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Speakers:	Pekka Vauramo, President and CEO Eeva Sipilä, CFO
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PRESENTATION

Juha Rouhiainen

Hello, everybody. Welcome to Metso Outotec's third quarter 2020 results conference call. I'm Juha Rouhiainen from Metso Outotec's investor relations, and with me here are our President and CEO Pekka Vauramo, and CFO Eeva Sipilä. And they will present the results shortly. But before that I would like to say and point you to the forward-looking statements disclaimer we have in the slide deck and also a reminder that we intend to limit this call to approximately 60 minutes in total. With these words I'll hand over to Pekka. Please go ahead.

Pekka Vauramo

Thank you, and welcome to this call, and we'll go straight into third quarter of the year. How we see it, market activity largely unchanged compared to the end of second quarter. However, Covid is around us. As we all know, orders and sales are affected as we can see different businesses in different ways. I'll come back to that one later on. Overall, and we have now the first time the new segments there. They are aggregates, minerals, and metals and recycling: three segments that we are referring to in this one.

Overall performance in aggregates and minerals segments was healthy, as you can see in the numbers as well; we will go through them in a bit more detail later on. Integration has started quickly with good progress. We have a solid plan that we are executing, following it step-by-step with very high discipline. And that's our plan, to continue as well. At this moment our cost synergies are at 31 million annual run rate. That's the end of the quarter, and our target that we communicated is to achieve the 50 million mark at the end of the year, and we are well in line with that target.

Metals business was a disappointment, and the markets are suffering in the metals business from, on the other hand, over-capacity that was put in place during the metal super cycle some years back. And then, with the Covid impact we really haven't been able to turn the pipeline into orders. And we're facing a situation that, with the current performance, we will immediately initiate restructuring and turnaround actions. And the focus will be in Metals on those [? 00:24:07] during the coming 12 months. We've also started planning of recycling business as it's not seen as [? 00:24:18] with the rest of the group. So, these are basically the first set of highlights.

Then, into group. Group numbers, more so. Orders below last year's level. We had, however, a very high benchmark from a year ago. We have seen now postponements of orders. They are there, and we look forward to announcing some of these orders any time basically now. But it didn't happen during the third quarter. So, numbers are therefore down. Sales also down. This is a consequence of order bookings being slightly below the previous periods also earlier on.

Adjusted EBITA 11.1%, €109 million. And down from last year. If we just look at, we take, for example, the Metals business alone, there's about 40 million difference between the performance current, 10 million negative, and last year - I think it was 28 or 29 million positive. So that comes to the difference of about 40 million. So, clearly we can see where the issues are, and that's why we talk about actions in that area.

EBIT because of the adjustment restructuring costs, PPA-related things, 4.8% of the sales earnings per share, three euro cents net debt at 940, and gearing, 47. So, these are the group numbers. Then on Covid. Particularly, yes, this is affecting businesses. Anything big, bigger projects take longer time to prepare, is complicated to prepare. That takes also longer time for customers then to finally commit to business, but we do have a good pipeline there. We are not concerned about other than the time factor here at this moment. Our own operations are running well. There's no disruptions as of such currently with our own factories and supply chain.

Aggregates demand has-- The recovery that was well on its way up until June, then it has stabilised around 75%, 80% level of normal, but good growth in China. Also, positive development in North America happening at this moment with the aggregates. Maybe the recovery has dampened a little bit with the second wave of Covid in some of the markets, but we'll see, once we get towards the end of the year, how the demand picks up for the upcoming spring season in the northern hemisphere. We should start to see that in numbers during the fourth quarter. Of course, subject to the Covid situation.

The bigger projects I've commented already, and that's affecting both Minerals and Metals market, and then the comparison is really harsh because of last bookings last year of Ma'aden gold project in Saudi Arabia and Epiroc [ph 00:27:39] copper project in Russia, and those are the joint packages between Minerals and Metals segments.

Service somewhat affected primarily in the labour part, in professional services, and then, on the other hand, in modernisation and upgrades. Standard spare parts, consumables, that continues, probably better than ever. At this moment, it's improving slightly the mix as well, because these are the higher margin things, and we have seen really good performance in our consumables business. Overall, it really, really has shown its potential, and we look forward to developing that business further.

Starting from Aggregates segments, orders likely up thanks to McCloskey acquisition. There, organically, we were 14% down and on a growth [ph 00:28:32] almost 30% came from McCloskey's side. Sales up as well, but organically 12% down. Just Covid impact here on both of these numbers, and McCloskey contributing nicely into these numbers.

EBITA adjusted 26 versus 28 last year, despite lower organic volume and integration of McCloskey. I think this is a good result, what we've been able to achieve. Good adjustments on a cost base, rapid actions that are still in place in Aggregates, and also long-term improvement actions in place. So, we can expect this segment to develop reasonably well when Covid at one point then leaves us.

Minerals side. In addition to project issues that we have had delays there, we have also major currency impact there on orders. 8% on sales, 9% altogether. We see also the currency, this comes primarily through our services, but there is a capital equipment side in that one, as well. So, orders are down, but as [ph 00:30:13] comparison sales down, as well. Currency impact being really a major contributor to that one. Organically, not so much. Adjusted EBITDA exceeding 15% for the segment with good mix, and already commented really strong performance in our Consumables business. Adjusted EBITA just slightly below last year's numbers. And even though we are, this is, of course, the area where we have most of the synergies in Minerals. And yes, our run rate is currently 31 million, but there's not so much yet in the number because that is a run rate and forward-looking number, the 31, but really nice, good outlook combined with our synergy targets that are primarily in this area.

