some years back we didn't have this business at all, so 1.4 billion. First half of the year, there we are not comparing apples to apples, but but the order intake in the first half has been 732 million so good activity. Net sales has been active as well, 642 million, and profitability LTM is now 18.4 so good profitability level in Automation business as well. And I'll, and I'll say some words about my happiness later on, on after we'll, I'll show the business line graphs. So Flow Control's, here we have the total numbers, not only, not only Valmet numbers, but Flow Control has been growing nicely in order intake from 394 million to 427 so nice activity in order intake. Net sales has been increasing nicely as well. So we are very happy with Simo's and Simo's team performance in flow controls. And Emilia has continued the good development in Automation Systems. So order intake now, first six months is about 300 million, last year 253, so 51 million improvement compared to last year, so good development in automation as well. And net sales has been developing favorably in automation as well.

Pasi Laine: Then Process Technologies. Orders received was about 1.1, almost 1.1 billion in first half of the year. So clearly, the order, the market activity has been slowing down. So, year ago our order intake was almost 200 million more than this year in first six months. Net sales has been of course active because because of the earlier good order intake. So net sales this year has been a little bit over 1.2 billion in first six months. We still have challenges with the profitability in in and and still the same reasoning. So we have some selected pulp and energy projects which are still impacting the profitability and Katri will come back later on on the quarterly profitability numbers. But, but last year we ended up at six percent, now we are 5.2. And of course, it’s it, it's clear that our target is to get to six percent level as soon as possible. Pulp and energy order intake has been 489 million, so down almost about 90 million compared to last year and now the LTM is 980 million. Net sales has been developing favorably, so net sales was almost 550 million for first half of the year. Here you see the lumpiness in order intake. Net sales has been not that lumpy and and of course now there will be a lot of questions also in in this conf-call about the flexibility of our capital business. And we have been saying all the years that we have been preparing for many years the business to be as flexible as possible. So we are, we are prepared for the situation that sometimes the order intake is 1.3 billion, sometimes it's 700 million. And now the LTM is 980 so nothing dramatic here either.

Pasi Laine: Paper business line had excellent year in 21. It had a good year in 22. Now LTM is almost 1.2 billion. First half of the year almost 600 million, so almost 95 million down compared to last last year's first half. Net sales’ about 702 million so here as well net sales are higher than than the order intake. Here – the same answer that that we have been preparing ourselves for flexibility. And Jari and Jari's team have been working on that topic a lot. So, so today's paper business line has lot of more flexibility in its capacity cost than the paper business line we started with nine years ago, or almost ten years ago. So there is always lumpiness in in the order intake of capital business and now the market is not as active as it has been, but we are prepared for that.

Pasi Laine: Good. Then there has been quite a lot of discussion about the acquisitions in in these conf-calls, but also in one-on-one meetings and there have been a lot of discussion around the topic. And now, I am happy to inform about two acquisitions we have signed now. So first, some words about the strategy. We have been saying the whole time that we continue to strengthen our Process Technologies, Services, and Automation and we are not prioritizing whether we would focus more on Automation or Services or Process Technologies. We look for opportunities to strengthen all of these corners of our triangle. And then we have been saying that we are selective like we are saying here that we we annually evaluate about 50 cases. So we work a lot on this topic. And and then, then of course, we are targeting acquisitions that are helping us to reach our financial targets to reach 12 to 14 points in EBITA. And we have, we have executed ten acquisitions and one merger with Neles after 2014. So we have been active, active on this topic for many years already.

Pasi Laine: Noh, now we are very happy to to announce two acquisitions. And the first one is the acquisition of Körber’s Business Area Tissue. We have had many years of discussion, discussions with Körber and I'm very happy now that we are, we are in a situation where we have signed the acquisition agreement. Iso it was signed on the 7th of July. The enterprise value is about 380 million. And then of course we, we need to get the competition authority approvals in in selected countries. Not that many but in some countries. And we expect that we can close the transaction in November the 2nd, this year. And the business will be integrated as one part of Paper business line, as a separate business unit, and in our reporting, we will report part in Process Technologies and services in Services business line numbers, but the unit will be as one unit managed by the head of Paper business line. The business, what they are doing, or first let's start what we do. We do currently tissue machines. After tissue machine, you get a so-called jumbo roll. And then, Körber has all the technology to transfer this jumbo roll to rolls, what you buy in local stores, or what, what the Away from Home market is using.

