Transcription

# Valmet Q1 2023 Interim Review webcast

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**Pekka Rouhiainen**

00:00:01
Good afternoon, ladies and gentlemen, and welcome to Valmet's Q1 2023 Result Publication Webcast. My name is Pekka Rouhiainen. I'm the head of Investor Relations here at Valmet. Valmet's Q1 order intake was strong and also profitability was at a good level. The result will be presented today by 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. Pasi, please go ahead.

**Pasi Laine**

00:00:33
Thank you, Pekka. Good afternoon. As Pekka said, orders received increased to 1.5 billion, and comparable EBITA at 133 million in the first quarter. So strong quarter. First, I'll go through quarter one, then some numbers of developments of segments and business lines. Katri will go through the financial development, and I'll come to summarize the guidance and short-term market outlook. First, the first quarter in the brief. As I said, orders received were 1.55 billion. Net sales increased to 1.32 billion. Our backlog is big, so almost 4.6 billion. Comparable EBITA increased to 133 million and the margin was 10.1 percent. Gearing at the end of the period was 15 percent. If we hear the numbers again, then if we look at the net sales by segment, so this time, about 48 percent of the revenue came from Process Technologies, Services contributed to 29 and Automation to 23 percent. Net sales by area, it's quite traditional so Europe is almost 40 percent, North America a little bit over 23 percent, and the rest of the areas is about the same size from 12 to 14 percent. At the end of the period, we employed almost 17,800 people.

Here's the trend of our orders received and it looks, of course, nice. First time we are close to 12 months curve. We are close to 5.5 billion, and there has been steady growth from the beginning of Valmet with some dropdowns. All in all, the trend has been quite linear actually from this €3 billion level to €5.5 billion level. Geographically, Europe was traditionally 40 percent. North America beginning of the year a little bit stronger than an average 28 percent. South America, China, and Asia-Pacific, there is normal variation in a quarter between the regions, but nothing extraordinary here in the area view. Good order intake trend a nice trend continues. Then like we have been saying from the beginning, we want to grow services now our order intake was about 1 billion and now our LTM is almost 1.9 billion. That's, of course, something we are proud of. At the same time, we have been developing our Automation segment, so, first nothing, and then we bought automation systems, and now we merged with Neles, now we have a first-time full year, and the order intake in Automation segment for one year, last 12 months. It's a little bit over 1.3 billion. This results now from then to fact that our stable business order intake during the last 12 months has been about €3.2 billion, and we are, of course, very happy with this development which has been a strategic target for Valmet for many years.

Then backlog, as I said, is almost 4.6 billion, 60 percent is related to Process Technologies, 25 to Services, and 15 to Automation. We are saying the order backlog is now 192 million higher than end of last year. We are saying that about 65 percent of the backlog is expected to realize as net sales during 23. Last years, the same percentage was 60 percent. We also see the impact of Flow Control in this number. Strong backlog in all businesses.

Then some words about the segments and business lines. First Services, as I said, the LTM is now almost 1.9 billion, and quarter one was strong. Order intake was 577 million, and there are many reasons for that, of course, we have had good business activity. Inflation has been contributing to that and price increases, and then we had also one large single order, which was close to €30 million, so that contributed as well. Even without that large single order, the activity in services has been good. Net sales grew as well, ending up to almost 390 million. Katri will go through the quarterly numbers more, but I can tell here that the LTM now is 16 percent in our EBITA percentage. EURO-wise, the LTM is now 269 million. Good bounce back in Service profitability in the first quarter, and Katri will tell more about that later on.

Automation segment, first time the full year in LTM numbers, so it's one year since we merged with Neles, and now the order intake for the last 12 months is a little bit over 1.3 billion. In the first quarter, order intake was 391 million, which was of course a good level. Sales-wise, LTM is about a little bit more than 1.2 billion and net sales-wise, quarter one, so 304 million, and profitability now for the last 12 months is 18.2 percent. We are happy with the order intake, we are happy with the net sales, and we are also happy with the profitability of the Automation segment.

