Transcript for "Financial Statements Review for 2024"

00:00:01 - 00:01:03
Pekka Rouhiainen: Good morning, and welcome to Valmet's fourth quarter and financial year 2024 results publication, and webcast. My name is Pekka Rouhiainen. I'm the head of investor relations here at Valmet. With me today are the presenters, president and CEO, Thomas Hinnerskov, and CFO, Katri Hokkanen. The year can be summarized so that Valmet's orders received in 2024 increased to a new record, but net sales and comparable EBITDA did not grow. The market was challenging, especially for capital equipment, but we were very pleased to win a landmark order which was booked to the fourth quarter. Today's agenda follows the usual routine. Thomas will first go through the year in brief and walk us through the development of the segments and business lines, and Katri will then discuss the financial development, especially from the fourth quarter perspective. After that, Thomas will wrap up the dividend proposal of cadence and some of Valmet's short-term market outlook, but with that, Thomas will hand it to you.

00:01:03 - 00:01:53
Thomas Hinnerskov: Thank you very much, Pekka. Great to be here. I'm pleased that we've closed a year and now looking into a new year. Maybe just to start off, I want to thank all our 19,100 and something volunteers around the globe who've delivered a stunning job in a very challenging year and trying to take good care of all our customers globally. Thank you very much for that. Also, thanks to the customers for their trust during the year, which, for many customers also has been a challenging year. Finally, thanks to the analysts and investors for some good discussions in Q4 or my last six months or first six months here at Valmet. Actually, that was yesterday. We had the anniversary, which is a good way to start the new next six months.

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Thomas Hinnerskov: As Pekka said, if we look at 2024 overall, orders received increased to a new record. Arauco deal was obviously sort of the landmark order that was booked in Q4, with a value of more than €1 billion. The overall market and the year were characterized by being quite challenging, particularly, in the pulp and paper industry. Also, a strong order backlog of close to 4.5 billion, I guess the second highest in the history of Valmet, which gives a good solid starting point going into '25. Despite those orders increasing, as Pekka said, our net sales and comparable EBITDA did not grow in '24, which was in line with our guidance that we indicated earlier after the Q3 results. Margin 11.4 percent , the highest ever, driven by a favourable sales mix. Cash flow increased to a new record for Valmet.

00:02:59 - 00:03:59
Thomas Hinnerskov: I have to say that's one of the things I'm really happy with for 2024. It really shows good quality of earnings. Something that was criticized in some of the investors and analysts meetings that I had at the beginning of my tenure just after the Q3. I'm really happy to say that there is good development here. Katri will talk you more through the details of that. I'm really happy with that. Row three is 12.7 percent, a decent figure in our industry. However, we want to find ways to improve that. As you know, our current overall target is to be at least 15 percent. Towards the end of the year, which is also one of the really exciting things that we have going, is that we initiated work to renew our strategy with the aim of defining our future growth areas. Simplifying the ways we work and simply making it a more efficient operation than what we know today.

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Thomas Hinnerskov: I'm very excited about that. I believe that the things and the changes we're planning will enable us and Valmet to be much faster and much more focused as an organization and as a partner for our customers which will be an exciting journey that we embark on. Our legacy of more than 225 years, actually, 228 this year, I guess it will be, will be a solid foundation for that next chapter in the Valmet history books. Stay tuned for more information on that later this year. Going back to overall, or the net sales, rather evenly split between the different segments, comparable EBITDA of 900 or 609 million came mostly from our stable business. I would almost say, as usual, service and automation together are already at €585 million.

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Thomas Hinnerskov: It's also despite capital businesses being 43 million, it is good to remember and take note that that does fuel the future service sales and service growth. Looking at it from a lifecycle perspective is important in our industry. Comparable EBITDA, track record '15 to 2021 is really strong. However, over the last three years, our EBITDA, or the growth there, has been largely driven by acquisitions. We saw tissue converting late '23 API this year. You can see that it's not really happy with the net sales going down comparably, but that did not increase as we would have liked. This is the first year in Valmet's history where that has not happened. Primarily, I would say this clear decrease is both in revenue and profitability.

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Thomas Hinnerskov: We come back to that a bit later, is in the process technology segment. Going forward, we do need to make sure that we have an efficient operation, just like I alluded before in the strategy work that we have initiated, that will perform also in a challenging market like we've seen the last year. The lack of organic growth and profitability is something that is high on the agenda when we look into this strategic renewal of development. Orders received. Clearly, a record of the quarter for the orders. I think that's clear to everyone thanks to the Arauco. Overall, it was also a record year for this received. Looking then, if you double-click just into the geographical split that is South America and North America, orders did increase. Also in Asia Pacific, whereas in China and EMEA, the overall market was soft, and we saw a decrease there.

00:07:13 - 00:08:22
Thomas Hinnerskov: In terms of the customer industry split, pulp and paper is still the biggest segment that we have in the industry. We have roughly €4.5 billion of orders received. However, it is not insignificant if you think about €1.3 billion roughly coming from energy and other process industries as well. There is starting to be a good diversification of our exposure to different customer segments. Stable business, currently close to €3.4 billion. Speaking of the foundation that we're standing on, it does provide a good resilience to cycles. It also has a good profitability level, which we benefited from last year. Organic growth has been six percent over the last ten years. However, if you look at just last year, it was a challenging market and we had an organic growth of roughly two to three percent. That's something that we are working hard to improve on, and also we wanted to take market share going forward.

00:08:24 - 00:09:58
Thomas Hinnerskov: Two thousand and twenty-four growth, overall eight percent, that is 261 million. Big impact from our M&A activities, as I said, tissue converting and API that we bought as a carve-out from Siemens. We can see that the stable part is almost 60 percent of Valmet's orders received during 2024, which actually is a very positive thing. I found it provides a very good foundation for the future, but also for the year to come. The order backlog is quite strong. I saw the starting point for '25 increased from '23 and was a bit higher than our previous record which was in 2022. The capital order book backlog is almost 200 million lower than it was in '21 even though it is supported by a lot of tissue converting and also the root cause. This shows a little bit about the growth in the service part and the stable business part. Roughly 1.3 billion is expected to be realized as new sales in '25. That's roughly 200 million less than what we expected a year ago going into '24, and I'll come back to our guidance later, which is actually that we would expect, despite this, 200 million less coming from the order book backlog, that we will have flat sales for the year.