Pasi Laine: So they have all the technologies to transfer the jumbo roll to consumer rolls and and and I'll, I'll have a picture of that later on. Körber, Körber has the widest offering in converting industry and it's the market leader. Net sales was about 305 million last year and EBITDA margin 12 points. And and it has a good and strong growing service business, which is about 36 percent of the net sales or was 36 percent of the net sales in 22. Headquarters is located in Italy in Lucca. It's so-called Tissue Valley. And then it has operations of course in Italy, Brazil, China, Japan, and USA. Then the rationale of the acquisition is, is that we can, we are now after it, the acquisition has been closed. We have the widest technological offering to make, to make fiber, to make tissue jumbo rolls, and then convert that to the end users. It's strengthening process technology, strengthening customer services segment as well, and then it's strengthening also our automation offering. We have a good automation offering for, for tissue, and Körber has a very advanced automation offering where they're using third-party hardware. But they have very good applications and, and remote, remote services and everything else for converting customers.

Pasi Laine: So, in the long run, we can see that we will have the benefit of having the data from both sides and trying to optimize the production units. Then we see that we will have sales synergies and cost synergies, so that we estimate those to bring about 8 million by the end – 8 million benefits by the end of the 26. And here's the picture how it looks like. So we first have tissue stock preparation, tissue machine, tissue rewinders, and then the converting lines. Converting lines can be together with the machine in the same location or in another location. And big part of the converting lines are sold to tissue – companies who make tissue as well, about 80 percent. So the customer base we are here serving is actually not expanding that much. So our current customers are buying the machine from us and they are buying the converting line from somebody like Körber. And now we are the one-stop shop, one-stop shop supplier or we'll be that kind of supplier to that segment in the future. So I'm very, very happy that finally we have signed the agreement and and we are waiting eagerly for the closing date.

Pasi Laine: Then to strengthen Automation, we have made – signed a deal to, to acquire Process Gas Chromatography business from Siemens. We have been looking for opportunities to strengthen our Automation business for many years and they aren't that many, many companies available which would have a reasonable size of a product business. And we are very happy now that we have been able to sign the deal to, to acquire this part of the Siemens business. Enterprise value was about 102 million and net sales of that business was last year about 120 million, and profitability about – EBITDA margin about 10 percent. So we see the good potential – first of all where they are used. So these are used in chemical and gas processes to analyze the component or components of different gases and chemicals. They are used by, by big corporations, big chemical corporations, big petrochemical corporations, big gas corporations, and all the big ones are using these, these products. And then, this product, which is called Maxum, is the market leader. It's very well recognized by end customers and appreciated by end customers.

Pasi Laine: So, the rationale is that we can provide a good framework to continue this business. We have global network, and we can integrate or provide, provide good facilities and good support for the business. It will be organized as one business unit reporting to the head of Valmet Automation Systems business line head. And we, we will have some synergies with Flow Control's as well because Flow Control is serving the same customers. And then we see that this is an opportunity also for our system business to, to learn new industries and get new customers. So, in the long run, I see this as an important step to widen the customer base of our very well operating automation business. So I'm also very happy that we were able to sign this deal, and we are estimating that the deal will be closed in 1st of April next year. Good. A little bit longer story from me this time. Now I let Katri to tell the important topics.

Katri Hokkanen: Good afternoon on my behalf as well. Good to be here today to share the financial results with you. I will highlight the key figures for the quarter starting from the order intake that was close to 1.3 billion and three percent lower than the comparison quarter. Order backlog was at the level of 4.4 billion or eight percent down and net sales was 1.4 billion and 10 percent higher than the comparison quarter. Comparable EBITA was 153 million or 10.8 percent, and that was 1.3 percentage points higher than last year. Items affecting comparability, that was 2 million for the quarter, and last year it was 32 million and last year it was impacted by Neles. Earnings per share, sorry, adjusted earnings per share for the quarter was 0.60 and that was 12 percent lower than last year. It was impacted by, by financial expenses as well as effective tax rate, which was lower last year, again, because of Neles. Few words also about the segments starting from the orders. Services was 430 million. That was six percent lower than, than the comparison quarter. Maybe good to mention that the second quarter last year was our second-best order intake quarter ever.