Flow Control has now been here for one year with us and the LTM is now 793, so almost 800 million. Here you see on the graph that it has been going back to the growth mode it had until 2019. Then there was the COVID drop, and now we are back to the same line of growth there was earlier. Good development in order intake in Flow Control. Quarter one was strong. All in all, 217 million orders in the first quarter. Net sales have been growing as well, so net sales were 188 million. We are happy with the Flow Control performance and the integration is going like we have been saying, well, and we are also in the process to achieve the synergy target that we have publicly said. Good development in Flow Control.

In Automation Systems, LTM is now 533 million. The first quarter was strong as well, 175, so almost 30 million higher than last year, and net sales have been improving as well. Last year, 88 million, this year, 116 million, and LTM is 570. We are also happy with the development of our Automation Systems business.

Process Technologies, which is the combination of Pulp and Energy and Paper. Order intake was 584 million, so less than a year ago. From the peak year when we had to €2.8 billion, we are back in LTM at the earlier years' level, so to about 2.2 billion. This is quite a normal order intake level what we have had over the last six years or five years except for one year, so normal activity. Net sales-wise, we are now at €2.5 billion level and indeed ended up in quarter one having 628 million as net sales. Profitability in LTM is now 5.4 percent. The first quarter was not strong, and Katri will go through that number, but LTM is now 5.4 percent, and the margin is impacted as we have earlier been saying, by selected pulp and energy projects. There is no change in that statement. It's still pulp and energy and selected projects.

Pulp and Energy order intake 212 down compared to last year, but there is always quarterly variation in order intake and LTM is now a little bit less about 957 million. Lower activity than last two years but higher than three years ago. One could say that the activity has been a little bit down compared to a normal year on an LTM basis. Net sales-wise, we ended up with net sales of 286 million and there is growth of about 10 million compared to last year. As I earlier said, we have challenges with selected pulp and energy projects.

In Paper business line orders received was 372 million, down compared to last year, but 372 million is a very good level for one quarter in paper machines. LTM is now at a little bit over 1.2 billion so 200 million above the years before. Then of course, down compared to extraordinary year 21. One could say that we are at the normal order intake level currently compared to the previous years. Net sales we ended up at 342 million and LTM is 1.4 billion. It means that currently, we can eat our backlog, which then means that our delivery times are getting more reasonable. There's nothing to worry about it. I think it's more telling that we are getting back to a more normal situation. It's also telling that our organization has done extremely good work with the fire which was in Rautpohja year ago in May. They have now been able to ramp up the capacity even if we had all the challenges with the fire at Rautpohja factory. So well done by Paper business line. Good. Now I will let Katri continue.

**Katri Hokkanen**

00:11:32

Thank you, Pasi, and hello, everybody, on my behalf as well. I'm really happy to be here today to present the results. I will start my presentation from the traditional key figure slide. Order intake was 1.55 billion, as Pasi said earlier, so it was 17 percent higher than a year ago. Order backlog is strong, 4.6 billion. That is roughly on the same level than what we had last year. Net sales was 1.3 billion. There is 38 percent increase compared to last year, and our comparable EBITA was 133 million or 10.1 percent. There was 1.8 percentage points increase compared to last year. Our adjusted earnings per share for the quarter was 51 cents, and I will come back to the other numbers a little bit later in my presentation.

Then when we look at the segment numbers, starting from the order intake, Services was 577 million. That was 28 percent higher than a year ago. This was actually the record quarter for Services and for Services business units. Pasi already mentioned that we had this one single order worth 30 million booked now in Q1.

Automation was 391 million and there we had 217 million of Flow Control and the rest was then Automation Systems, and it's good to mention that also in Automation Systems, the orders grew 19 percent compared to last year. Very nice start there as well. Process Technologies was 584, so that was 20 percent lower than a year ago. All in all, we were at 1.55 billion, as I said, and 17 percent higher.

Moving on to the net sales, actually, in all the segments, net sales increased compared to last year. Services was 389, that was 23 percent higher than a year ago. Automation was 304, and then we didn't have Flow Control last year, so that's good to understand from the numbers. Then on the Process Technologies, the net sales was 628, so that was 13 percent higher. We were clearly over 1 billion in terms of net sales and 38 percent higher than a year ago.