00:09:59 - 00:10:59
Thomas Hinnerskov: One point seven billion of the order backlog is related to stable business, an increase compared to last year, which is also a good foundation for going into '25. Let's have a little bit of a deeper dive and look into the different segments and the business lines, and how they performed during 2024. Process technology orders increased pretty strongly in '24. However, before we celebrate too much, it is good to recognize that without Arauco, which was one order, it was the lowest year almost ever at least in the last ten years. The latest Valmet's history does show something about having a market that was overall quite challenging when it comes to process technology. Trending comparable EBITDA is also not positive, not the same thing we are really happy about.

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Thomas Hinnerskov: Net sales decreased clearly and therefore also the comparable EBITDA was impacted by the lower sales. I think it's also fair to say that these lower sales did impact comparable EBITDA, including the margin quite a bit. That is something that we need to work on going forward to have a more efficient operation that actually will perform also in a challenging market like we just went through. Competitiveness and driving that are key and are going to be key going forward. We'll put even more emphasis on them in the years to come. I want to show this slide, I also showed it in Q3, let's come back to it because it was a highlight of the year and was booked in Q4. World's largest single-faced pulp mill capacity of 3.5 million tonnes a year.

00:11:50 - 00:12:59
Thomas Hinnerskov: We'll start up production in the second half of '27. Significant milestone showcasing relevant Valmet's sustainable technologies. I was there in December visiting the team again and the customer. It's just great to see that they're working full steam ahead. Really good collaboration with the customer. We're ready to start doing the job on the site and then be ready for the second half of 2027. Important milestone and really exciting stuff. Speaking of exciting stuff for pulp and paper at least, let's talk a little bit, double-click on

that and look at more detail. They were strong due to the Arauco. It is clear that because of that we become number one after having been number two in the market. The second player in the market for a couple of years. What I also took note of in '24 was that activity in energy was lower than in '23, a bit surprising maybe if we look a bit at the trends and how the energy market is.

00:12:59 - 00:14:06
Thomas Hinnerskov: We still had an okay year with €300 million in orders, and we did win all three boiler deals that were in the market in Europe in '24, which does test and verify, that we do have a strong technology offering. We have a good value proposition in that market. Overall, South America dominated North America, basically close to zero. The installed base there in North America is notably old. We could potentially see some at least bigger modernization projects coming. Hopefully, that will materialize in the not-too-distant future as well. Scope-wise, single islands products were roughly 30 percent of our order. Arauco was the only complete mill that tendered in the market last year. It was very pleased that, that went to Valmet.

00:14:06 - 00:15:20
Thomas Hinnerskov: Paper business line or Board, Paper, and Tissue business, orders overall decreased. Think about it, the tissue market was rather active and tissue converting supported our orders. We're happy that we went into that market in '23 or under '23. That's also why you see that's growing as part of our overall business in this business line. Global leader, I would say, in tissue in the addressable market, board orders were generally very weak and market activity was low. We also saw some minor, I would say, lost market share to competition. Then as said, most of the business came from new instalments like in previous years. Service orders increased to 1.9 billion. That's an all-time high. It is fair to admit that the market was difficult and organic growth was only one to two percent. We then benefited from a bit more tissue-converting services as well.

00:15:21 - 00:16:35
Thomas Hinnerskov: However, what I would say is that Q4 is strong. Great to see that our proactive sales teams are getting more mill improvement projects. There is more appetite for customers to modernize and upgrade their productions as well and fabrics also were developed well in Q4. Net sales increased to 1.9 billion. The margins were flat but comparable EBITDA did increase due to the integration of tissue-converting business. Service segment market position continues to be number one or number two, globally, depending on where you see it and how you cut it. In the customer segment split, there is this change in tissue, which we talked about. It was five percent last year and now it's 14 percent with tissue converting. In the business split, we've consolidated the earlier solution in the business units, two mill improvement projects, and field service. It's easier and also makes more meaningful data and input for investors and analysts to understand in that way. I find it easier myself as well to see it in that way.

00:16:37 - 00:17:46
Thomas Hinnerskov: More or less the same as in 2023, we have a big performance part business as well as in rolls and fabrics. These are largely driven by customer activity or capacity utilization. Something we monitor quite closely and see how that develops going into the future. Mill improvement projects and field service were 35 percent. Automation orders have increased to 1.4 billion. The biggest reason for that was API. Organic growth was modest, roughly around two percent, especially in the pulp and paper packages, or as they were low and low on what we've seen historically as well, which is also an indication of this lower utilization rate, and profitability challenges for some of our customers. Overall orders increased in the automation system and were flat in flow control. We'll come back to that in a second.

00:17:48 - 00:18:49
Thomas Hinnerskov: The share of other process industries other than pulp and paper is already at 60 percent, which is actually a positive thing to do. It shows that we do have a strong value proposition also outside pulp and paper that diversifies our exposure to industry segments. It's a good development, I would say. Maybe good to note that you see the margins are slightly going down. API and the acquisition we made there did have a negative impact on margins for last year. Flow control is clearly the leading position in the pulp and paper industry then number one or number two in industrial gases and one of the big ones in refining and chemicals. Top ten positions, I would say. The soft market in pulp and paper shows that you can see that it decreased to 24 percent from 28 percent last year.

00:18:50 - 00:20:13
Thomas Hinnerskov: From an area perspective, the market in Europe was soft in '24, while activity in North America also bit in the Middle East was quite much better than what we saw in some other parts of the world. Renewable energy and gases, metal and mining, and other industries are growing also as a consequence of the

softer pulp and paper market. MRO service is 68 percent bit higher than a year ago. Nice to see that we still have a very strong foundation for our overall flow control business when this operational services that we are supporting our customers with on a daily basis. Orders for projects decreased. May be good to note that in the Arauco order, there's some flow control involved including the Arauco order. They were not booked in Q4 for full control yet that comes later in the cycle of the project. [silence 00:19:54-00:19:58] Automation systems, pulp, and paper 58 percent, energy and process 42 percent, API increased the share of energy and process by ten percentage points from last year and DCS was 52 percent.