Then Metals and Recycling. Really, 40 million difference in the EBITDA line to last year. And with our new financial targets, strategic targets, it is clear that we will immediately initiate actions to restructure this business and work on turnaround, And we will hear about that one a bit later on. The planning has already started. There are projects in this area that are still within reach that we can sign in this year, but the order backlog is so low that there's already an inflow of quotes [ph 00:31:44] from some of our locations and operations into SG&A as we cannot keep all of them busy. And on the other hand, we are in such locations that we cannot use temporary lay-offs as flexibly as we can in Finland, for example.

Next one. OK. I'll hand it over to Eeva to go through the numbers more in detail, and then I'll come back later on.

Eeva Sipilä

Thank you, Pekka. Good morning, good afternoon on my behalf. On the financials, following the closing of the Metso Outotec transaction on June 30th, we continue to have several sets of numbers for you for the remainder of this year.

The official IFRS numbers have some limitations as they ignore the Outotec history altogether. So, for estimating run rate, the illustrated combined figures, hopefully, give some more insight to you. Then again, they do combine the history of two separate companies. So, they are, as their name says, illustrative. The proforma figures are provided as a third set to give you a combined view following the conventions of old proforma reporting that will be familiar to some of you. So, I will try to clarify the main differences during the following few slides just so that you know which numbers to look depending, as said, a bit on what the purpose of your thinking is.

On the IFRS income statements, the third quarter is the first quarter where the IFRS income statement provides you with the full detail on Metso Outotec. As you may remember from Q2 under our IFRS, the first half of 2020 consists only of Metso Minerals. So, to clarify, the €985 million of sales is the sales from Metso Outotec, whereas the January - September sales of €2,432 million is a combination of €985 million for Metso Outotec and Metso Minerals January - June sales. The last year comparison figures under IFRS are solely Metso Minerals figures.

Unfortunately, the earnings per share number is even more complex as not only is the numerator a combo of two sets of financials, as per the earlier-mentioned logic, also, the denominator, i.e. the number of shares that is used to calculate EPS, is not that straightforward as it is based on the average number of outstanding shares during the period, and is hence the lower number when it calculates an average from a lower number of shares for the six months and the current Metso Outotec number of shares for the three-month period.

But when looking at Q3, you're on clear ground. This is the first quarterly earnings reports from Metso Outotec: €985 million sales, adjusted EBITDA of €109 million. And then, as Pekka mentioned, the operating profit burdened by adjustments and PPA amortisation totals €47 million and 4.8%.

As you may remember from our earlier guidance, the Metso Outotec-related PPA amortisation for the second half of 2020 will be €58 million, of which half was reported in the Q3 figures. In addition, we have less than €10 million per quarter of amortisation from earlier acquisitions such as, for example, McCloskey.

So, the total amortisation of intangible assets figure for Q3 is €37 million.

Here, I would like to repeat our earlier guidance that the Metso Outotec-related PPA amortisation drops to €38 million annually from next year onwards. So, significantly less in a quarter for next year when the number for two quarters this year was €58 million.

An additional point on our tax rate. It is very high for the third quarter as the Metso de-merger at Media [ph 00:36:19] caused some extra costs in the quarter from a tax point of view. Our effective tax rate ETR for the nine months is 29.5%, and we would expect for the full year that the ETR would be in the 28% to 29% range.

Moving forward, the next page has the illustrative combined figures, which are useful when you want to look at the nine months at Metso Outotec, as here the first half 2020 includes also Outotec in the figures. Hence, better indicating a run rate for us. Here, the adjusted EBITA margin of 11.1% for the quarter compares with a nine-month figure of 11.4%.

As we indicated in connection with our Q2, we knew we would face additional costs in the third quarter from having to end most of the temporary cost-saving measures, and then not yet having benefit from the synergy cost savings.

Regarding last year's Q3 margin of 14.3%, I would note that we don't consider that as comparable with this quarter due to, at that point, Outotec Metals refining segment results, including material positive, one of which has not occurred this year.

My final comment on this slide would be to highlight that the €0.15 earnings per share on this slide is calculated based on the illustrative combined net result divided by the actual number of shares at Metso Outotec. That is some €830 million altogether. The higher denominator gives a €0.02 lower EPS than shown on the previous page, but as said, perhaps more illustrative this one to our shareholders.

The next slide gives the highlights on our balance sheet. And here we have the benefit of having full comparability with the end of September and end of June figures illustrating the assets and liabilities of Metso Outotec. Only the end of December figures are for Metso Minerals only. As you can see from the figures, there was minimal change during the quarter. A slight reduction of the balance sheet total to €5,511 million. I'll walk you through that net working capital and liquid funds shortly.

Before that, just to summarise on the cash flow, where you can see that net cash flow from operating activities for the nine months was €317 million. The same figure after Q2 was €303 million, so we had a positive cash flow for the quarter of €14 million. Despite additional profit for the period, we had a negative impact from a change in working capital of €55 million, and also a negative impact from net financials and taxes paid.

As you may remember from Q2, the Outotec cash is accounted in this graph on the row of business acquisitions net of cash, this number here, €203 million, being slightly lower than the €216 million reported in Q2. This is due to now the Q [ph 00:39:56] end of-- now the [? 00:39:58] figure also, including the impact of our Davis acquisition in August of this year.

Moving to our net working capital. A few comments there. Inventories at the end of September were €1,098 million, which is slightly further down from the €1,106 million at the end of June, showing further results from our actions to better manage our supply chain and logistics.

Trade receivables are €612 million, slightly up from June, and payables up similarly, they're to a figure of €504 million. Also, advances slightly up from June.

The other non-interest-bearing liabilities, which consist, for example, of the provisions and project-related items totalled €496 million in the graph.