A few words also about the Comparable EBITA and starting from Services. Service was 63 million and more than double compared to last year, and the profitability was 16.1, that was 6.5 percentage points higher than the slow Q1 last year. Automation was 50 million so 16.3 percent, so that was also a 4.2 percentage points improvement compared to last year. Process Technologies was 30 million and down to 4.7 percent. All in all, we were at 10.1, as said earlier, and this was actually the first time ever that our Q1 was above 10 percent so one milestone we reached here again.

We have a little bit changed this slide so this now includes the comparable gross profit and SG&A. We wanted to increase the transparency and hope that you will find this useful. I will start from the comparable gross profit that was 25 percent for Q1, which was two percentage points higher than last year. There stable business was a little bit over half of the net sales. When we look at the last 12 months, we are close to 1.4 billion and 25%. Then moving to the SG&A. When we look at the last 12 months, SG&A is a little bit over 900 million, and that has increased compared to last year, the increase is mainly coming from Flow Control. In the last 12 months number, we now have one full year of Flow Control.

Then when we look at our Comparable EBITA margin development, our net sales, when we look at the last 12 months, was at the level of 5.4 billion. Out of that 2.5 is related to capital business and 2.9 to stable business. Comparable EBITA is 587 million or 10.8 percent. We have improved compared to year-end, but we have not yet reached our previous record of 10.9 percent so the work continues and our target is unchanged. We want to be between 12 to 14 percent in Comparable EBITA margin.

Cash flow for the quarter was 208 million, and when we look at the last 12 months, we are at 225. And net working capital was -413. When you look at the chart, we have now eliminated the liability related to dividend out, and the net working capital there is -174 and that is -3 percent of the rolling 12 months order intake. So it improved compared to year-end. Net debt, at the end of Q1, was 345 million and gearing was 15 percent. Our net debt to EBITA ratio decreased to 0.49. Capital employed was 3.1 billion, and the Comparable return on capital employed was 19 percent at the end of Q1. Earnings per share, sorry, Adjusted earnings per share last 12 months, we are at €2.50.

That was my part so I will give the floor back to Pasi.

### Pasi Laine

00:17:24

Guidance and short-term market outlook. We keep the guidance the same as it has been earlier. We estimate net sales will increase in comparison with 22 and Comparable EBITA will increase in 23 as well when we compare it with the year 22. Then short-term market outlook and like we have been saying, it's roughly 50 percent of the customer activity and 50 percent of the capacity utilization. In Services, we have good order intake, we have had good order intake for a long time, and we still have good market activity. We continue to keep good as a market outlook. In Automation, the same story. Order intake has been good and market activity is still good. And Flow Control is the same. Good order intake and good market activity as well. In Pulp, we have units where we have a good workload situation. Then we have one unit where the workload situation is not good, and that's why we say good/satisfactory. In Energy last year order intake was record and market activity continues to be good as well. We continue to have the short-term market outlook as good. Board and Paper the same situation good workload and good market activity. In Tissue we still keep the satisfactory even if there has been more activity. Still, the workload is not as good as it could be, and that's why we still keep Tissue as satisfactory. So, no change compared to last quarter.

### Pekka Rouhiainen

00:19:16

All right, thanks, Pasi and Katri, for the presentations. We will now move to the Q&A session. I will ask Pasi and Katri to move here behind the tables. This is a virtual event, so we will be only taking questions over the phone lines. Operator, I hand over to you.

### Operator

00:19:39

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**

00:20:07
Hi guys. It's Antti from SEB. Thanks for taking my questions, two of them. Firstly on the process technology side and especially on paper division and especially on the board side. I mean, you have enjoyed a very good demand over there in the recent couple of years and now obviously we are seeing a much more adverse news flow coming in. Could you talk a little bit about the order pipeline and your discussion with clients that you have had during the quarter? Are you seeing any hesitancy in investing? What do you think about demand in terms of expansion of capacity replacing all the machines and so forth?

**Pasi Laine**

00:20:52
As I said earlier as well, our customers are planning their investment for the coming 10 to 15 to 20 years. We haven't seen any hesitation generally in the decision-making by our customers. Then there are some customers who are now maybe hesitating in their decision-making. I'm not sure whether that's because of the demand or is it so that people have to adjust to the inflated cost level. A couple of the customers are maybe hesitating, but generally, I haven't seen slow slowness in the customer negotiation activity.