00:20:13 - 00:21:16
Thomas Hinnerskov: We'll come back to that a little bit more on the next slide. An analysis and measurements, including API, explain the rise in that share of our business. What I would say here is that automation systems service means all the business that we're doing to our existing automation systems installation base. I would maybe highlight to Katri that and maybe Thomas Kaufmann, you should pay extra attention. We talked about this in one of our meetings. Automation system actually for the full year of '24 organically, so taking out the API acquisition did grow seven percent in quite challenging market and a challenging market, particularly in pulp and paper, which was 58 percent of the overall business. I do think that pays testimony to a strong value proposition also outside the pulp and paper, which I think is really a positive and something that we take pride in, and also want to thank the team for that.

00:21:17 - 00:22:43
Thomas Hinnerskov: Also, something that goes into the whole strategy process as well so really good development in the automation system. Just to give a little bit of granularity or meat on the bone, we probably noticed that back in May last year, we did announce Valmet's DNA E. That was one of the highlights of '24. Very pleased to see it. Even though these are long sales cycles, it is already getting traction. We received a good amount of orders on the DNA E, Arauco was mentioned earlier. Mercer is also a great example. Mercer selected DNA E for their digitalization journey. They are renewing one of their old pulp mills in Canada, replacing the old system with DNA E. With this change, Mercer can increase the efficiency of their current operation. It's clear that it delivers better data utilization, strong cybersecurity, and better collaboration. Also, operational efficiency is not just in the exact mill, but also in how you operate the mill. It is getting harder and harder for some of our customers to find qualified staff to operate the mills. Here, DNA E can reduce the need for that going forward.

00:22:43 - 00:23:21
Thomas Hinnerskov: Happy to see that it's gaining traction, and has a strong value proposition. I am very happy with Mercer being a strong reference for us. This solidifies that we are in the leading position in automation when it comes to the pulp and paper industry as well. It's exciting to look forward to more success stories on this front. I want to thank Mercer for that trust and being one of the trail braces on this and taking it on and saying, "Okay, we want to do this." With this, I'm handing over to Katri for the financials and a little bit of a more deep dive into that.

00:23:21 - 00:24:29
Katri Hokkanen: Thank you, Thomas, and thank you for the first six months together. I also want to send my big thanks to everybody who contributed to the successful closing of the year 2024. I know what it takes, so big thanks to all of you. I will go to the fourth quarter in a brief first. Thomas already discussed some of the full-year numbers, and that's why I'm focusing here on this. In Q4, As said earlier, the orders were 2.5 billion, and this was a record quarter for us and was impacted by the Arauco order. I used to work in the pulp and energy business, and I'm super proud of the team there. Net sales remained flat at 1.5 billion, and it was the highest quarter in terms of net sales last year. This is a very typical seasonal pattern for Valmet. Comparable EBITDA increased to 192 million. Actually, we were 20 million behind after Q3 and needed really to catch up to reach the guidance, which we did. I'm pleased with the performance, especially in services, which made a strong Q4 with a 19.8 percent margin.

00:24:30 - 00:25:38
Katri Hokkanen: I will get back to the segment soon in my presentation. The margin was 12.6 percent, which is one of the best quarterly margins for us. The margin was boosted by services and an increase and the overall mix. Cash flow was 178 million for the quarter, and quarterly cash flows can fluctuate a lot, and one should not look too much in a single quarter. However, I'm very pleased that we made a record cash flow for the full year, as Thomas already mentioned. Gearing was 39 percent coming down sequentially from the 45 percent level reached during the second quarter last year. A few words about the key figures as well, Q4 orders more than doubled to an all-time high. As I said earlier, the order backlog is 12 percent higher than a year ago and Q4 net

sales were slightly higher than in the comparison quarter and minus three percent for the full year. Comparable EBITDA increased 5 percent in Q4, but the full year decreased by 10 million and this is disappointing for us.

00:25:38 - 00:26:56
Katri Hokkanen: As Thomas said earlier, we need to make sure that we have an efficient operation that will perform also in the challenging market. Items affecting comparability were minus 90 million for the fourth quarter and minus 53 million for the full year. IACs were mainly related to M&A and restructuring, for example, in the paper that we communicated earlier. The year's operating profit decreased as depreciation and amortization increased. Amortization was impacted by the acquisition of tissue converting and API. Going forward, the quarterly amortization is expected to be roughly at a similar level as in Q4 in the quarters going forward. All in all, the amortization totalled 108 million last year. Then adjusted EPS and EPS both decreased, so lower operating profit was discussed, and higher net financial expenses are behind the decrease. Comparable ROCE decreased 1.8 percentage points, and this was due to an increase in capital employed. Cash flow increased to a new record as said, and this shows that our cash conversion ability continues to be strong. Net debt to EBITDA increased, but gearing decreased.

00:26:58 - 00:28:20
Katri Hokkanen: Then let's take a look at the segments from the Q4 perspective, and I will start from Process Technologies. Again, the mentioned record order due to Arauco almost doubled from the previous quarterly high, which was actually in Q1 One, 2021. Tissue converting has been developing well and orders there were 56 million. Net sales, however, decreased by 78 million, or 13 percent, and Arauco did not yet have an impact on the net sales. Comparable EBITDA was disappointing with a 2.8 percent margin, and it was impacted by lower net sales. Then moving to the services segment. Key figures, it was a very good quarter in terms of orders received. The headline figure is plus 19 percent and even without tissue converting and currencies, the growth was 16 percent. As Thomas already mentioned, the improvement project orders were higher, and also fabrics developed favourably in the fourth quarter. Net sales also increased by 12 percent, supporting then the comparable EBITDA, which increased quite strongly in Q4. Comparable EBITDA was 112 million and the margin was just a notch below the 20 percent threshold. This was the best quarter ever for services in terms of margin.

00:28:22 - 00:29:28
Katri Hokkanen: Then some words about the automation segment as well. The orders increased strongly to 443 million and actually this is a 39 percent increase. The orders were impacted by Arauco package, which was booked to automation systems. Please do note that the flow control also has a smaller package to Arauco, but that will be booked later. API was supporting the orders by 43 million, and FX didn't play a role here. Automation systems orders grew double-digit even without the Arauco and API impact. While the uncertainty in the pulp and paper market continues, we saw nice growth, and I'm very pleased with the strong finish to the year. Net sales increased by 13 million, but this was inorganic due to API. Then in terms of comparable EBITDA, that was up by two percent, but the margin was down by two percentage points and the margin decreased from the high margin in the comparison quarter, partly due to the integration of API business. Here is the summary of the segment's key figures.