Katri Hokkanen: The best was the first quarter this year and now Services is little bit over 1 billion when we look at the year-to-date numbers. Automation had good quarter in terms of order intake, it was 340 million and 12 percent higher, and year-to-date Automation was 732 million. Process Technologies was little bit below 500 million for the quarter, that was eight percent lower, and year-to-date Process Tech is close to 1.1 billion or 15 percent down. And as total quarter was 1.3 and year-to-date, we were at 2.8 or seven percent higher. On the net sales side, it was developing well in all the segments both for the quarter and also for the year-to-date numbers. Quarter was 1.4 billion and year-to-date we were at 2.7 over 20 percent higher than, than last year. Comparable EBITA was developing nicely for stable business. Services was 80 million for the quarter or 17.5 percent and year-to-date Services was at the level of 16.8. Automation segment was 61 million or 17.9 percent, and year-to-date they were at 17.2. Process Technologies was 30 million, for the quarter, sorry, for the quarter it was 4.8 percent and year-to-date, Process Technologies was at the level of 4.7.

Katri Hokkanen: Other segment costs were 17 million for the second quarter and year-to-date, it's minus 26. Here the beginning of the year has been cost heavy and there has been lots of activity which has impacted this number. The quarter EBITA was 153 and year-to-date we are at 286 or 10.5 percent and that is 1.5 percentage points higher than last year year-to-date.

Katri Hokkanen: Comparable gross profit was 26 percent for the quarter, and when we look at the last 12 months, we were at 25 percent level. SG&A last 12 months, we were at 900, and that represents 16 percent of the net sales. When we look at net sales and comparable EBITA, both have been developing favorably. Net sales, when you look at the last 12 months, we are close to 5.6 billion, and out of that 3 billion is related to stable business. Comparable EBITA margin last 12 months is now 11.1 and target is unchanged to be between 12 to 14 percent and that work continues. Cash flow for the last 12 months was 273 and net working capital was minus 31, and this is now excluding the dividend liability and it represents one percent of, sorry minus one percent of the rolling 12 months orders.

Katri Hokkanen: And net working capital of course the capital project payments are impacting quite a lot here, as well as the elevated inventory levels which we have had. Maybe good to mention here also that the – since the proportion of stable businesses has increased, of course, that comes also with the positive net working capital. Net debt was 542 million at the end of the second quarter and gearing was 23 percent. Good to mention here that we have now paid the first installment related to dividends out in April, and the net debt to EBITDA ratio was 0.77. Capital employed was close to 3.4 billion at the end of the second quarter, and comparable return on capital employed was 15 percent. And good to note here that integration of Flow Control has impacted the capital employed as well as the percentage when looking at the last 12 months' numbers. And then last but not least, adjusted earnings per share was €2.42 when looking at the last 12 months' numbers. Those were the financials. Shortly, I will give the floor back to Pasi.

Pasi Laine: Thank you, Katri. Then still guidance and short-term market outlook. So, we keep the same guidance that we estimate the net sales in 23 will increase in comparison with 22 and comparable EBITA in 23 will increase in comparison with 22, so increase and increase both. Then the short-term market outlook. And like you remember, we are saying that 50 percent is coming from our capacity utilization and 50 percent is coming from the customer activity. And in Services, we have downgraded from “good” to “good slash satisfactory” and – so we, we have had good order intake like I was saying and Katri was saying in Services and that is resulting that we have very good capacity utilization currently. Then we have seen that the market activity has been slowing down and that's why we are, we are saying the market outlook, saying that the market activity has decreased to “satisfactory” level. In Flow Control’s, we have still “good” market outlook. In Automation Systems we have “good” market outlook. In Pulp, we have downgraded from “good slash satisfactory” to “satisfactory”, and they, so that now, when when there's some uncertainty in the, in the markets and economic development and also interest rates have been increasing, then the decisions have been postponed. We have, of course, active discussions with customers but but let's see when the – when the decisions will materialize and that's why we have been downgrading the outlook to “satisfactory”. And you see also that in our order intake that now the order intake LTM is somewhere at €1 billion level and not higher. In Energy we have – and that's of course the whole pulp and energy, not only Pulp. In Energy, we keep the outlook as “good”. In Board and Paper the same what I said earlier, so we have had “good” and now order intake LTM is somewhere at 1.2 billion and last, noh, 600 million in in first, first half year, and that's why we have now downgraded the outlook from “good” to “satisfactory”. Tissue, we keep the outlook at a “satisfactory” level. So, three changes are in the market outlook. Good. And now we go to the, oh noh, now, I'll let Pekka on the stage and then I'll move. Heh.