Now, we continue to focus on actions to improve cash flow, and impact and work with various actions affecting the net working capital. And we do see opportunities in harmonising our ways of working in this area for the group.

My final slide would be on our financial position. Our liquidity position is solid. In addition to liquid funds amounting to €477 million on the balance sheet, Metso Outotec has committed an undrawn revolving credit facilities of €790 million at the end of September. This consists of a syndicated €600 million revolving credit facility, €100 million revolving credit facilities maturing in 2021, and an additional €90 million maturing in 2022.

During the third quarter, we re-paid Outotec's €150 million hybrid bond in July and Outotec's €150 million bond in September with bank term loans having clearly lower interest rates. From immediate cost-savings actions, we are moving our focus to extending the maturity structure of our debt as well as reducing the overall amount of debt through cash flow from operations in the coming quarters.

And with that, I would hand it back to you, Pekka.

Pekka Vauramo

Thank you, Eeva. I'll move to integration strategy and to our outlook for the next six months. But integration first. A few words about that one. We are progressing well in line with our plan, the cost synergies. But we have so far been able to execute €31 million, basically, come from an organisation. We have completed all the nominations. Now, we have organisation fully in place. We have made a big part of the lay-offs that we will make at this moment. A few countries are still pending where we haven't been able to proceed because of the local regulations and legislation that is in place. They will follow a little bit later on, but we're slightly ahead of our target level, which is €50 million at the end of this year, and still the outlook at the end of next year, €120 million accumulated at that point, is well-achievable. And that, basically, summarises the integration at this moment.

And then we'll move onto the strategy -- the work that we initiated beginning of the quarter, and we worked really looking first into portfolio part of the strategy, then the business areas that are the units that are driving really our development, our sales, our growth and our profitability improvements. They have their own strategies then, and we will be communicating about more details of strategy then in our Capital Markets Day on November 11.

But we stated our purpose statement enabling sustainable modern life. We feel and are excited about this purpose because it very well describes existence, why do we exist and what makes our existence meaningful? We are in the middle of many mega trends and we can contribute to these mega trends in a positive change which is in a positive manner. Positive change is part of our brand promise there, as well. But we know that urbanisation requires infrastructure, infrastructure needs construction materials, climate change needs electrification, electrification needs more metals, and we all know this story and we feel that we are important contributor now as Metso Outotec in that one.

On our western part, we want to say we are the number one choice for sustainable use of natural resources for our customers. And we also say that we want to deliver service reliability, innovation and results. And all of this safely. So, this is towards our stakeholders.

And then, we have strategic priorities: four of them altogether, starting from customer-centricity sustainability, which we see, of course, as an important thing for ourselves, for our supply chain, for our own operations. But we see that we can contribute to our customers' sustainable development through our offering. And then performance culture, which is an important driving force towards improving financial performance and integration that we're in the middle. We've also worked on our values that are stated there in the bottom of this chart.

The top priority is really four areas. I commented already shortly of them, but our aim really is to become industry-leading company in the eyes of all different stakeholders.

Performance culture: we need as a driving force here. That's a programme that we will put our organisation through. We will build it bottom up. Such culture and such activities, such way of working for the company that supports us achieving the financial and strategic targets.

Customer-centricity: we want to secure that our customers are really getting from us what they have ordered from us and with high degree of satisfaction and sustainability really at the core. 90% of our R&D will have sustainability targets going forward. We also commit ourselves to 1.5 degree maximum global warming target, and we have already approved science-based KPIs for that development.

And then integration is really the most important thing that we drive at this moment in the organisation, with the announced targets. We also do have other standalone-- what we call standalone improvement targets where we, step-by-step, are restructuring our supply footprint, our logistics, our distribution centre footprint. And the integration, together with the business area strategies, their growth actions, their profitability improvement actions will contribute to the financial performance of Metso Outotec.

The new targets adjusted EBITA margin over 15% over the cycle. We are in cyclic business. That's why the latter part of the statement, meaning that at the peak of the cycle we should be above 15%, and at the bottom of a cycle we should see better resilience and recession-proof performance than in the past, we've been able to achieve. Our target is to maintain investment-grade rating. We have it currently, and the aim is to continue to maintain that one.

Dividend pay-out of at least 50% of earnings per share - fairly similar to what we have added in the past - is also on the horizon. And then, progress in sustainability in alignment with the 1.5-degree commitment that we have given and backed up really by the science-based targets there.

Then, in the area where we do have a concern, and really as you saw in the numbers, major difference in the Metals from last year's almost €30 million adjusted EBITDA to this year €10 million negative; so, a difference being €40 million. The situation has become even worse where Metals was earlier on, even worse, during this year. And with those targets that I just mentioned, it's clear that we will start immediately the restructuring and turnaround actions and focus this very much on those during the next 12 months in our Metals business. And we will look at both business scope, meaning continue to do the strategic review of the portfolio and the core structure that we will address further in that business.

We also took a decision that will start the divestment process of recycling. Planning is currently going on. We felt that recycling is not synergistic enough for the rest of the group now that we are becoming a more focused group. So, we feel that this is the right time to diverse recycling business and find it a more suitable home and place to grow and further develop the business.

And then the outlook. Same outlook that we had at the end of the second quarter. The situation is very much the same, despite lower order intake. But we see that very much as postponements of some of the important potential orders that we have, and look forward to getting back on the right track very, very soon in that regard.

Second wave of Covid is affecting us and the rest of the world where they are still in the first wave, so to say, many countries are still at the peak of it. And, of course, it's always possible that things do get worse. But at the same time, we see that we all are learning to cope with and live in a different world in this regard, and business is less affected now because of that. But possible that it will cause some negative terms in business, but currently we don't see that on the horizon.