**Antti Kansanen**

00:21:34
Okay. Then the second question is on Services. I mean great, growth and margins during the quarter. Where did you see the biggest activity during the quarter? Was it kind of customers pulling forward maintenance action, doing kind of modernization projects to bring costs down? Maybe a second question then on the Services margin, I mean, it was very strong considering the seasonality. What should we expect going into further this year? I'm assuming you're going to see a little bit higher labour inflation hitting that division. How are you prepared in terms of pricing?

**Pasi Laine**

00:22:15
We have seen customer activity, especially on the pulp and energy side, where the market for mill improvement has been active. Now I'm answering also to say at the same time to another question. If there is a slowdown, then we would see that in our consumable business. Then at the same time, it can be an opportunity for customers to make some refurbishment projects. We would see that actually in an increased level of the mill improvement type of projects. Currently, the market activity in almost all things has been actually at a good level. Then on the profitability and labor rates, Katri can answer.

**Katri Hokkanen**

00:23:01

Yes. Of course, we have been discussing this topic for quite some time and also knew that wage inflation is coming. We have started to take that into account, and of course, you can see also in the profitability that we have been able to increase the prices, but that work continues. This year we expect to see probably some 5% inflation in salaries.

**Antti Kansanen**

00:23:26

All right. Very clear. Thanks so much.

**Operator**

00:23:35

The next question comes from Mikael Doepel from Nordea. Please go ahead.

**Mikael Doepel**

00:23:44

Yes, thanks. A couple of questions. Coming back to the Service business, first of all, I wonder if you could talk a bit about the market dynamics compared to the paper companies. You mentioned that the focus might shift a bit if things go weaker, which might impact the mix of your Service business. If I hear you correctly, you haven't seen anything of that yet. I was wondering, given the fact that some of your biggest customers have gone out and said that things are looking pretty weak across the board, it seems as if this hasn't had an impact on you. Maybe you could just talk a bit about those market dynamics.

**Pasi Laine**

00:24:31

We have been, of course, reading as well that some of the customers are saying that there's less activity. Of course, we work globally, so then one should understand that we are following the market activity globally. It's clear that the market activity in China hasn't been as strong as it used to be, or it has been as strong, but it hasn't been growing. Let's see when the COVID impact from the Chinese market is over. There could be a positive thing. At least for us, the big areas like Europe and North America have been active and we haven't yet seen any slowdown in the service sales activity. Like I said, then if shutdowns are coming, then it will impact the consumer business like paper machine clothing, but then it can be an opportunity for mill improvement type projects. Up to now, we haven't seen it yet in our market activity, the slowdown.

**Mikael Doepel**

00:25:38

Okay. Well, that's clear. Just to follow up on that, then, I mean, in the past few years, you had done quite a good job in improving your market share in the Service business. I'm wondering about Q1 and the outlook you have for the next six months.

Do you assume, or is it fair to assume, that you have continued on that track? I guess one reason why you are doing quite well has to do with the fact that you are also gaining market share. Is that a fair assessment in your view?

**Pasi Laine**

00:26:12

One quarter is too short time to assess that one but of course, we continue to grow, and our target is to grow twice the market size so the market growth so increase the market share, but one quarter is too short time. We don't have the measurement with that accuracy of our market share.

**Mikael Doepel**

00:26:34

Okay, great. Thank you very much.

**Operator**

00:26:44

The next question comes from Sindre Sørbye from Arctic Asset Management. Please go ahead.

**Sindre Sørbye**

00:26:53

Thank you for taking my questions today. Two questions. First, on SG&A, I mean, in light of the sharp increase in turnover, the SG&A ratio to sales appears to be somewhat on the high side. Admittedly, the increase from the fourth quarter is less than it usually is in the first quarter. I think Katri alluded to the fact, or she said that Flow Control was kind of an explanation there. Is it so that the SG&A share is higher in Flow Control, and should there be scope for SG&A as a percent of sales to come further down in the coming quarters?