00:29:28 - 00:30:39
Katri Hokkanen: We already covered most of these numbers. Maybe worth pointing out that while the full-year comparable EBITDA margin increased slightly, none of the segment's margins increased. The expenses in others were 17 million in the fourth quarter and 49 million for the full year. This was in line with last year and also with our expectations. Comparable gross profit increased to 28.2 percent last year, and the sales mix contained about 62 percent stable business, which is clearly more than what we had last year. Comparable SG&A expenses increased to 18.4 percent of net sales last year, and good to mention here that the net sales decreased 10 percent organically, which then had an impact on the percentage. All in all, when you look at the absolute number in SG&A, the increase is mainly coming from the acquisitions. Cash flow increased to 554 million, which is a new record for us. I'm very, very pleased to see that good cash conversion. Net working capital was the biggest driver behind the cash flow increase.

00:30:40 - 00:31:39
Katri Hokkanen: CapEx was 107 million for the year, and that was lower than a year ago. Net working capital amounted to 134 million, which is two percent of the orders. I'm also pleased to see the improvement here compared to last year. If you compare 2022, then 41 percent of orders were coming from stable business and last year that was close to 60 percent. Maybe good to mention that stable business typically ties up more networking capital, and that is then also visible in those numbers. ROCE has decreased to 12.7 percent and capital

employment has increased due to acquisitions, which then led to lower ROCE. Adjusted EPS decreased compared with 2023, and this was mainly due to lower operating profit and higher net financial expenses. Net debt remained at the previous quarter's level, being at one billion.

00:31:40 - 00:32:24
Katri Hokkanen: Net debt has increased in recent years due to mergers and acquisitions. Gearing was 39 percent net debt to EBITDA 1.55, and gearing decreased sequentially from 43 percent. These are higher levels than what we have had before, but Gutsugen mentioned that we have much more stable business now in our portfolio. The interest rate was four percent, so some decreased sequentially from 4.4 percent at the end of Q3. The net financial expenses were 65 million last year, and that was clearly higher than a year ago. This ends my part of the presentation. Back to you, Thomas.

00:32:24 - 00:34:02
Thomas Hinnerskov: Thank you very much, Katri. From good cash to what to use it for, at least some of it. Let's look at the dividend proposal, also the guidance, and the short-term market outlook. Our policy is to pay out at least 50 percent of net profit as a dividend. Here the board proposes to the AGM or the annual general meeting that the dividend is going to be on the same year or the same level as last year, which means €1.35 per share. This then represents a payout ratio of 89 percent. The payout ratio is higher than the earnings per share, Katri alluded to that, is lower, and has decreased. If you think about it from an overall Europe perspective, that means that we will roughly pay out €250 million to our shareholders as dividends next year or this year in 2025. Like last year, we'll pay it out in two instalments. The first instalment will be paid on April 8th, and the second one on October 7th. Then, in terms of guidance and short-term market outlook, our guidance for net sales and comparable EBITDA will remain flat for 2025 compared to 2024. As I showed earlier, we expect roughly 200 million less from the order book backlog to be recognized as sales as we did a year ago.

00:34:03 - 00:35:22
Thomas Hinnerskov: The backlog is 479 million higher, but that relates to the capital business, which takes longer to turn and recognize as revenue. Comparably, EBITDA guidance mainly reflects the challenging market environment, particularly in the pulp and paper segment. Then you'll notice that we've simplified the short-term market outlook and aligned that with our segments and how we discuss and report to you. Previously, we had a short-term market outlook composed of seven different categories, and that was just simply too complex. We also received feedback from both analysts and investors that this granularity really adds value to the overall discussion. We've consolidated that and aligned it with how we report. If you just double-click a little bit on the process technology, customer activities are estimated to remain stable with some variations overall, stable or bright, probably on a lower level as we saw last year. The tissue market is active. There was not much activity in energy, as we talked about earlier but there is some sign of starting to improve.

00:35:23 - 00:37:00
Thomas Hinnerskov: Board and paper activity continues to be low. Pulp, as you know, is very binary, very few things. It's often what we see as mega deals in the market that could be only one, like last year, which we won. That makes the swing factor quite big there. Service customer activity is estimated to start gradually improving capacity utilization rates and profitability of customers, causing some concern, I wouldn't say concern, but uncertainty there. There are also some new startup machines coming particularly into the Europe market that will remain hard to predict what the actual utilization rate will be. However, we do see some signs of more demand. Area-wise, North America, and South America looking positive. Like last year, EMEA and China continue to be soft, and then Asia Pacific is somewhere in there between. Seasonally, Q1 has typically been the strongest quarter, for orders. Trying to make sure that also happens this year. Overall production volume for customers is slightly up. More machines coming to market. The utilization rate is a bit hard to predict currently, but we do see a little bit of a positive wind blowing in that area.

00:37:00 - 00:37:36
Thomas Hinnerskov: Automation. We estimate customer activity remains stable. Again, some variations between areas in North America, the Middle East, active markets in Europe, and China are softer and more muted, with less activity. Activities are generally quite good outside pulp and paper like we saw last year, whereas pulp and paper continues to be in a softer spot. I guess that was all in terms of our presentations. Then I'll hand it back to Pekka for further instructions and Q&A, I guess.

00:37:37 - 00:38:21
Pekka Rouhiainen: Thank you, Thomas and Katri, for the presentations. Now it's, like Thomas indicated, time to move on to the Q&A session. As a reminder, you can post the questions to the online platform. They will come

here to me, and I will read it to Thomas and Katri. Then later on we will also take questions with the phone line. First, we start with the questions here that I already have on the iPad. Thomas, firstly here is a question about tariffs which are now enforced in Mexico, Canada and China from the US. What are your comments regarding those?

00:38:22 - 00:39:41
Thomas Hinnerskov: Yes, thanks Pekka. That's a very topical question and discussion, in most boardrooms and a lot of companies. Overall, I think it's good to remember that Mexico and Canada are new. That 25 percent which we've not seen before. China is 10 percent additional on top of the 25 we have seen since Trump was in the office last time. What I would say is if we split it up into service process tech and automation, that varies a little bit between start with services. We basically have 2500 people in North America. Most of those are deployed in services, but also in the production of parts and spare parts and materials, which we sell to our customers. There, we're very much in line with what Trump wants made in America. I'm quite confident in that area. Then process tech, none of the equipment that we are selling from a process technology perspective is being made in the US, also not with the competition. There we are on par with the competition, and we'll see how to translate into pricing and transfer the tariffs onto that.