Pekka Rouhiainen: Yes, thanks, Pasi. So, now it's time to move to the Q&A session so I ask Katri also to join Pasi here behind the tables. Thank you. And let's then go to the Q&A so operator, please.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen: Hi, guys. It's Antti from SEB. A couple of, couple of questions from me and let's, let’s start with Services. I mean, after or after Q1, you still had a “good” market outlook for the business, and if you now reflect on the order intake that you took during the quarter, was it as, as you expected? Was it weaker than, than anticipated? And maybe you can talk a little bit more detail into, kind of the market activity parts and consumables separately and then perhaps kind of projects shutdown services and and things like that separately. What do you see from your client base?

Pasi Laine: Joo. Like Katri said – I'll start and Katri will, will add. So, so, so like, noh, now I lost, lost myself.

Katri Hokkanen: Maybe it was the second quarter of last year?

Pasi Laine: Joo, joo, exactly. So, so Katri said that last year was very good order intake in in, in the second quarter. So the comparison number is tough but then of course it's the fact that we are six percent down compared to that. Did we estimate it? I think in end of March, maybe not then, then maybe later on we started to see that the market is slowing down, so, so still I would say that our understanding in the, in end of the first quarter was that the market continues to be more active. So so, so there has been a change in the market compared to what we saw in end of March. Then more detailed view. South America is, is still active, North America is holding, and Europe has been holding. Holding. Let's see what happens now in Europe, Europe after summer vacation. So now, of course, during the summertime, it's little bit difficult to see any good trends. There is clear, slow market in China and Asia-Pacific is holding so geographically, so. Then, then in, in, in consumables, we see less activity. So, now when the mills are not running as well as they are or as with us, high production volumes and earlier, then we see that there is less need for our paper machine clothing and less need for roll workshop services as well.

Pasi Laine: So, those are related to the, to the production volumes. Then in, then in, in, in mill service type of or project type of and field service type of services, we see a little bit different behavior that pulp customers have been more active than paper customers in that kind of segment but as an average, the market has been still reasonably good for the first half of the year and, and performance parts has been active.

Antti Kansanen: Yeah, I was just kind of, kind of thinking that was, was Q2 demand then ended up being “satisfactory”. I mean, just trying to get, do you expect the activity kind of sequentially weakened going into the second half versus what you actually then ended up seeing on the second quarter, or am I kind of overreaching here?

Pasi Laine: No, no. We had quite a lot of discussion that should we, should we keep it as “good” or should we change it? But then we, we were, in the end, concluding that now when the order intake in second quarter is six percent down compared to earlier year, then, then it would not be right to continue to say that the market is “good” even if for the first half of the year order intake has been growing.

Antti Kansanen: Ok. Then maybe a bit more detailed question on kind of the shutdown services and things like that. Are you seeing that your clients are kind of cutting production in a way that results in you doing shutdown services or are they just kind of lowering it but still continuing to run so that there's perhaps not as much demand as you hoped for?

Pasi Laine: I, it’s of course – of course, it depends a little bit on the area, so once again, we have, we are operating all the continents and we have thousands of customers so it's difficult to make one summary but, but I would, I would say so that the customers who are now worried about their cash flow are reacting on mill improvement projects quickly because that's maybe the quickest way for them to, to, to reduce their cash outflow. And if they have that kind of improvement projects which are not 100 percent necessary to be executed now, then they delay their decision-making.

Antti Kansanen: All right, makes sense. And then, then one question on, on the cash flow. And I mean you refer to the project payment schedules as one part of kind of what is driving the working capital to be negative. Is this kind of in your view a normal project business type of a phenomenon, or is there something related to, I mean, you have talked about profitability issues in some of the key projects? So, are these also impacting the cash flows or how should we think about and when should we kind of expect improving cash conversion from you?