**Katri Hokkanen**

00:27:48

Okay, I can start again. Okay. Overall, the SG&A, as we said, was at the level of roughly 900 million, and then the increase compared to last year's, it was roughly 830 million, so that was that 75 million increase was maybe 70% related to Flow Control. So there is also an increase in personnel-related costs and some increase in the travel expenses. Do you want to add something?

**Pasi Laine**

00:28:13

Flow Control is more SG&A-heavy business than our tradition. That's why you see that there is an increase in the SG&A percentage compared to net sales because Flow Control has an impact on that.

**Sindre Sørbye**

00:28:31
Okay. Is it also so that assuming that your strong order intake within Services means that Services will push this ratio or have an upward push on this ratio? I can imagine that travel expenses, for instance, are heavier in Services than in other businesses.

**Katri Hokkanen**

00:28:57
We didn't quite catch the question. There is something on the line.

**Pasi Laine**

00:29:02
So If I guess that... In Automation and in Flow Control and in Services the SG&A content is higher than in capital business. If you want to grow Flow Control or stable business, means Automation segment and Services segment, then you have to increase SG&A. Then SG&A is less heavy on the capital side where actually the SG&A is quite constant, and there is quite a big variation in the order intake. This variation is then changing the SG&A percentage compared to order intake. But I don't know if I guessed your question at all correctly.

**Sindre Sørbye**

00:29:46
That's very, very well guessed. Actually, that was what I asked about. My second question is related to the Pulp and Energy segment. I think you said that Pulp orders were actually up while Energy orders were down. At the same time, you have a good outlook on the energy side and that sector on the pulp side. With this kind of a, let's say, just a fluctuation, you expect to come back to the strong energy order intake in the coming quarters?

**Pasi Laine**

00:30:27
In a capital business, the quarter is a little bit difficult. Sometimes you have more orders booked in one quarter than the other one. We are saying here that it has decreased compared to last year. That's true. In Pulp increased, that's true as well. Energy by order intake has been strong, and the pipeline is strong as well, but there is always quarterly variation and then Pulp has been better than last year and let's see how it continues. We are saying that good/satisfactory. That's our current understanding of market activity in pulp side.

**Sindre Sørbye**

00:31:07
Okay, excellent. Thank you.

**Operator**

00:31:13
The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

**Panu Laitinmäki**

00:31:23
Thank you. I have two questions. Firstly, on the margins in the Process Technologies, they were down from Q1 and, sorry from Q4 last year, and quite a bit from Q1. What do you expect to happen there? How long do these selected problem projects continue, and how should we think about this in the coming quarters and years?

**Pasi Laine**

00:31:49
This is a difficult one. Then Katri answers.

**Katri Hokkanen**

00:31:52
Oh, thank you. So it is… Okay, the EBITA percentage for Process Technologies was down to 4.7, so year-end, we were at 5.6. Maybe one thing to note is that we had a little bit lower net sales now, some 40 million. Typically it's normal that there is some variation between the quarters in Process Technologies. But i repeat what Pasi said earlier, that we have those same issues we have had in the past, and our target is to improve as soon as possible.

**Panu Laitinmäki**

00:32:24
Can you comment when do these projects end? Is it like this year, or do they carry on until next year?

**Pasi Laine**

00:32:31
We haven't been saying that, but we have been telling when the challenges started. One could assume that a little bit less challenge in beginning of next year than now.

**Panu Laitinmäki**

00:32:47
Okay. Then secondly, on the Services, on the very good order intake growth, I still struggle to understand how much was the price and how much was the big order or project that you sold that you mentioned. I mean, how much is something exceptional? What do you think is the kind of run rate going forward?

**Katri Hokkanen**

00:33:12
Well, I can start, and you can continue. The orders received increased by 28 percent in Services, and we have evaluated that the inflation impact is roughly what we have also said in the past, some 6 percent. Then we had this roughly 30 million order, what we mentioned earlier so that then is 7 percent of the total. So rest is more or less organic growth and may be good to mention that Q1 is usually quite strong seasonally.