00:39:42 - 00:40:03
Thomas Hinnerskov: Automation system, we also are on par with the competition. We do have some production there as well for our flow control business in particular. It's just a thing. It needs to be managed. It needs to be constantly monitored. We need to react to what is happening. That's clear.

00:40:04 - 00:40:21
Pekka Rouhiainen: All right. Thanks for that. Then a follow-up here, maybe to the potential tariffs that, might or might not come towards the EU. What do you comment on the potential tariffs that could be imposed by the US towards the EU?

00:40:21 - 00:41:03
Thomas Hinnerskov: Yes. I think again, Pekka, it's important to monitor, constantly be ready, and also think about what could the consequences be. However, it's hard even though it could happen, we don't know the details of what would it look like. Also, we don't know what would be the response from the EU if it happened. I think about being a prepared monitor, being ready, but also maybe from an investor perspective, just think about that our supply chain is, in that sense, quite on par with competition. This gives some, I would say, stable ground to stand on from that perspective.

00:41:04 - 00:41:33
Pekka Rouhiainen: All right. Thanks. Then moving on to some other questions here over the line. Thomas mentioned at the beginning of the presentation that most of the EBITDA came from stable businesses. We had €609 million of total comparable EBITDA and, if I recall correctly, 585 coming from the stable business. The question here is, do you see this as the normal level going forward? What should we expect from this business in the next couple of years?

00:41:34 - 00:42:24
Thomas Hinnerskov: Good question. It is important to note that you can't be in one business and not the other. You need to think about this as process technology. Yes, we were not happy with the profitability level, very much driven by volumes that were lower and also driven by how we've leveraged operationally. We're looking into that as well. Can we have more flexibility in our production than we had? We're taking action on the profitability level as well. We can come back to that later as well. However, it's important to think from a lifecycle perspective that the process technology or the orders and the projects, fuel the service business later on. You have to think from a lifecycle perspective and seeing as a whole, and then it's about how you optimize that.

00:42:27 - 00:42:48
Pekka Rouhiainen: Thank you, Thomas. Now, as a reminder, you can post questions here to them. Here are written questions as well. Now, for the time being, we're done with those. We will get back to this if needed and if there are more. We will move to the questions over the phone lines. Operator, please, I hand over to you now.

00:42:54 - 00:43:20
Operator: [silence 00:42:48-00:42:52] If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your

telephone keypad. [silence 00:43:08-00:43:13] The next question comes from Antti Kansanen from SEB. Please go ahead.

00:43:24 - 00:43:58
Antti Kansanen: [silence 00:43:20-00:43:23] Hi Thomas, Katri, and Pekka. A couple of questions for me, and maybe I'll start with the '25 earnings guidance, which doesn't indicate a notable margin expansion. As you said, the sales decline is from the backlog which is mostly low-margin equipment business, which you then expect to catch up during the year from the shorter cycle business, which I assume carries a much higher margin. How should we think about the lack of margin expansion on the guidance even if your sales mix should, I guess, improve this year?

00:44:00 - 00:45:13
Thomas Hinnerskov: Yes, Antti, and thanks for the question. As you said, the order backlog is 200 million short of what we had last year. Of course, something else needed to come through. That is also about, whether can we drive service business and stable business to a higher degree or shorter, rotating the smaller projects that rotate during the year. That should come with good margins as well. You need to think about how you see it, for this year that the volume, just like we said in the process, technology has been a challenging market overall. Volumes have been low and that has impacted our profitability. Some operational leverage in that way drops them faster in the wrong direction. When it comes to the bottom line, we have taken some actions. Paper line, we've announced that more than 100 people have gone out of the production. That's roughly 10 percent. We're doing temporary layoffs, which go into the first half of this year.

00:45:14 - 00:45:46
Thomas Hinnerskov: We're clearly looking at, and particularly in our strategy process, that we're going through, on cost competitiveness that is key. That will be even more key in the future. Also, this agility in how we set up our whole supply chain is going to be key. We need to, as a company, get used to that the market can be on a lower level than what we've seen in the past. If we go back to 12 years or something, where we've been growing on the process technology until 2022.

00:45:50 - 00:46:09
Antti Kansanen: [silence 00:45:46-00:45:49] All right. Maybe a follow-up on that one regarding automation margins. I guess the API integration has been a bit slow in the sense that it has burdened the margins a bit. How should that trend go into '25? Is there a strong year-over-year margin contribution to that business?

00:46:10 - 00:47:06
Thomas Hinnerskov: API, first of all, we're very happy with the acquisition. It strategically fits well into our automation systems. It also opens up doors to new customer segments that we have not been so active with, historically. Here we have a world leader in its solutions, which means you're there with the customers and an important part of their integrated production. What is also, and is something I think is important to realize is that, this was a carve-out of Siemens. Carve-outs are not the easiest ones to do, but they can also drive quite a bit of value there. It was a difficult thing to carve it out first of Siemens and then integrate it into Valmet. We acquired it, was it April, Katri? Sorry, May, April.

00:47:06 - 00:47:06
Katri Hokkanen: Yes.

00:47:06 - 00:48:00
Thomas Hinnerskov: Nine months within the business, both carving out of an existing business and getting into a new business. That is something that does not come without cost and without also that you then see lower profitability of the business than what we would expect going forward. We have a good ambition for the API going forward. I visited them in Singapore last year. I'm going to Houston during this quarter as well as visiting them there. They are very happy about joining Valmet. They feel that they are not on this side business, as the Germans would say, but they are into the core business of Valmet. They feel energized and excited about being part of automation systems. Very happy with it and I think we will see more good things coming from them.

00:48:02 - 00:48:35
Antti Kansanen: The last question from me is on the paper business line. It was a strong order intake compared to the previous one in Q4, and you talked about a rather stable market on the PTS as a whole. Could you maybe talk about how should we reflect the Q4 and your paper line of potential projects going into '25 versus what it

was some time ago? You clearly converted some of that in Q4, but is it also filling up going into '25, or what's the outlook?

00:48:35 - 00:49:37
Thomas Hinnerskov: Good question. Two things are good to note in Q4. We were definitely happy with the order intake and paper business there. Mainly driven by two large orders, one paper mill in Asia and one tissue in North America. Very strong value propositions there, happy to win it. There was also a little bit of a timing effect between Q3 and Q4. That also impacted the strong Q4 as well. Overall, it's a little bit you have tissue and that's good activity. Some of these deals because there are fewer of them, become a bit binary in terms of the overall market. The team is building up a good pipeline for going into this year, despite that it is a challenging market. Any further on that, Katri, do you think?

