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

Juha Rouhiainen

Good afternoon and good morning, ladies and gentlemen, it's Juha Rouhiainen from Metso Outotec Investor Relations and I want to welcome you all to this conference call where we will discuss Metso Outotec's first quarter 2021 results which were published a couple of hours ago.

The results will be presented by our president and CEO, Pekka Vauramo, and CFO, Eeva Sipilä, and after the presentation will have time for Q&A. Please note that we try to limit the length of this event to 60 minutes because we have our annual general meeting of shareholders beginning in 90 minutes from now. And the results presentation includes a disclaimer discussing forward looking statements as well as information relating to different numbers that that you can find from our results and presentation.

But with these remarks, cell handover to President and CEO, Pekka Vauramo. Pekka, please go ahead.

Pekka Vauramo

Thank you, Juha, and welcome to this call.

Yes, we came up with our results a few hours ago. And when we look at the first quarter of the year we guide it on the market of improving activity and we truly saw the increased activity and improved activity throughout the quarter. Though our segments behaved somewhat differently as the dynamics are different between the segments. So it is quite natural.

We also saw improved profitability in our aggregates and in minerals when we compared to first quarter of last year. We've been working also on metals turnaround and we have now completed the re-organising part of the of the metals business. It is now in four business lines. We still continue to work on turnaround, and we really focus right now on completing the 15 million cost out programme from the operations.

In our integration work, we reached an 83 million run rate in cost synergies, and that is well in line with our objective to achieve 120 million by the end of this year of run rate of cost synergies. And we launched a planet positive label and approach, which will be the all-encompassing umbrella for our sustainability approach, and I'll come back to that one a little bit later on. But this really shortly summarises the first quarter of the year.

The Group numbers. First, orders: 1.1 billion euros, slightly more than a year before. Sales are 925, which is slightly below the sales figure in last year. Both of these numbers, there's two things; one we still have COVID with us and that's pressing our top line numbers. And then secondly, we continue to have on top line a negative currency impact of several percentage in these numbers. So this it's important that we keep those ones in mind when we when we when we look at the numbers.

Then improved profitability; adjusted EBITDA reached 115 million with 12.4% of sales. And a year ago the comparable numbers being 95 million and 10%. So, a clear improvement in March in level.

Our EBIT; 91 million or 9.8% of sales during the first quarter and earnings per share 8 euro cents. We continued to deliver solid cash flow during the quarter and that amounted to 165 million.

As already said, I mean COVID is still around us and like we have said before in many of our businesses, especially in our services side, we continue to see restrictions on mobility as long as the vaccination programme is so well advanced in our key markets that we can see restrictions being lifted and companies will allow then external visitors accessing the sites. So, this is still with us, even though step by step to a lesser degree.

But it's also affecting the decision making, especially anything that's more complicated tends to get pushed forward. And this is also a consequence although which is positive where business wise we are positive. It because metal prices are so high and demand and on aggregate is increasing and improving all the time, so customers do not want to shut down the operations for service and maintenance. They want to continue to operate and produce healthy cash flows.

Our own operations until recently have been running without any major disruptions. We, of course, heard today that India will now, because of COVID, dedicate all the oxygen supplies for medical purposes and for relieving the situation and oxygen shortage in the hospitals. And extent of this one is not fully known for us in India, but it will mean some delays in our supplies to our Indian market.

Then, vaccinations will definitely gradually open the domestic travel and shortly then also international travel, but only when the programme has progressed to a level that we see restrictions being lifted in our everyday life, we can see fully the service business recovery from COVID.

Very strong performance in our aggregates segment, which already started end of last year like we had communicated earlier in November, December time. We saw activity levels increasing to pre-COVID levels and really hitting some record order levels at the end of the year. And this good order condition or market environment continued into the first quarter and we saw strong organic growth mainly driven by equipment there and Europe being really the strongest market followed by North America.

China was on high level but flat market during the first quarter, but the pipeline is good in China as well. India continues to be depressed, primarily because of the COVID at this this point in time.

Sales, we started to see increase in sales as well. Of course these orders that we are now booking they will be delivered then during the coming next two quarters. But we already saw an increase in our sales level and organic growth being 13%. And this is also a good development. But very strong improvement in our EBITDA level margin, clearly more than doubled from 6.6% to 14.11%. And this is of course partially comes from the volume, but it also does come from internal actions. We do have stand-alone improvement programmes that our aggregates has implemented well and executed well during the past several months. So, good improvement there and the near term also looks very much encouraging in aggregate side.

In our minerals we saw a decline in orders. Here already - I mean, currency impact is a major 16% that translates on that order level to about 40 million euros alone. And our minerals and metals, both businesses are characterised by lumpiness of orders and we did not have any large orders but had a steady flow of small and medium size orders during the quarter, which in fact is better for us than really the lumpy big orders in many respects. Risk wise they are easier to handle for us and there’s many positives about the smaller orders.