Katri Hokkanen: Yeah, if I, if I kind of start from the overall situation, so, our projects are cash flow positive, and that's kind of our operational model. And it was still highly on the positive side even if it's lower than what it was, for example, at year-end but nothing has really changed. No changes in the contract terms. There are lots of variations between the quarters. So it’s – when we talk about these payment schedules, they are reflected on the time so that's normal. Nothing special there.

Antti Kansanen: So it's just a kind of cyclical kind of project cycle and no, no issues at all, and then perhaps at some point we should see a reversal or?

Katri Hokkanen: Well, it kind of goes with the kind of capital orders. So, those can fluctuate quite a lot between the quarters, but I think that when we look at the net working capital as total, of course, the other focus point is the inventory level. So, they have been elevating. We have been discussing about it quite a lot and and we have to now check carefully. That is, there are some levels that we can bring down and and where do we still face the component availability? Because of course we want to make sure that we can still deliver.

Pasi Laine: Yeah, in case that’s.

Antti Kansanen: Ok and and what do you then kind of expect for the second half? I guess based on the backlog, the growth is maybe slowing down a little bit on on the sales side. So is it too early to expect a big improvement in the second half or?

Katri Hokkanen: I think that if you're referring to the net working capital, of course, it's very highly on our management agenda. That I can say. One part of course is the inventory but when it comes to these capital projects and their timing, so that is cyclical and it can, it can cause a fluctuation into the net working capital.

Antti Kansanen: Okay, thank you, all for me.

Operator: The next question comes from Sven Weier from UBS. Please go ahead.

Sven Weier: Yeah, good afternoon and thanks for taking my questions. Firstly, I also wanted to follow up on these Services order intake, because I guess if we look at the situation sequentially, it looks a little bit more drastic than just the year-on-year comparison. I know there's been a big ticket in Q1. There is a bit of seasonality in Q2, but it still seems like a more abrupt change on behalf of your customers, maybe also reflecting their poorer situation that they have in Q1 and Q2. I was just wondering, do you think that's a kind of new run rate in the Services order intake from here? And have you also been seeing kind of a destocking in in Q2 that has maybe made these Services orders overshoot to the downside?

Pasi Laine: Yeah, joo, joo. I don't see that it's drastic. And it's good that you reminded that in Q1 we had an extraordinary order intake, and that's not the comparison. Then in a normal year, like we have been saying earlier, one should remember that about in a normal year, 55 percent of order intake happens in the first half of the year, and four to five percent in the second half of the year. So, so that has been the normal phenomenon before the COVID times and now we are maybe more in a normal situation. And then, then it's true that customers are most probably destocking as well. So, so when the delivery times were very long, then the and then we said that part of the order intake is active because customers have to react to the longer delivery times. And now when our delivery times and all the transportation times are getting more back to the normal, then I'm sure that they they are also making actions to reduce their inventory levels, and that has of course impact to our, our Services order intake. But I don't see any drastic change in the customer's behavior. When they produce with the machinery, then they need to buy spares, they need to buy consumables, they need to continue to maintain the machines. Our customers are still financially strong. They still all believe into the future of the industry. So even if there's no downturn, short downturn in the, in their demand and pricing, then, then I haven't heard anybody saying that they wouldn't have a big belief in the long term in the industry. And this means then of course that the Services market will continue.

Sven Weier: Yeah, thanks Pasi and.

Pasi Laine: But there is now, now that kind of fluctuation.

Sven Weier: Yeah. And I think you said in the Q1 call, if I remember correctly, you already said that in a consumable demand might go down, but on the other hand, you might have more revenues from maintenance shutdowns. And we saw the guidances of your customers, right? That there are also maintenance shutdowns in the second half. Is that still your kind of best guidance that there is this balancing out of the two?

Pasi Laine: Yeah, joo, joo. And then, then maybe, maybe where I was not, not correct is that of course the maintenance shutdowns are happening, but then maybe some of the customers are postponing some of the improvement projects which are not 100 percent necessary if they want to manage their cash flows. And that's maybe – was something I didn't think of carefully enough before the conf-call after first quarter.