Thank you.

Juha Rouhiainen

Thank you, Pekka. Thank you, Eeva. And operator, we are now ready for questions and you can open the conference call lines.

Q&A

Operator

Thank you. If you wish to ask an audio question, please do so by pressing 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, 01 to ask an audio question.

Our first question comes from Klas Bergelind from Citi. Please go ahead.

Klas Bergelind

Hi, Pekka and Eeva. It's Klas from Citi. My first one is on services and minerals. You say that you were able to realise cross-selling synergies, Pekka, but this also seems to have led to short-term disruption to the business. Service order seems to have been weaker as you were realigning responsibility in the front end and so forth. Orders down 17% quarter-on-quarter. How much of that was for that short-term disruption owing to the integration relative to weakness in demand? Of course, there are differences upstream versus need and downstream, but those upstream highlighted an improved service business quarter-on-quarter. So, I guess underlying demand was at least stable for you. That is my first question.

Pekka Vauramo

Mainly, I would say the difference comes from the Covid situation that we are. There are restrictions for visiting our customers. Customers don't accept visitors, and it's difficult to perform anything that requires direct involvement from us either in preparation or delivery of modifications and upgrades. I think that is clear, but at the same time normal spare part orders, they are going as well as before, and Consumable business goes probably better than ever before at this moment. It's just find that customers are concentrating on producing and making profits, because prices are high and they don't even plan to have maintenance shut-downs at this moment as they are difficult to plan. And instead, they want to generate more cash and strengthen their own balances. So, that is probably the big picture.

Yes, we have made lay-offs during the past month, month and a half, and that has been-- Of course, it's always a disturbing factor in new organisations, but I don't really see too much of that impact in the activity.

Klas Bergelind

OK. Fair enough. Then, my second one is on the equipment side, also on minerals. Obviously, a tough [? 00:54:51] from the big greenfield order in old Outotec. But orders broadly [ph 00:54:55] are weaker sequentially versus the second quarter. And you said that bigger investment projects were being planned and prepared, but that the decision-making was slow. So, this is a timing issue. So, I guess two questions in one. First, what size are we talking about here when you talk about this project? Is it similar to the greenfield last year, or more like €30,50 million type orders? And then, second, as I said, we've seen a lot of momentum upstream from other support. Do you still think that the strength that we see in Epiroc and Sandvik, is that still a good lead for your orders in the minerals business?

Pekka Vauramo

It can be, of course. There are somewhat different dynamics between us and those two companies that you mentioned. My experience from the industry shows that at this moment when the gold price is extremely high, on record levels, and that is a segment that moves very fast, and then that opens business opportunities to Sandvik and Epiroc, probably more than for us immediately, for us further down the road, but not at this moment. But this is, of course, something for them to comment rather than us. We do have a good pipeline of projects, normal orders, orders that we would call the €10 million, €20 million, €30 million. That pipeline is really healthy, and we are booking that kind of orders, but we haven't seen the €100+ million orders. We don't have too many of such things in the pipeline either. But we have a healthy pipeline of between €50 million and €100 million size of projects at this moment, and those are the ones that we expected. Some of these to come through in a quarter, but we did get them. But they have not disappeared, and day by day we are getting closer with them, as well.

Klas Bergelind

OK. That's good. My final one is on the new targets and the cost-cutting on the Metal side. The above 15% target is through the cycle, as you said, and that would mean that you're aiming for an IP of 10-15 on top of realising the synergies which we get - at least at 2019 sales we can get to a 15% margin, adding that in. Are you also already starting with increased standardisation of the design of the equipment, increased through-put [ph 00:57:23] in the factories and so forth. Or is that work starting off? Do you have really [? 00:57:27] synergy [? 00:57:28]? We understand that a little bit better.

Pekka Vauramo

That work has started already. That's a journey that Metso has been on. Outotec already moved in that area, and we will further strengthen that part of it. We want to reduce the project impact overall. And, yes, we want to be involved in the project, not playing really the principal role as a supplier in the projects, but we want to participate in them. And the way how we want to participate and will participate more in future is through standardised offering, offering that is pre-engineered and manufactured in our own plants or our supplier plants.

Klas Bergelind

Thank you.

Operator

Our next question comes from Magnus Kruber from UBS. Please go ahead.

Magnus Kruber

Hi, Pekka, Eeva. You have Magnus here from UBS. A couple of questions from me. First, on the new targets. I noticed that growth is not among them. Maybe you could expand a little bit on why you left that out.

Pekka Vauramo

Very good question [? 00:58:52]. But if we look at currently the markets where we are, we do have Covid with us. It’s a fairly difficult moment to discuss growth, as such. Markets are somewhat depressed throughout, a lot of uncertainty in the area, and then when you look at our list of divestments that we have announced, it means that out top-line will, *de facto*, come down with these divestments. And then, we do have further work with our Metals, and even though we are not saying that we will be divesting some of it or parts of it, it is an option that we'll end up doing that as well. Our first goal is really to restructure the business and find out the true potential out of them and keep them in the group. But depending on further review, we may end up doing something in that area as well, and that is why we don't talk about growth. For us, more important at this moment is to talk about the margin levels and how we get into those ones rather than growth. We may come back to that one, maybe next year, once things clear out a little bit.

Magnus Kruber

That's very clear. Thank you. That's very good. And secondly and specifically, you talked about the cost structure in Metals and Recycling. Could you comment anything about the timing and size of reduction in cost you might see here?

Pekka Vauramo

We are in the really early stages of planning of that one. It starts now. We will be able to say something during the Capital Markets Day, but I would say more so in the fourth quarter full-year results announcement. That is the time frame that we will, we do know more. But like you see, it's difficult to talk about 15% if we have a business that’s currently running at that sort of loss. So, we need to be looking at somewhere 10% EBITDA margin on businesses that we will further develop in that segment.