Sales, slight organic growth. I mean currency impact here as well. There as well, services share being 68%, so mix somewhat improved in that one. Services primarily suffering from logistical challenges. Not only the Suez Canal thing but there's other things, shortage of container continues and very slow handling of ships globally. But very delighted to see margin improved with the lower sales and this is really coming mainly from synergies, so two thirds of the margin improvement comes from synergies and then one third is the mix improvement as services grew to 68% of the sales.

Metal segment where we are working on turnaround, orders grew from last year 201 million. Sales declined by about 10 million. This is more about timing of deliveries. If you recall, we booked several large orders end of last year, they were split orders, split between minerals and metals. But in both segments in metals and minerals it will take into second half before we start really those projects getting into delivery phase and when we are able to recognise more top line volume out of this but at this moment we are recognising the engineering path and the volumes are lower ones.

Metals also, which was heavily at loss at the end of last year and in last year altogether, is getting closer to breakeven situation and we expect to see the turnaround programme to kick in during the second half of the year.

And 50 million is our target on cutting the costs and then I like said, we've reorganised the business into four business lines. Business lines that are as self-contained as they can be and the aim of this one is really for each business line to show and prove out that they can turn around the business and have a realistic plan to reach the targeted 10% EBITDA level as we have communicated earlier on.

And at this moment I mean, I leave it for Eeva to go through the finances and I will come back then the later on with the strategy and other things.

Eeva Sipilä

Thank you, Pekka, and good morning, good afternoon to everyone on my behalf as well.

We're still starting the first two quarters of 2021 with some complexity in our numbers due to the closing of the Metso Outotec transaction taking place mid-year on June 30th of 2020. The actual Q1 figures are obviously straight forward, as is any sequential comparison or comparison to year end in the case of, for example, balance sheet numbers. But you need to be careful on the comparison to the 2020 first quarter. Under IFRS, that year over year comparison is only to the Metso Minerals numbers so for an operationally better comparison, I recommend using still the illustrative combined figures over the first quarter 2020. Earlier words of caution still apply, namely that they do combine the history of two separate companies, so they are, as their name says, illustrative.

I'll start with the operational performance and have here our Q1 actuals as well as the illustrated combined quarter of last year. And we have a clear recycling out of the comparison period post its move into discontinued operations late last year.

Pekka already raised the key numbers from here, so I would just note that when comparing really the sales of 925 million to last year, exchange rates more than explain the 2% drop as their impact was a negative 4%. So, organically sales were up by 2%. Sales in the quarter are really impacted by the COVID-19 effect on really on order intake during last year's Q2, Q3. We have sort of lower, less timing wise, less of the backlog coming in the first month of this year and then obviously, as Pekka already noted, the challenges on mobility affecting our service crews on site continues.

The other figure I would raise your attention is gross profit margin. In the quarter it was 28.4, now the second half of last year was impacted quite a bit by PPA adjustments. The order backlog related PPA affects gross profit. So, that does explain the big improvement from the 26.6 that we recorded for the whole of last year. However as such this level of 28.4 is a healthy one and does also demonstrate that we have progressed in the many business improvement actions we have been working on and discussing with you previously.

Moving forward then to a few comments on the rest of the P&L. So, on one slide further. Net financial expenses were 7 million for the quarter. We have lowered as planned the cost of debt and at the end of the quarter, we were at 1.16% of average interest rate for our overall debt.

Then regarding taxes, we have also progressed well on the synergy front, consolidating our legal structure to optimise in this area. And the ETR is at 25% for the quarter. And whilst we are early in the year, I am expecting the full year to be around this same level.

Earnings per share for continued operations were eight cents and then including discontinued operations, EPS was seven cents.

Moving to the balance sheet. So, overall a slight increase in total assets from the beginning of the year to 5.6 billion, but nothing really specific to highlight. I have the networking capital components as well as a few details on our cash and debt position on further slides, so I'll actually revert to them then.

Cash flow from operations was healthy in the quarter, totalling 165 million euros. We had good contribution from the profitability and also then to note that the change in networking capital was a 30 million positive. Now considering we are ramping up our supply chain for further growth, that is visible in our order intake and hence building on that working progress. So, I really would say that this was a positive and good achievement really from the organisation.

Then looking at the networking capital a bit more in detail. At the end of the first quarter, the networking capital totalled 353 million euros. And the sort of big elements here, really; 1.1 billion of inventories slightly up from the year end, while then both AR and AP being just short of 600 million. Advances received stood at 177 million.

My final slide captures a few highlights on our financial position. Liquid funds at the end of March totalled 516 million and this is despite that we made an early payment on a 100 million term loan from liquid assets in the quarter. The repayment brought our net debt down to 675 million. We have, at the end of the quarter, 790 million of committed and undrawn facilities but as we are now approaching end of April, it is worthwhile mentioning that 100 million of that matures in a few days, so we will be moving forward with 690 million of committed and undrawn facilities.