Sven Weier: Okay, fair enough. Thank you. The second question I just had was on the – when I take your backlog guidance, the 50 percent remainder of the year, same last year, that's, I think suggesting 200 million lower sales than last year. If I did it correctly. Does it mean you have to make any kind of short-term layoffs or deal with that? Or how should we look at the overall volume in the second half?

Pasi Laine: We are not giving any other guidance that increase and increase in the net sales. I think one guidance, guidance is that there's, there's now less capital business in the backlog than year ago. And then about the layoffs. We, we have been building the business structure such that we, we have good flexibility in the organization. So currently, we don't need any extra layoffs, but then all the time we have situations that can be in one specific location, we don't have enough work. And then especially in Finland, it's very easy to lay off temporary people and then people will get back immediately when, when, when we have workload back on the normal levels, and that's in a way normal capacity management what we do every year.

Sven Weier: Clear. Last question I had was just on the Other line which picked up to minus 17 in the quarter. Is there a Q2 seasonality here? Because we had the same swing Q2 last year? Something to keep in mind on that?

Katri Hokkanen: When we look at, the Q2 was, was 17 million and year-to-date we are at minus 26 if you compare it to last year's 39 million, so it has been cost-heavy beginning of the year. We estimate that it will be approximately somewhere between 45 to 50 million.

Sven Weier: Okay, thank you.

Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

Panu Laitinmäki: Hi, thank you. I have three questions. Firstly, on the revised market outlook for Board and Paper. How big is this change? I'm just wondering about the magnitude of the change you see in the market. Because if I look at your market outlook, you have had "good" outlook for this business for quite a long time and it was in 2016, the last time you expected it to be "satisfactory". And at that time you had like 700 million run rate in the orders and now about 1.2. So is this a kind of level you should expect it to land now or any any thoughts on what this means?

Pasi Laine: No, no. We are not giving guidance on order intake on on business lines. But but 2016 thereafter, the market has been active and very active, and we are used to the levels where the order intake is, is at totally different level than in 2016 when we, when we didn't actually believe that the order intake will go over 1 billion. And like you have noticed it, the record has been 1.6 billion. And then in 2016, we didn't even dream of that kind of volumes. Now, of course, after the good years, our expectation level and your expectation level have changed. So so one should not compare these two words "satisfactory" in 2016 with today's word "satisfactory".

Panu Laitinmäki: Ok, thank you. Then on the Services margin, can you comment on what you expect in the coming quarters given that the orders came down? So so, maybe revenue will follow and then you probably had quite good pricing impact year-on-year and you started to have that later last year, so, so basically, do you expect margin to improve going forward?

Katri Hokkanen: I can.

Pasi Laine: This is difficult. You can take it. Heh.

Katri Hokkanen: I can start and then you can continue. Of course, we are not guiding the margin going forward but but you are right, it has been developing. So it was now 16.8 and if you compare it to last year's 14.8 of course there has been good development. Volume has been supporting it so we have more net sales. And it's also good to remember what was the situation last year. So the profitability for Services segment was below ten on the first quarter and second quarter was a little bit over 14, so price increases have been done.

Panu Laitinmäki: Ok.

Pasi Laine: And and of course, we continue to work on the profit improvement. So, so

Valmet's target is still to get between 12 to 14 and we continue to work on profitability of all the businesses, including Services.

Panu Laitinmäki: Thank you. My final question is on Process Technologies and and the – let's say problem projects in that business. The margin was similar in Q2 compared to Q1. So, basically, question is, do you have any, any kind of new issues there or is it still the same projects impacted by inflation, or what is kind of behind the margin level we saw?

Pasi Laine: It's the same issue.

Katri Hokkanen: Yeah.

Panu Laitinmäki: Okay, thank you.

Operator: The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

Johan Eliason: Yeah, hi, it's Johan here at Kepler Cheuvreux. Just a question on the, on the M&A. You gave us some profitability numbers for the businesses you're acquiring. Are you targeting that this will be supportive of your 12 to 14 percent EBITA margin target, and when would that be?

Pasi Laine: Yes, we are targeting that they are supporting our targets, but then of course we will not in the future comment on their profitability separately and they will be integrated into our organization. So it will be part of the Process Technology, Services and Automation profitability numbers. But of course, the target is that if we buy something, then it's also, also supporting us to in the long run to achieve our profitability target.