Magnus Kruber

There’s just a couple that I want to wrap up on. On the minerals margins, one of your peers published the margin level of their minerals processing business a week ago or so, around 16% on an EBIT level last year. How would you say that your comparable business stacks up to that margin level, and how much of your mineral sales would be seen as comparable versus this competitor, in particular? And just as a follow-up on that, do you think there is further scope for consolidation in the mid-stream part of the equipment industry?

Pekka Vauramo

Yes. Without knowing really exactly what's included in that one, but I believe it's crushing and screening products that they have and related aftermarket that they have now, Sandvik now announced will be its business area of its own for them. That includes crushing and screening for both mining applications and then construction applications. Our offerings are somewhat differentiated in that one; we're not really head on. And our mining crushers and screens, they are in our minerals, while our aggregates, that's primarily construction, quarrying activity. So, they're not exactly comparable, but those first set of numbers, and we, of course, make note out of that one. Further consolidation, as we are talking about ourselves. There are opportunities. But, of course, our market share starts to be reasonably high in some of these areas, and we're not really looking into anything with regards to that particular business. Pretty much all of it.

Magnus Kruber

And beyond your business, do you think there is scope for more consolidation within the industry as such?

Pekka Vauramo

That remains to be seen, seeing what happens.

Magnus Kruber

Thank you so much.

Pekka Vauramo

Thank you.

Operator

Our next question comes from Aten Tokarenko from Credit Suisse. Please go ahead.

Aten Tokarenko

Good afternoon. It's Aten Tokarenko from Credit Suisse. Thank you very much for taking my questions. I have three please. Firstly, on Metals and Recycling business, considering that you don't have a long-term history of margins, could you maybe talk about what the mid-cycle level of margins has been in that business, and whether the cost savings which you are initiating would allow you to achieve that level at lower volumes?

Eeva Sipilä

Actually, on the Metal side, if you want the history, I would recommend you look at the earlier published Outotec financials. It was a separate segment in Outotec. So, I think you can go quite a few years back actually. Then, for Recycling, obviously we haven't reported it separately, but based on today's announcement, we would expect it most likely to be reported as a discontinued operation already at year end. So, that may be of less interest to you thereafter.

Aten Tokarenko

And just to check on this, Eeva, with Metals [? 01:04:40] and water business to [? 01:04:41] reported it, didn't it? It also [ph 01:04:43] includes energy and water and some other bits which were heavily loss-making in the past.

Eeva Sipilä

That's correct, but when they announced them to be sold and were moved into discontinued operations a year back, I believe they did provide some information other than that. And then, those were rather small businesses. So, I think you get the bulk of the comments. For us, unfortunately, it is difficult to comment on what the business perhaps has done, We've obviously seen very unsatisfactory numbers during our tenure and, as said, we will initiate a turnaround programme. And then, we will assess that programme, we will assess the potential, and I think it's then, we will be, rather than talking about the future, than the past.

Aten Tokarenko

Thank you very much. And my second question is around the minerals margin. Considering that you've seen a lot of mixed support in the quarter and the recent weakness in service orders, how should we think about sustainability of margins and minerals into Q4?

Eeva Sipilä

I think what we will see as a benefit, as our CEO mentioned, the bulk of the synergy savings obviously will impact the minerals segment specifically. And as said, when the underlying service business spare parts, consumables is doing very well. So, in a way, that is a solid base for us. Also, for Q4. So, I would be more optimistic about the margin potential going forward, even if the order intake was slightly lower.

Aten Tokarenko

OK. Thank you very much. My last question is around order intake [ph 01:06:48]. Do you think rapid testing or are there any other solutions which could allow that situation with having troubles with getting access to customer sites be resolved in the coming quarters?

Eeva Sipilä

I think, obviously, a vaccine would be important because, of course, now, new people pose a risk to the customer operations. And as I see you've mentioned with today's prices, nobody wants any further downturn in the operations because of the virus. But there may be other things. I think we're all learning various health and safety measures better and better in a way to organise operations in a way that limits. But as said, of course, it takes some time and experience, and that's what we're seeing, that in the third quarter, if people were able to postpone, it was easier for them to postpone and rather wait either for a bit more experience on certain safety measures, or then the vaccine. For a certain period of time, you can obviously postpone, but then not for very long, as I'm sure you can imagine.

Aten Tokarenko

Thank you very much..

Operator

Our next question comes from Madi Singh from Bank of America. Please go ahead.

Madi Singh

Yes, hi. Thanks for the call and the opportunity to ask the question. Couple of questions. Firstly, on the order trends, especially given your outlook statement that you expect market conditions to be stable, should we extrapolate that to your order trends as well, and expect flattish quarter-on-quarter orders? Or should I read more into your earlier statement that you had a few orders which were still in the pipeline, but you were not able to book in third quarter, and hence should actually book in the fourth quarter? Which basically means that orders for four quarters would actually be better than what we saw in the third quarter. So, just want to get a bit more clarity on how we should think about the order book for fourth [ph 01:09:11] quarter.

And the second question is on your margin targets of just above 15%. So, wondering whether that is just being a bit more conservative given, I think, just adding the synergies will take the proforma margins above 15%. So, are you just being conservative here, and should we expect likely upgrades to this target as well, maybe later on?