**Panu Laitinmäki**

00:33:41
Okay, that's clear. Thank you. Can I just squeeze in one on Services? The margin increased quite a bit, and it was clearly above what it was in Q1/21, which was probably not impacted by inflation. Where did this increase come from? Is it just like a higher scale, or what have you done better than you did two years ago?

**Katri Hokkanen**

00:34:07
Okay, I will start again. Of course, the volume explains it. Net sales were higher than a year ago, and we have openly said it many times that we were slow with the price increases last year. We were not happy with the profitability Q1/2022, and of course, now 16.1 percent is good achievement.

**Panu Laitinmäki**

00:34:31
Okay. It is like a new normal. If you have like seasonally lower margin in Q1, then you should have higher than this going forward, or how should you, how should we think about this?

**Pasi Laine**

We are not commenting segment profitability estimates.

**Panu Laitinmäki**

00:34:48
All right. Thanks.

**Operator**

00:34:56
The next question comes from Sven Weier from UBS. Please go ahead.

**Sven Weier**

00:35:03

Yes. Good afternoon. Thanks for taking my two questions. The first one is on the backlog. You kindly disclose 65 percent due remainder of the year. Last year it was 60 percent. Can you just remind us what the incremental backlog from Neles was? Because I guess the Q1 number last year did not include Neles yet. That's my first one. Thank you.

**Pasi Laine**

00:35:29
Q1 didn't include Neles, and then thereafter, we haven't been actually disclosing the Flow Control's backlog separately.

**Sven Weier**

00:35:44
Okay, fair enough.

**Pasi Laine**

00:35:46
Maybe Katri might be able to help you with an even better answer than mine.

**Katri Hokkanen**

00:35:49
I don't know if it's even better.

**Pasi Laine**

00:35:51
Which was nothing.

**Katri Hokkanen**

00:35:51
Yes, but maybe it's good to… Okay. Strong backlog, as we said, 4.6 billion and some 40 percent is related to stable business. That was also in Pasi's presentation. The amount of stable has increased compared to last year.

**Sven Weier**

00:36:07
Okay. Thank you. The other question I had just I mean, we discussed already, you know, the impact of the turmoil, lower pulp prices, profit warnings in the sector. I guess a bit too early to see an impact of that yet. But what about the impact of high-interest rates? I mean, that's been going on for a while. I guess some clients might have still, you know, pulled forward project decisions, maybe still especially in Europe, maybe to benefit from still relatively low rates. Is that an important part of the discussion or do you feel that in this long-term thinking that you mentioned whether the interest rates are 1-2 percent higher or not also doesn't really move the needle that much?

**Pasi Laine**

00:36:53
With the customers I have been talking over the years, actually, over the last years, people have more saying that there should be an interest, that all the products should have a prize money as well. The ones with whom we deal, they are used to interest rates. It's exactly like you said, that it's not moving the needle.

**Sven Weier**

00:37:20
Pasi, on this pulp price weakness, we see demand weakness. I guess we've all been looking at this long enough to have seen this fluctuation in the past. Right. Sometimes longer, sometimes shorter. What's your experience from the back days? I mean, in the last, let's say, 5 to 10 years, did you feel that this had an impact or did you feel the clients have always kind of looked through these fluctuations?

**Pasi Laine**

00:37:48
They have looked through the fluctuation, all the ones who are building pulp mills, they have been over decades in the business and they know that sometimes the price is better, sometimes less. They base the investment decision on demand and then on the cost of what they will achieve with the invested mill. So the ones who have the highest cost per ton will have challenges and the ones who have newer, more effective mill, they have less a challenge in times when the price goes down. We haven't seen any impact of that price having any impact to our customer decisions yet.

**Sven Weier**

00:38:32
Okay Pasi and Katri, thank you very much.

**Pasi Laine**

00:38:34
Thank you.

**Operator**

00:38:39
The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

**Johan Eliason**

00:38:50
Hello. Thank you for taking my question. It’s Johan at Kepler Cheuvreux. I was curious about your comment on the Paper order intake. You say now that your delivery times have normalized. What are they today? I guess it's different if it's a board or fine paper, or a tissue machine. Can you give some indication on when could I expect to get a new machine delivery if I place the order today?