We raised extra facilities last spring amidst early COVID-19 times but currently see no reason to renew the expiring portion. We have more than sufficient facilities for operations with what remains.

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

Pekka Vauramo

Thank you. Thank you Eeva and I'll move on to the integration at this moment.

So we reached on synergy cost side run rate of 83 million at the end of the quarter and the year-end target for us is 120 million and we are well on track of reaching that 120 million.

At this moment, the synergies that we've been able to realise, three quarters of them are really coming from the organisation, restructuring it, reducing the overlaps, and re-organising our market area network and business support functions altogether. The rest, they come from facilities, IT and procurement. And IT and procurement are items that will continue and there are still some tail ends of the organisation that we are working with. But like I said we are well on track to reach 120 million by the end of the year. And clearly when you look at our results, this is now visible and, like I commented earlier, two thirds of the minerals margin improvement truly came from synergies, and at this moment they are cost synergies rather than revenues.

Then first time we're opening our revenue synergies which by nature come in slower in pace because the first joint pitch we were able to start to prepare only on a merger date or after that. And then they go into our order books and come through order books into invoiced sales or recognised revenue later on. At this moment we have 11 million of revenue synergies that have we have realised but there's about 60 million in our order backlog. And this is a number that will continue then to follow and communicate back to the market.

We also need to need to understand the 60 million, how it reads is that at this moment, for example, a big part of the revenue synergies, they're not really additional sales but they are products that have been in fact replaced by in-house supplies. Take for example, pumps which previously Outotec had acquired from external suppliers but now, since we have pumps in-house - are being sourced from in-house. So, they're not really adding to the top line, but full margin is internalised of those such products.

Then we estimate that the costs relating to the merger will be 70 million pre-tax. And this is down from 100 million that we originally estimated. At this moment, we stand at about 40 million on this line.

So, this work continues well. In the cost side, revenue synergies, our target is to reach 150 by the end of next year and there of course, the market environment does affect on speed; how we can clock the revenue synergies. But many interesting sort of businesses there ahead of us also in that regard.

Then during the quarter, we were also listed as number eight on 100 World's Most Sustainable Companies. So it is a great achievement from the organisation. This is recognition of the past when being listed on and then placed high on such a list, but we want to stay high on all ratings when it comes to sustainability. And sustainability, it is one of the one of the top priorities in our strategy as well.

We did launch the Planet Positive label just recently, a few weeks ago, and that is the label that sort of highlights our commitment to limiting the global warming with our actions to 1.5 degrees. So, our 1.5 degree journey, as we call it in-house. We do have science based targets defined and approved for that journey and we are tracking those, and we will start to also communicate those in the market once we have all the measurements in such a state that we can communicate them on a quarterly basis.

Already now, our ecological handprint is significantly bigger than footprint, but this doesn't mean that we wouldn't work on our footprint. We have taken already actions. For example, we have changed our electricity into renewable energy in all places where we can, and this alone has reduced our CO2 footprint by 60% already. But we continue to work further on that. We are making changes in our logistics, which cuts our footprint in logistics by about 30%.

So, these are major steps that we are taking in order to reduce even the footprint from where we are today. But far bigger potential we have on our handprint, that means what we can do together with our customers through our offering and through our technologies. And this is what the Planet Positive is, and we will give the Planet Positive label to these products and technologies that truly are contributing to the 1.5 degree journey.

And we all know sustainability is really valued to our customers and with sustainability, it's not only about emissions. It's about energy use, as such, depending almost regardless of what the source of energy is. It's about emissions. It's about water efficacy; very relevant for mining industry. It's about safety and circular business models. And we are putting more emphasis on this area and we have just recently published the first TCFD Task Force on climate related financial disclosures and that is now available there. So Planet Positive is our label for our products, and we want to make it easy for our customers as well to select the most sustainable offerings from our range.

Our market outlook, we repeat the same outlook what we had for this one. We do see further continued improvement in market activity and of course the COVID situation will add some colour into this one as we move on. We know that a third wave is on its way. Maybe a fourth wave will hit some of the countries, but we, of course, continue to monitor the situation and so far we see the environment improving as we move on.

Thank you, I think we are ready for the questions now.

Juha Rouhiainen

Thank you Pekka and Eeva. Operator we can open the lines please.

Q&A

Operator

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

Our first question comes from Magus Kruber from UBS. Please go ahead.