Pekka Vauramo

OK. First of all, the order trends. We are really quiet in the market outlook, and market outlook has been since, I would say, second quarter, exactly the same. And that's why we repeat our outlook statement. It's not a straight-line connection with our order intake. It's not meant to be that one. There's also other people competing for the same orders. And in most cases, there's only one winner, and everyone else is a loser. And therefore, you cannot draw a direct line between these two things. Postponements, they are a fact of life that we need to live. And our order line was thin because of that one. And then, the comparison from year before with two large projects that, although they booked at that time, makes it even more dramatic, the drop, than where it actually is. And like I said, these projects that we have ahead of us, they are mixed projects between metals and minerals, as were the big projects last year that we had. Size-wise, these are not as big as last year's projects, but there's several of them now. So that's for the order trends, don't take the third quarter as a proxy for fourth quarter orders.

Then, the margin target. You're right. When you do the maths, you end up 15 plus. But we need to remember that this is cyclic business, and when the upturn starts, everyone gets really busy and everyone gets in most of our business at the same time busy. And that's true for our minerals business, in particular. Our customers, they sell their products in world markets in US dollars, and when those prices go up, then everyone cranks up and needs everything immediately. In fact, yesterday they would like to have the deliveries. In those circumstances, that is, of course, for us, an opportunity to make much higher margins. But then when the downturn comes, it also hits more or less at the same time. There can be some commodities like gold seems to be living its own life. It has done it over the years. Currencies can make a slight impact on that one, as well. But overall, downturn hits at the same time. What we can do is take care of our cost base, operate efficiently. It makes us more resilient during the downturn and it makes us more profitable during the upturn.

Madi Singh

OK. Thank you.

Operator

Our next question comes from Antti Kansanen from SEB. Please go ahead with your question.

Antti Kansanen

Hi, guys. It's Antti from SEB. Thanks for taking my questions. Couple of those. I'll start coming back to the service orders. Just the trends Q3 versus Q2. Can I just confirm that the spares and wear [ph 01:12:57] orders development that you are seeing is quite stable and in line with the customer productions, and there hasn't been any notable, let's say, pre-buying or inventory fill-ups on the previous quarters that would explain part of the Q3 weakness on the services plan.

Pekka Vauramo

Yes. Correct assumption.

Antti Kansanen

OK. Thanks. And then, coming back to the margin target and the over the cycle nature of it, in a bigger picture, where do you think we are in the cycle right now? You are seeing quite robust demand on the services side, and then, on the other hand, the equipment seems to be quite depressed at the moment. So, reflecting on that 15% level, what would be suitable in these market conditions, and where do we stand currently?

Pekka Vauramo

My view on this is, now, the cycle is, of course, affected by Covid and by the uncertainty caused by it. Therefore, it's really difficult to say where we are in the cycle. But when we look at metal prices, we should be in a getting higher up in the cycle at this moment, but really there's multiple factors here, Covid being one of them. Some of the delivery issues of some of the Metals because of other things, take iron ore, for example. The iron ore market is surprisingly strong at this moment, primarily because of delivery issues from Brazil. And then, the longer-term trend for growth and need for metals that exists there, and the investments are ongoing. For example, copper, battery metals, all these investments, they are being planned, and apparently where they are being also acted on and executed are, for example, in many countries where the currencies are currently very weak. So, take for example Russia. That market is very active at this moment. It's because of the healthy level of metal prices. But at the same time, the weakness of the local currency, and it makes the operating margin, potentially, for mine operators very healthy.

Antti Kansanen

OK. And then, to the aggregates business. You made the McCloskey acquisition, and obviously, afterwards, the market environment has been exceptionally difficult. So, if we think about the synergies related to that and the profitability upside in the aggregates business, are there still some synergy benefits that you expect to reap in the next upcycle? And in terms of the 15% target, where do you think aggregates as a business should stand compared to that group level target?

Pekka Vauramo

If we look at the mix of businesses that we have and where aggregate sits in that one, so clearly, in minerals, we need to look at a journey towards 20; in aggregates, journey towards 15. And then, metals, we talk about more once we have the restructuring plan in place. But that's the mindset that we have in these businesses. Aggregates does have more potential. There's good action plans in place. What takes a little bit longer is to have a more standardised offering between the different brands that we have, primarily in our mobile equipment range. So, we can develop products synergies between Metso brand and McCloskey brand in those areas that are not really features that the specific customer segments do need and require. And there's further synergies coming out of it.

We can also extend the use of our supply capacity in different parts of the world more efficiently with our multiple brands. And we are initiating some actions now within Aggregates, where we are moving assembly of some of the products closer to end customers. And then, a huge, big opportunity that we do have is really the markets in the East, both China, and longer-term, India, as well. The boom is currently on in China. India is waiting for things to clear out after many things, including Covid, but also some political turmoil that we have seen in the country. At the core of everything is that we have very much standardised offering of crushers, either stationary crushers or crushers that go into mobile units. They are the same crushers more or less regardless of what brand we talk about. And these are really the products that form the core of our offering, either stationary or mobile, and they form also the platform for our aftermarket business. So, there is further potential. And, like I said, the mindset is towards 15% during the years to come for Aggregates.

Antti Kansanen

OK. Fair enough. And just lastly, from a very simple question on the synergies. €31 million run rate now, €50 million end of the year. So, would the year-on-year P&L impact for Q4 be around €8 million? Is that the right thinking behind what you announced?

Eeva Sipilä

Yes, Antti. I would take the €31 million and divide it by four to get a quarterly impact, yes.

Antti Kansanen

OK. On the P&L, yes?

Eeva Sipilä

Yes.

Antti Kansanen

OK. Thanks.

Operator

The next question comes from Antti Suttelin from Danske Bank. Please go ahead.