**Pasi Laine**

00:39:18
So tissue machine always has a shorter delivery time and there we have capacity. But now when the backlog was at the highest, our promised delivery times started to be three years for the board machine. And board machines and paper machines are done with the same organization. So there the delivery time is the same, and now it's getting shorter.

**Johan Eliason**

00:39:44
And that basically implies with the backlog you have, you can achieve this current turnover for another two years if I understand you correctly.

**Pasi Laine**

00:39:56
I'm not commenting the net sales for the current year, but we have been increasing our capacity. And then, of course, last year we had still challenges with COVID in China, so there were still lockdowns, and one easily forgets that last year was a challenging one. We had COVID and we had logistic challenges. Then on top of that, we had fire. Now we start to be out of those ones and then our capacity is under normal utilization currently.

**Johan Eliason**

00:40:29
Okay, good. Then on tissue, I guess we should start to see some action on new orders there. I mean, that's a partly an effect from lower pulp prices and the overall pressure on their margins. If we place tissue orders, we could get those within a year or how long is the lead time there?

**Pasi Laine**

00:40:56
It depends a little bit on the scope but one year is a good guess.

**Johan Eliason**

00:41:01
Yes, good. And how big... I mean, tissue has always been a small part for you. What sort of size are we talking about over the cycle in terms of revenue or order fluctuation for tissue? How big can it be in a peak year?

**Pasi Laine**

00:41:25
If I remember correctly, the peak year in order intake was over 350 million some years back. Let's say a normal year is between 200 and 250.

**Johan Eliason**

00:41:38
Okay, excellent. Those were all questions I had. Thank you very much.

**Pasi Laine**

00:41:42

Thank you, Johan.

**Operator**

00:41:48
The next question comes from Antti Kansanen from SEB. Please go ahead.

**Antti Kansanen**

00:41:59
Thanks for taking my follow-ups both on Services. The first is coming back to the seasonality. If you look at Q1 sales, I mean, that tends to be weaker than the other

quarters. Was there anything extraordinary in this quarter that would have resulted in higher sales or was it just business as usual?

**Pasi Laine**

00:42:18
Just business as usual.

**Katri Hokkanen**

00:42:19

Business as usual, Yes.

**Antti Kansanen**

00:42:23
Okay, that's very clear. Then perhaps a broader question. You mentioned that if there's a downturn and more downtime that could benefit the demand for mill improvements. How has it been in your business in the past couple of years? In some industries, we're seeing clients investing more into installed bases as the lead times of new equipment have been long, and I guess they have been long in your industry as well. Then again, your clients have been running with very high capacity utilization. Have there actually been a pent-up? What's the dynamic been in that business the last couple of years?

**Pasi Laine**

00:42:59
So we have had very good activity on the new equipment side as well. Then that's the difference against the industries you mentioned. We have had all the time good new equipment market. Then on the rebuilds, normal market. Then improvements, we have had them as well. Let's see if the improvement market is getting more active now if there are more shutdown possibilities. That could be my answer today.

**Antti Kansanen**

00:43:39
Yeah, I mean your lead times have been very long. I just thought that maybe some customer cases there have been too long and they have then decided on perhaps spending more money on their existing installed base, which then you have seen on Services demand. This hasn't made at least played a major role.

**Pasi Laine**

00:43:55
No, they are so different volumes that if you improve old machine by 5% it's totally different than the volumes what you get from the new machine, which is twice the size of the old machine. So they are not in a way comparable actions.

**Antti Kansanen**

00:44:14
But it will become relevant on those guys who are higher on the cost curve. Now if

we see a kind of lower product prices, then they will start to invest, bring their production costs down.

**Pasi Laine**

00:44:23
Yes. Yes.

**Antti Kansanen**

00:44:24
Okay. Okay. Thanks.

**Pasi Laine**

00:44:26
Thank you.

**Operator**

00:44:33
As a reminder, if you wish to ask a question, please dial *5 on your telephone keypad.

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

**Pekka Rouhiainen**

00:45:02
Thank you for the good Q&A session. Thanks, Pasi and Katri, for the presentations. This will now then start to conclude the event, so Half-year Financial Review will be published on the 26th of July. See you all then, at least. But until then, have a nice spring.