00:49:37 - 00:49:53
Katri Hokkanen: It was well said that you need to look at the tissue separately, but on the board and paper, as you said, the market continues to be low. It was very good to see a strong close for last year. However, there are always some variations between the quarters.

00:49:55 - 00:50:00
Antti Kansanen: The pipeline of bigger paper, and more tissue deals going into '25?

00:50:03 - 00:50:15
Katri Hokkanen: Okay, I can take it. There are some deals in the pipeline and of course, it's our target to win the deals but you never know the timing. Overall, good to remember that the market activity is at a low level there.

00:50:15 - 00:50:34
Thomas Hinnerskov: It's a bit digital. That's binary is maybe the better word. There are some good deals being discussed. That can come out positively. We do our utmost to make sure we stay number one in this market.

00:50:36 - 00:50:37
Antti Kansanen: All right. Thank you very much.

00:50:37 - 00:50:38
Thomas Hinnerskov: Thanks, Antti.

00:50:44 - 00:50:49
Operator: [silence 00:50:38-00:50:43] The next question comes from Sven Wenger from UBS. Please go ahead.

00:50:53 - 00:51:14
Sven Wenger: Good morning. It's Sven from UBS. Thanks for taking my questions. The first one was on the process technology margin in Q4. You mentioned the negative sales effect, but I was also wondering if you did do maybe a final clean-up on the legacy projects in Q4. That's the first question. Thank you.

00:51:16 - 00:51:17
Katri Hokkanen: I can take it, don't worry.

00:51:17 - 00:51:19
Thomas Hinnerskov: Please. Go ahead.

00:51:20 - 00:51:38
Katri Hokkanen: As I said, it was impacted by the lower volume and very disappointing thing for us. About the clean-ups, you're probably referring to what we discussed in the second quarter. There were some closures of all projects. This didn't happen now in the fourth quarter. All in all, it was coming from the lower volume.

00:51:41 - 00:52:23
Sven Wenger: Understood. Thank you. The second question is just to follow up on the board pipeline. We all know it's a difficult market. We've now seen that Messer is closing some capacity. What is your sense? What does it take for the market to come back eventually? Do you think that the capacity clean-up has to go further, and we have to go through a certain adjustment phase for maybe a few years before the market can recover? Do you also see material regional differences that this is maybe a problem that is just limited to Europe? Any further colour would be appreciated.

00:52:24 - 00:53:59
Thomas Hinnerskov: Overall, um, Europe and Asia are soft. Europe mainly because of an economic perspective, Asia may be because they have overcapacity in the market. There needs to be some capacity consolidation on the least productive or efficient part of the market, which will eventually happen, I'm sure. When you think about it from three dimensions. One is, that the least effective or efficient capacity needs to grow out, more effective capacity could come in at a point in time. That's one. Modernization, maybe particularly in the North American market, we've got older capacity installations. More modernization demand could be building up to come out at an opportune time. The third part is that's where maybe potential tariffs or potential trade will put a bit of cloud over the future. How that's going to impact our economic growth in the world and different parts of the world, and therefore the overall demand for tissue and board and paper? Especially if we think about global trade, containerboard, how is that going to be impacted short term by the different talks?

00:54:01 - 00:54:13
Sven Wenger: Have you delivered now all the major board projects that you have been winning in the last years? Is that done, or are you still in the process of finally delivering some of them?

00:54:16 - 00:54:21
Thomas Hinnerskov: We don't comment. Do we comment on this? No. I was just--

00:54:22 - 00:54:32
Katri Hokkanen: Typically, it takes on the board and paper side for only 18 months to complete a project. You can a little bit use that in the calculations when you estimate that.

00:54:36 - 00:54:48
Sven Wenger: The final question was just on Arauco. I was just curious if you already received the prepayment in Q4 and that was also helping the cash flow, or is that still to come?

00:54:48 - 00:54:52
Katri Hokkanen: No, we received it in Q4. That was in our numbers.

00:54:54 - 00:54:56
Sven Wenger: I guess you wouldn't quantify it.

00:54:57 - 00:55:09
Katri Hokkanen: You're right about that. Unfortunately, we haven't been disclosing the number. Of course, we are really happy that the project is booked and has started, as Thomas said earlier in his presentation.

00:55:10 - 00:55:24
Thomas Hinnerskov: The percentages of this kind of prepayment would vary from project to project as well. We always try to make sure that we have cash positive during the lifecycle of the project in order also to have no credit risk.

00:55:27 - 00:55:29
Sven Wenger: Understood. Thank you both.

00:55:29 - 00:55:29
Katri Hokkanen: Thank you.

00:55:31 - 00:55:34
Thomas Hinnerskov: Anything else Sven or were you about to say something?

00:55:35 - 00:55:41
Operator: The next question comes from Johan Eliasson from Kepler Cheuvreux. Please go ahead.

00:55:45 - 00:56:19
Johan Eliasson: Hi, Thomas, Katri and Pekka. This is Johan at Kepler Cheuvreux. Just a minor question regarding the dividend, which was flat year over year. Thomas, your predecessor, was always very proud of every year, being able to add a few cents on the dividend payment. Has that ambition stopped now going

forward, or is there something in the pipeline ahead that makes the board a bit cautious with the balance sheet? Thank you.

00:56:21 - 00:57:55
Thomas Hinnerskov: Thanks, Johan. Overall, my ambition and my focus are about total return to shareholders. It's not about really how it comes, but it's about making sure that the shareholders are getting the best possible return overall. We have then a dividend policy that has been 50 percent. We kept it flat from a Europe perspective, but it is increased from a payout ratio perspective. That sends a signal. However, with the strategy review that we're doing, we will also review our financial targets. We will also review the dividend policy. The dividend you need to also going forward, take into consideration how we see the investment opportunities within the company, both from an M&A perspective. Would we prefer to retain more cash, and pay less out? Also, wouldn't rule out that we would also have to look into it? Would there be a potential benefit from actually having share buybacks as well? Return additional cash to the shareholders via share buybacks instead of dividends, and look at that from a very international investor perspective. The board this year is recommending that we pay out the same Euro amount, which is a percentage of a payout ratio higher than last year.