Antti Suttelin

Thank you. This is Antti from Danske. I'm just trying to look beyond Covid, and I'm not asking you to make a guidance or anything like that, but just the way of thinking. If I take Metso Outotec 2019 order intake and I add McCloskey proforma so that it would have been for the full year, I end up with a proforma order intake of €4.8 billion last year. Then, I'm looking into '22, which, hopefully, is beyond Covid. Do you think it makes sense to think that Metso Outotec could be on that level of order intake in '22: €4.8 billion?

Pekka Vauramo

Yes. Without really putting my finger on a number as such, but let's say, if things develop, and assuming that Covid is no longer with us and everything else doesn't cause other disturbances, that's the range where we should be by that time.

Antti Suttelin

OK. Thank you. And then, secondly, still on this third quarter order intake, it looks to me that you may have lost a little bit of market share. Just looking that your order intake fell by 27%. I know that 17 percentage points of that is because of the last contract a year ago, but that still leaves about 10% decline year over year. Then, I look at Sandvik, which had plus 2%. So, is it that you lost some market share, or is it that your part of the market is just weaker compared to Sandvik's market?

Pekka Vauramo

We are somewhat in different phases of a cycle always. And then, secondly, please remember also the currency impact. I cannot recall what Sandvik reported on us, but we have 8% on orders, and was it 9% on sales in our minerals, just the currency impact. So, that is a major one.

Antti Suttelin

Yes, but this was ex currencies. Everything is ex currencies.

Pekka Vauramo

OK.

Antti Suttelin

But would you say that you potentially lost some market share because of the integration?

Pekka Vauramo

I wouldn't buy into that argument, You cannot draw that conclusion comparing us with Sandvik and Epiroc. You need to compare with head-on competitors.

Antti Suttelin

Yes. Thank you.

Operator

Our next question comes from Robert Davies from Morgan Stanley. Please go ahead with your question.

Robert Davies

Yes. Thank you for taking my question. My first one was just around some of the site access [ph 01:22:23] issues across your mining and aggregates business. Just if you could give us a sense of where you're seeing the relative disruptions now maybe versus four or five months ago. I just wondered if things had changed. That was my first one.

Eeva Sipilä

I think, Robert, part of the challenge is, of course, it does change. But clearly, certain countries or smaller regions are more impacted. So, for instance, southern Africa has been very challenging in the Covid environment with site access. Obviously, it ties to, if you look at the overall infected people and mortality numbers. Similarly, in southern America, there's some differences between countries, even sites. Obviously, some remote sites are better off in the sense that there is less exposure and then where some sites are more heavily impacted. So, I think what we see is quite well tied with the overall WHO statistics on where the virus is causing most turbulence. But then, as said, obviously, with bad luck, any site can have some impact. We've had cases in northern Sweden, which was a very difficult region. And not that many weeks back. So, it's more things are evolving, and people are just trying to be very cautious to the degree that they can really limit any unnecessary visiting any unnecessary people at the site.

Robert Davies

Thank you. And then, the second question I had was just around maybe the margin mix as we go into next year. Just thinking historically about Metso and Outotec, just if you could give us a little colour on the difference between the two minerals processing businesses. [? 01:24:34] the aftermarket profitability. I know you won't necessarily give exact numbers, but can you give us a sense of where the relative profitability grew on OEM [ph 01:24:44] aftermarket across those businesses. Was the Metso business more profitable in both parts? Was it particular segments that were more profitable? That would be helpful.

Eeva Sipilä

On the equipment side, I think it's fairly similar. It depends a bit on what products you're looking at, what the specific market position of either company was. So, I wouldn't say there's a-- I think we have a good base to build on. In both companies, we can definitely improve our supply. Supply chain has been a big topic in both companies. And obviously, with the scale we have generated, I think, if anything, we have a better platform that will serve base legacies. I think on the service side generally, the fact that Metso was much longer on the service journey with much more scale, that obviously tends to be helpful to the-- and visible [ph 01:26:03] in the margins. So, again, I think with the additional platform installed base, our target is to improve, but from a starting point, there was maybe a bit more difference on that side.

Robert Davies

Thank you. And then, my final one was just maybe thinking about the impact, specifically, I don't know if it's possible to quantify, but just in terms of these site access issues, how much of your product sales and the equipment part of your business to your customers depends on having someone on site engaging with the customer and advising them how to--whether it's better to set up a production flow or where you could put pumps and valves and hoppers, and how you set up the overall layout of a mine site? How important is that? I'm trying to get a sense of how disrupted that element of your businesses for an OE [ph 01:27:03] standpoint specifically has been from not having access to get on the customers' [ph 01:27:10] site. And perhaps, I was thinking, into the first half of '21, if that continues, is there anything you can do to address those issues?

Pekka Vauramo

There are things absolutely that we can address and it has affected our business. It has caused some delays in delivering things. And some delays obviously will reflect then on a sales line, as well. But we can prepare ourselves and we have, of course, targeted those already in the springtime. We have included various Covid clauses in our contracts and things like that so that we are not exposed to things that are always beyond ours and also customers' control in that regard, and we have taken that kind of actions. But I wouldn't explain with that one too many things. I think mainly they have been cash flow issues. Our cash flow has been good and healthy despite that, but it would have been even better, the cash flow, if we had seen a bit faster growth in some of the projects. And normally, it also means that if we can deliver, we see increase in our inventory level at the same time. So, it does have, in a way, a double impact as we cannot invoice something and get paid for something if something sits in our inventory a bit longer time.

Robert Davies

I see. Great. Thank you very much.

Operator

Thank you. Our next question comes from Tomi Railo from DNB. Please go ahead.

Tomi Railo

Yes. Hi. This is Tomi from DNB. Coming back to the market and order intake development, would you say that you have walked away from some projects?

Pekka Vauramo

Yes, we can say that we have walked away from some of the projects, without being any specific in that one, for reasons that we felt were good and genuine reasons.