Johan Eliason: Good and obviously, you are buying these right now when the interest rates are going up and this will impact your debt quite significantly. Can you indicate anything about what sort of interest rates you are expecting to finance these acquisitions with?

Katri Hokkanen: We cannot give any kind of detailed information regarding that, but at the end of the second quarter, the average interest rate was 3.6 percent.

Johan Eliason: Great, thanks, okay. And then finally coming back to Services a little bit. We've seen now the orders trending well above revenues for for some time, which is a bit unusual for Services, which typically has shorter delivery times. Will there be a sort of catch-up now coming on the revenue side from, from the Services?

Pasi Laine: So, we have had of course long delivery times in Services as well, so from that perspective, it's good that for a while we will have higher net sales than order intake. Like I was referring earlier to the normal year before COVID, then it was so that order intake was 55 in the first half of the year and 45 in the second and then the revenue typically goes the other way around. So, so first half 45 and the latter half 55 percent, so that's a typical year.

Johan Eliason: Ok. And you haven't seen any order cancellations, irrespective of if it's in Services or the project businesses, etcetera.

Pasi Laine: No.

Johan Eliason: Oh, excellent. Thank you very much.

Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

Tomi Railo: Hello, Tomi here from DMB, also on Services. I hear you saying that the downgrade, you had a chat if it was “good” or “satisfactory” or kept that “good”. It's a combination of customer activity and capacity utilization. How should we read 430 level going into the second half? Is it fair to assume that the customer activity drags down that 430 or should 430 be a bottom level?

Pasi Laine: I have difficulties to follow. What was, it was 430? Ah, okay, 430. Ok, ok, ok. So, so you mean now that what's the order intake against this 430, which was the second quarter order intake level? So, like said, in the beginning of the year, usually we get 55 percent and the latter part 45. Then does it happen every year? No. And then are we giving guidance based on one quarter order intake and what happens to the next one? Maybe, maybe not. We work hard – noh, let's start from the other angle. So, so like we all remember, last years we have had a lot of challenges. So, there was COVID and different kinds of supply chain challenges and logistics challenges. And we had a war start in Ukraine, and we had also a fire in Rautpohja. So now, all that kind of extra hassle is away and we can focus on managing the business. So of course, now, I'm sure that Aki and all the area heads are focusing a lot now in managing the order intake in Services. So that's the key, key focus on top of, of course, winning capital cases and on, on, on, on focusing on net working capital reduction and cost competitiveness actions. So – but we have now very well management capacity available to focus on order intake, and that's where Services and area management will focus the latter part of the year.

Katri Hokkanen: Thank you. And the second question is just on the capital pipeline. You talk about delays in decision-making. Has the pipeline as such changed in terms of the number of potential projects values, or is it just a function of delayed decision-making?

Pasi Laine: In Pulp side, it's actually has been the same. So we were also expecting lower activity level for this year and the bigger projects will be starting to develop in maybe, maybe more in, in 24. In Pulp or Board side, there have been couple cancellations, public cancellations, at least one cancellation of one big project in Europe. Otherwise, they are postponements. So, customers are now thinking about interest rates, demand development and their own cash flow situations and own, own balance sheet and then estimating and thinking when to go ahead with the, with the investments. But I'm aware of only one cancellation of a project that's now in our sales pipeline.

Tomi Railo: Thank you.

Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen: Yeah, hi, I just wanted to follow up on the Körber acquisitions. Could you maybe talk a little bit more on kind of what is the biggest opportunity that you Valmet, Valmet can make to this business? From technology point of view, it looks like a separate technology from, from tissue machines and then the converting. Is there a benefit of you making both machines? Are benefits for the client that that you sell both of those machines? Like where can you actually move the needle with this business?