00:57:57 - 00:58:09
Johan Eliasson: Good. Looking forward to the outcome of your review and the new targets. Have you set the date when this will be communicated? I remember something about the capital markets that I had.

00:58:10 - 00:58:36
Thomas Hinnerskov: We've not sent out a formal invitation, but maybe, put a placeholder in your diary. We'll organize and arrange a capsule market day on June 5th this year, and it will be in Finland. We'll send out formal invitations later. Fill out the date and save the date for what hopefully becomes exciting news and good discussions.

00:58:38 - 00:58:39
Johan Eliasson: Excellent. Thank you.

00:58:41 - 00:58:43
Thomas Hinnerskov: We will do it before mid-summer.

00:58:54 - 00:59:00
Operator: [silence 00:58:47-00:58:43] The next question comes from Ponu Leighton Marki from Danske Bank. Please go ahead.

00:59:02 - 00:59:36
Tony Leighton Marki: Hi. Thanks. I have a couple of questions. Firstly, in the process of technological margin. It was down sequentially, and you said that it was due to lower volumes, but the revenue was not that different from what we have seen in the past few quarters. Then for the past couple of years, you have been commenting that you had some projects burdened by inflation-burning margins. I just can't get to why it came down sequentially. Do you still have these projects there or where they're going?

00:59:39 - 01:00:35
Thomas Hinnerskov: Katri, I think you can add as well. Just like Katri said before there was no cleaning up of the portfolio or settlement of certain challenging client situations in Q4. In that sense, it was a normalized Q4 that was-- What can I say? True margins in that sense. Not that it's a great margin, and not that we're happy about. That's also why we took some actions on temporary layoffs as well. It's also why the discussions about cost competition both from a product perspective and also overall supply chain footprint perspective are key parts of our strategic discussions and review.

01:00:40 - 01:01:04
Tony Leighton Marki: [silence 01:00:34-01:39] On the guidance, there was a question about why you are not expecting margin expansion due to mix changes. Did I understand correctly that you expect the process technologies' declining earnings to offset whatever kind of benefit you get from growth in services, and your costs on the automation margin near-term due to the acquisition burdening it?

01:01:06 - 01:01:13
Thomas Hinnerskov: I'm not sure Tony if I fully followed your question. Can you just repeat again? There was a bit sort of noise on the line. Sorry for that.

01:01:14 - 01:01:27
Tony Leighton Marki: On the guidance, flat EBITDA despite what I believe is probable growth in services. Does that imply that you expect process technologies earnings to go down in '25?

01:01:28 - 01:02:10
Thomas Hinnerskov: Yes, I think that's a good question. Overall, we are guiding on top level and bottom level for the overall company, not for the specific segments and specific business parts. Yes, flat sales, flat EBITDA. There might be mixed changes. There might be margin changes within the segments. Overall, that's how we guide and as you know, we still have the financial target of 12 to 14 percent EBITDA margin, or comparable EBITDA margin. That has not gone away just because we're doing a strategic review of the business.

01:02:13 - 01:02:31
Tony Leighton Marki: Thanks. Just the final one quickly on the guidance. I assume it is something that you expect to read and have some buffer in it. What is the key uncertainty at this point of the year that you don't know? Is it the service market or the automation margin?

01:02:35 - 01:03:39
Thomas Hinnerskov: Our guidance is our guidance, and we strongly believe in that and that is how it is. It's fair to say that the overall market and the economy are in a situation not just for Valmet, but in general, there is quite a bit of fog out there. It looks a bit like the Finnish winter this year, looking out from Kiel and Amy. That's been quite a lot of grey days, sometimes it shines, snows and sometimes the ice is melting. A bit hard to predict. It is an average kind of thing but it goes a bit in different directions. It's fair to say that most companies and management teams struggle really to have a very firm prediction of where the world is heading, especially if they have a global business as we have. We stand fully behind the guidance and that's what we believe in currently.

01:03:40 - 01:04:28
Katri Hokkanen: If I just build on top of that. Just as a reminder, you mentioned already during your presentation that going towards this year the backlog is 200 million lower. Actually, we have booked and built in all of the segments. Maybe worth mentioning. Arauco, which we also mentioned many times even if it was a high or big order, the revenue is split into '25, '26 and '27. It's not going to materialize all this year. Maybe a final comment, which also I mentioned during my presentation that actually in all of the segments, the margin didn't improve. Services were flat and the others were down. To reach our targets, we are looking for improvement overall.

01:04:28 - 01:04:38
Thomas Hinnerskov: Good to see Q4 in service and stable business really coming out strong. That gives some good feelings about going into '25.

01:04:41 - 01:04:41
Tony Leighton Marki: All right. Thank you.

01:04:43 - 01:04:45
Thomas Hinnerskov: Despite the fog, if I can put it that way.

01:04:58 - 01:05:03
Operator: [silence 01:04:45-01:04:57] The next question comes from Mikael Doepel from Nordea. Please go ahead.

01:05:05 - 01:05:26
Mikael Doepel: Thank you. Good afternoon. I guess now everybody has a couple of questions on the pulp market and a bit more on Arauco, but if you can start with the market overall, how would you describe the pulp project pipeline currently? Would you expect to see any more big tenders in 2025 as well?

01:05:29 - 01:06:40
Thomas Hinnerskov: Good question, Mikael. It's fair to say that just like in '24, Pulp Market is not, what can I say, a bit soft, but also if you think from a capital project perspective, it is very binary. There could be one, there could also be none. It's clear that South America is a place where there are good opportunities in terms of if you have the right land to establish and have some good cost in terms of producing pulp for the world there. The

world also needs to absorb all that market pulp. That's another dimension that our customers need to relate to when they make these big investment decisions. Hard to say in terms of the timing, but I think it's clear that we will see more large pulp mills in South America in the future. However, when, it's a bit hard to predict.

01:06:43 - 01:07:16
Mikael Doepel: Okay, that's fair. Another question on pricing and maybe costs as well. How do you see your selling prices trending into 2025? These are the costs I guess the question is more, how do you view the price cost dynamics going into the year both in terms of your order intake as well as on the revenues that you're going to book? Is it fair to assume a fairly neutral impact from that or something else?