Tomi Railo

So, that you have become and try to be more strict on the, let's say, pricing or profitability levels that the project can offer to you?

Pekka Vauramo

Various terms, I would say.

Tomi Railo

OK. And secondly, even the Metals outlook and timing perhaps of the orders. Would you say that the losses could worsen going into the fourth quarter from the third quarter levels?

Pekka Vauramo

I would say that it depends what kind of orders we book. Currently, the order backlog is very thin in our Metals side, which means that any order that comes in, we will start to work on them. And through PLC, we will start the sales coming in fairly rapidly in that one. But it's dependent on these orders coming on time.

Tomi Railo

OK. Thank you.

Pekka Vauramo

We have initiated already actions earlier in our Metals side, but we won't see the impact in the cost side before first quarter of next year, the end of the first quarter of next year.

Tomi Railo

Thank you.

Operator

Our next question comes from Manu Rimpelä from Nordea. Please go ahead.

Manu Rimpelä

Good afternoon. It's Manu Rimpelä from Nordea here. Getting back to the Metals business. Is it that the only issue you have currently is related to the utilisation rate, that there are no problems with all backlog projects delivering losses?

Pekka Vauramo

There's no new news on that front, as such. Yes, we know that we have some of the legacy projects where we have issues, but there's nothing new, as such, that we would report at this moment. It's primary reason is that there's no orders, and then the genuine situation that margin levels in those projects is questionable, and some of the other terms are unacceptable at this moment.

Manu Rimpelä

So, does that mean that the competitive situation is [? 01:31:50] after you decide not to take those orders?

Pekka Vauramo

I don't know whether it's competitive situation or whether it's then customers' assessment on the situation, but like I said earlier, we have walked away from some of the opportunities.

Manu Rimpelä

OK. And could you remind us about the remaining metals business? How that is roughly split between the different businesses within metals?

Pekka Vauramo

It's very much order-driven. We have certain resources that are fixed per technology, but certain part of resources are then moving according to order. So, it's fairly difficult to give you a split. But over time, Eeva, do you have anything we could share on that one?

Eeva Sipilä

To be honest, not quite sure how Outotec has described it earlier, but you will know that there is a hydro-related business, there is a smelting-related business, there is ferrous technology. And then there is a host of other technologies which you can group under various names, more on the chemical side of things. But as Pekka said, you can, of course, look at numbers five years back and have a certain view on the size of the business. And right now, the situation looks very different. So, I think we want to pursue now the restructuring turnaround and assess that we have a more healthy core structure that can generate reasonable margins with the current volumes, rather than hope that volumes will somehow cure the problem. I think this is a structural issue that needs to be handled, and then let's see where we are with the size and scoping of the business thereafter.

Pekka Vauramo

There's about five businesses within the Metals segment, excluding now recycling, and I think they are size-wise unlikely [ph 01:34:20] driven by order intake between €50 million and €150 million, I would say, [? 01:34:25] the size of the business.

Manu Rimpelä

OK. Thank you. Then, final question on the Metals business. This big problem project in Saudi Arabia. How possible is it for you to dispose part of the metals business as long as you have this problem project ongoing? Or are these five business units completely separate from each other?

Pekka Vauramo

In that regard, they are separate, but issues within the smelting part. And that is one of the businesses within the Metals. And it's, obviously, that divesting business where we have a project like that, it's not realistic to expect that we would be able to divest that one with any foreseeable terms.

Manu Rimpelä

OK. Thank you.

Operator

Our next question comes from Dabashih Jhcand from Société Générale.

Dabashih Jhcand

Hi. Thanks for taking my questions. I have three questions and will go one at a time. [? 01:35:38] labour on the order intake in the third quarter. But if you exclude the orders last year, orders were still down double-digit. So, I was wondering how much it could be attributed to the projects being postponed, as you said, and how much was maybe due to you losing some market share in the quarter.

Pekka Vauramo

[? 01:36:07] I will not quite buy the argument of us losing the market share. Big projects are there. So, that is clear. They were there a year ago. The rest, I would say, to a great extent, that is Covid impact, what we've seen there.

Dabashih Jhcand

OK. Got it. Also, we have been hearing about customers postponing decisions even before the Covid as well. Do you think there are any other factors we should be aware of apart from the Covid which is still making customers hesitant on taking decisions on the large orders?

Pekka Vauramo

I think the businesses with bigger projects, they tend to be very lumpy. And single decisions and timing of them is very crucial to these ones. And even though we do have experience on how the bigger system making cycles in projects in general go, it's always difficult guesswork that when finally all the pieces are in place, so that the board's level, these are very often board-level decisions to proceed with our customers and how the timing then goes. So, there's the difficulty to forecast. It's a different ball game to forecast something, standard products that we are selling in big quantities, where there's hundreds, maybe thousands of customers there you can reach much more reliably from micro data, the order bookings than in projects.

Dabashih Jhcand

Understood. And lastly, just one on bookkeeping questions in terms of the service orders. Could you share what is the split in the Services business, particularly for the professional services and mainly the part of the service which requires your presence in the mines?

Eeva Sipilä

Yes. If your question was on how much of our service businesses is more labour-related, then that would be 10%-15% from the services total.

Dabashih Jhcand

OK. Thank you very much.

Eeva Sipilä

Thank you.

Juha Rouhiainen

All right there, ladies and gentlemen. We need to conclude this results conference call now. We thank you for being with us today. And as has already been mentioned, we will arrange a Capital Markets Day, a virtual one, November 11th. And for more information, please check out our website: mogroup.com. So, we will hope to meet you there, and for the time being, we say thank you, and goodbye.