Pasi Laine: Joo so, so the machines are different. And the positive thing – noh, one difference is that the projects, what we are, what we will be selling there, are small compared to our, our machines so even if the picture looks a little bit different. But you can buy a converting line from 3 million to 7 million. So the project risk level is different in, in converting business. So it's more machinery, normal machinery business compared to our big machinery business. Technology-wise, we see that there is, there is improvement potential in the operational efficiency of converting lines. So converting lines are not running very effectively currently, and we see that there is an opportunity that the ones who make the jumbo rolls, so we, have the jumbo roll technology and data and if we use that technology to optimize the jumbo roll for the converting and the data to optimize the converting line performance, the operational efficiency in converting lines can be increased. Then, then the combination will have a lot of more frequent customer contacts. So the converting lines are there all the time, developing the offering for customers. So they have frequent contact with the customers and the machine supplier doesn't have the same. So, we actually get a lot more intimacy with our, with our customer base once we have concluded the acquisition. And then from client's perspective, we can, we can offer the whole solution. If somebody is building a new plant, including tissue machine and converting line, we are then the only Western supplier who can supply the whole package to them.

Antti Kansanen: Okay. And then just to make sure kind of from competition authority or market share perspective, are these kind of two, two different markets, the machine market where you are operating and the converter market that you are buying that there shouldn't be any major concern?

Pasi Laine: They are different markets.

Antti Kansanen: Okay. And maybe lastly on Körber still, is there kind of, we know the geographical split, but is there something kind of you can add or are they underrepresented in some market areas where you're strong or anything like that?

Pasi Laine: We both have possibility to strengthen ourselves in Asia-Pacific.

Antti Kansanen: All right, sounds good. Thank you.

Pasi Laine: Thanks.

Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

Tom Skogman: Hello, this is Tom Skogman from Carnegie. I wonder about pricing and when you have a more uncertain market. My understanding of pricing has improved a lot since, you know, let's say, seven, eight years back in Board and Pulp. Are you prepared to use pricing now in order to secure orders in a more uncertain market? Or will you be really stubborn and hold on to your improved sales margin in new orders?

Pasi Laine: In Process Technology, we will continue with the same policy that, that we don't see any reason to be more flexible in Process Technology.

Tom Skogman: Okay and then I wonder about Automation Systems and the order outlook that we now have lowered the outlook for Pulp and Paper. Is it kind of just a question of time before you weaken that for Automation as well as a large share goes to your own projects and they come at a later stage in the project?

Pasi Laine: Currently, we haven't seen it. So, so thirty percent of the System business is coming from non-pulp and paper customers. And then, then our organization has been developing new products for pulp and paper customers. We are introducing new products all the time. We have, we have good customer contacts, we have good planning together with customers how to keep our systems up to date. So, so currently, we don't see that kind of phenomenon.

Tom Skogman: Just to get more exact data, how large share of Automation Systems sales goes to your own new equipment? Or projected?

Pasi Laine: It's between 10 to 20 percent on a yearly basis. And like you have seen, this year order intake in paper machines has been dropping already so, so it, it hasn't been that active than it has been earlier in some years.

Tom Skogman: Yeah. And then finally about the pulp project sales funnel. Is there more than one project in the funnel for next year so we don't end up in a situation where competition as Andritz, is horrible for if it's just one huge project? Is there more than one?

Pasi Laine: Timing-wise, I can't say when the decisions are coming, but there are several in development phase.

Tom Skogman: Okay. Thank you.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The next question comes from Mikael Doepel from Nordea. Please go ahead.

Mikael Doepel: Thank you. Just a quick follow-up there on Tom's question about the pricing versus uncertain markets. You talked about Process Technologies there, but how about the rest of the business, for example, the Service business or any other segments? Do you see – do you see price pressure there?

Pasi Laine: We see price pressure there all the time and I think all the time already earlier saying, saying that markets are getting more normal. There were time when it was easy to easy. We were delayed, but, but it was more easy to increase the prices. Now we are normal market situation so we have to make sure that we improve our cost competitiveness all the time to continue to improve the profitability. So, so Valmet’s target is to get between 12 to 14 and we can't get there if businesses are not continuing to improve their profitability. So, it's normal market. In normal market –

I'm that old but in normal market, in my mind, there is the interest rate, and there is inflation, and there is competition.

Mikael Doepel: Got it. That's clear. Thank you.

Operator: There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Pekka Rouhiainen: Thank you then for the lively discussion and Q3 results will be published on the October 25. So, until then, I wish everybody a really nice summer. Thank you.

Pasi Laine: Then you wish very long summer. Heh. Good, thank you.

Katri Hokkanen: Thank you.