01:07:18 - 01:08:24
Thomas Hinnerskov: I think first of all, the big part of what will be realised in sales in '25, we already know the pricing on that. Katri alludes to it in terms of the order backlog. That's pretty well known. Pricing, we have inflation in certain markets which is much more manageable than what it was a few years ago. That's a good thing. Then, think about some of the markets which are quite binary and have low market activity. That can be a bit more price-competitive than what we've seen historically. We're trying, that's also why I'm saying this thing that cost competitiveness is key and it's going to be even more vital going forward. That's some of the things we're looking at because the demand also makes sure that you do actually have a flexible supply chain so that you can gear up and down on how much you want to produce.

01:08:24 - 01:08:55
Thomas Hinnerskov: Also, swapping between, what are you delivering to an Arauco project or doing a board project. Some of those things make sure that you model some of this and make it a bit more flexible from a production perspective. Pricing is not an art, it's a science. Understanding the whole pricing dynamics in the market and having the data looking at that is quite important.

01:08:58 - 01:09:00
Mikael Doepel: Okay. Good. Thank you very much.

01:09:10 - 01:09:15
Operator: [silence 01:09:00-01:09:10] There are no more questions at this time. I hand the conference back to the speakers.

01:09:16 - 01:09:43
Pekka Rouhiainen: All right. Thank you for the questions from the phones. There are still a couple here. Actually, quite a bit but some of those have already been addressed so maybe not going through each one of those. First, about the items affecting comparability. A question on the IAC side, second quarter in a row with close to 20 million in IAC. Any comments?

01:09:43 - 01:09:55
Katri Hokkanen: Thank you. Good question, whoever sent it. I already mentioned in my presentation that they were mainly related to M&A as well as restructuring what we did last year.

01:09:58 - 01:10:24
Pekka Rouhiainen: Thanks, Katri. A question on the underlying organic growth without Arauco that came in nicely in services and especially in the automation systems business line in Q4. Any additional colour on why the services orders in Q4 were so strong, excluding Arauco and the same for automation systems?

01:10:25 - 01:11:39
Thomas Hinnerskov: Briefly on Q4 and services, we did get a service package from Arauco deal that did impact the services. Overall, there was good underlying growth. Back to what I said earlier, great to see that our mil service teams actually managed to sell some of the mil packages we've not seen really early in the year. We've seen more customers buying the consumables part of the service business, but less so on the modernization, holding a little bit back, maybe sweating the asset a little bit, if you can say so. Then proactive sales came through in Q4, which was good to see. The automation system without acquisitions and the hierarchal order is still the seven percent organic growth for the year. Really good to see as well. It finished on a strong. Building up Q4 was very strong on that one. Overall, back to what I said before, testimony to the strong value proposition that we do have in the automation system.

01:11:40 - 01:12:09

Katri Hokkanen: Maybe one colour to add to the automation systems, which was positive, was actually on the pulp and paper side. They had a very strong order intake in the fourth quarter. There have also been some delays. Customers have been postponing some of the decisions and the director says there was good. At one time everybody understood what the situation in the pulp and paper market was, but nevertheless also very happy that there was such a strong close for the bookings in Q4.

01:12:11 - 01:12:33
Pekka Rouhiainen: Thank you. Two more here at the moment. Looking wider into a geopolitical situation. Also outside of the tariffs. I guess the person here wants to know what your view is on the geopolitical situation overall and its impact on Valmet.

01:12:36 - 01:13:31
Thomas Hinnerskov: It's probably hard to disagree with that. The overall geopolitical situation is a bit dynamic, to say the least. The benefit for us is that we are a global business and we do have business in Australia, China, Indonesia, across the globe, North America, and South America. That's also why we're benefiting from it. In certain segments, North America, and South America have been going well. Europe and China have been soft. That could change depending on how the situation goes. Getting a bit of that global is a positive thing for us despite that it's a dynamic situation. You can wake up in the morning, then something happens in the world. We managed it. It's also about this thing we talked about in the strategic review.

01:13:31 - 01:14:29
Thomas Hinnerskov: That is, how can we create an organization that is simpler and therefore also faster in both decision-making and managing complex situations that are locally in different countries? That's where the work we're doing will improve. Also, this whole leadership philosophy of empowering the organization to a larger degree than what had happened historically. That will also speed decisions up because then we do have great employees who are close to where the problem is, close to where the customers and can make the decisions on-site and deal with it. Let's move on. Simplify the business, take the complexity out, and empower the people then you're in the best position to manage dynamic situations. Then you can talk about scenarios and so on. At the end of the day, having great people who are empowered will do the job right and faster.

01:14:29 - 01:14:49
Pekka Rouhiainen: Thank you, Thomas. Johan Eliasson is on here still asking about some housekeeping issues going probably towards Katri's side about tax rates in 2020 to '24 and then tax rates going forward.

01:14:49 - 01:14:50
Thomas Hinnerskov: Effective tax rates.

01:14:51 - 01:14:52
Pekka Rouhiainen: Starting with the effective tax rate.

01:14:52 - 01:15:15
Katri Hokkanen: Thank you, Johan, good question. The ETR was a bit higher for Valmet. It was 26.95 if I remember correctly. There was a one-time impact coming from Brazil. If we take that out, it would have been on this 25 percent level, which is more normal for us. Going forward, that is also the level that we're expecting.

01:15:16 - 01:15:25
Pekka Rouhiainen: Another part of this question is, what about the CapEx plans going into 2025? Any changes to the CapEx that you are foreseeing?

01:15:26 - 01:15:44
Katri Hokkanen: Thank you. Good question again. It was 107 million for the year. It was lower than what we had a year ago. At this moment, I think that we will probably land somewhere on the same level. We can give more precise estimates as the year goes forward but I don't expect any major increase there.

01:15:46 - 01:16:43
Pekka Rouhiainen: All right. Thank you, Thomas and Katri. Thank you for the good discussions over the phone lines and also the activities on the online platform. Thanks for that. The next event for Valmet is going to be the annual general meeting which happens every year, so March 26th. Then the interim review next one, Q1 will be April 23rd. As Thomas already indicated a little bit, the Capital Markets Day for Valmet will take place on June 5th so please save the date for the CMD. As I said, Thomas will follow up with more details and formal

invitations later. With this, I will now close this event. Thanks again, everybody. I guess it's a busy day for many who are following listed companies, so have a good active day.

01:16:44 - 01:16:46
Thomas Hinnerskov: Have a good one and see you out there. Thanks.

01:16:46 - 01:16:46
Katri Hokkanen: Thank you.