Magus Kruber

Hi Pekka, Eeva. Magus here from UBS. A couple of questions from me. First, another solid quarter on aggregates obviously, notably on the margins side. Just wondering how we should think about the seasonality there for the rest of the year given the strong start and obviously very strong print on 14% if you can – I mean, given your additional aspirations and growth on the market, I believe you can add another maybe 200 to 300 basis points, perhaps, from a higher mix of aftermarket. So, is it possible that we can see even better margins in this business long term and under 15?

Pekka Vauramo

Yeah, our aggregate does have a seasonality. Seasonally, the strongest seasons are first, second, and parts of third quarter, the fourth quarter is the slowest quarter normally. Normally when it comes to sales line, the biggest market for aggregate is in the Northern Hemisphere and therefore the summertime, springtime, early fall, that is most active time in that market.

We saw an increase in sales. I think it was 13% from last year in the first quarter. So, a comparison is somewhat difficult because we already saw a reduction, strong reduction in the month of March last year in aggregates. Then we do have very strong order intake months now behind us and I'm sure also a few of them ahead of us and the increase in sales really hasn't realised yet from the increased order backlog. So, we will see healthy sales numbers during the coming months and, of course, that does have potential to improve the results as well.

We have taken also quite a strong action to manage our dealer network with our distribution management organisation and we are really paying attention to managing the performance of dealers and managing the performance so that they are actively promoting all our product lines, not only capital equipment but also services and spare parts and wear parts. And there we can expect to see improvement during the coming quarters.

Magus Kruber

Got it. And should we see this as a normalised margin for the first quarter? It sounds quite strong in the context of your 15% target.

Pekka Vauramo

Yeah, we are working towards the 15% target for the aggregates segment and like I said, we really haven't seen all the orders coming in through on the top line yet. And we have actions in place still, improvement actions in-house, and then a more active approach towards our dealers and distributors on the aftermarket side, so the potential is there.

Magus Kruber

Perfect, that's very good. Also, similarly, on metals. Obviously a very good margin print there in the context of the lower volumes. Anything specific you can highlight there on the profitability side? What drove the step up since Q4, if it's engineering our utilisation? Also when should we expect this profitability to gradually move up also in this business area through the year?

Pekka Vauramo

Was that on minerals or –?

Magus Kruber

Metals.

Pekka Vauramo

Metals. Yes, we had good strong order intake in metals at the end of the year. We do have interesting things in the pipeline that did not materialise in the first quarter, but I'm sure we will see something happening in the second quarter and third quarter of the year. Those orders that we booked at the end of the year, they will hit the sales line in the second half of the year, and we will see the volume increasing. And then at the same time we will see also the cost impact or this impact of saving accents in our SG&A side. So, we will see our numbers firming up in our metals business.

Magus Kruber

Okay, but nothing particularly to highlight on the sequential step-up in profitability there. That's sort of what’s happened.

Pekka Vauramo

No, nothing in particular.

Magus Kruber

Okay, got it. And then yes, finally, you mentioned some logistic issues in the quarter. Did you see any inbound supply chain bottlenecks as well? And where did you see those in that case?

Pekka Vauramo

Yeah, some of them were inbound, some of them were really internal issues. We are making changes in our supply footprint. We are making also changes in our warehouse footprint and these are causing some sort of bottlenecks and shortages. These are normally short lived shortages and regional, but we have several moving parts at this moment so therefore we are slightly suffering from it, but the future will look much better in that regard.

Then global logistics, shortage of containers, containers being in the wrong part of the world. That is an unfortunate thing that is happening. We are using more air freight than we would like to use. Some of the costs we are carrying already today. We have also converted some of the freight between Asia and Europe to railways rather than ships and that tends to be more expensive than ships, but it's more reliable at this moment and the container shortage is not affecting that one so heavily.

Magus Kruber

Got it, thank you so much.

Operator

Thank you, our next question comes from Klas Bergelind from Citi. Please go ahead.

Klas Bergelind

Yes. Hi, Pekka and Eeva, it's Klas at Citi. The first question I had was on cash flow. So, this is the second quarter, it looks like, underlying capital turns are improving. You don't have any major large orders in there, so it looks like an underlying improvement to cash flow. Eeva, can you talk a little bit about the Self Help programme, looking at the supply chain? Are we now seeing early signs of this regional set up starting to impact cash flow positively? And what can we expect ahead? That's my first one.

Eeva Sipilä

Thanks, Klas. Well, I think we had a smooth quarter in many ways but perhaps, so in a way to your question, I think that sort of the set-up work at the plants running all over the world, but I would perhaps caution a bit that as we see now, the aggregates growth ramping up so that is a business that does tie capital in a growth phase. And of course now with some of the logistics bottlenecks that we need to sort of assume will unfortunately be with us a bit longer than hoped. So, we are of course balancing availability and inventories and where to have what and now really the recent news on India is unfortunately also negative in the sense that we do need to sort of look at alternative sources.

And again, that will cause some – So, I think it's a very strong start, but I would perhaps caution a bit that we will sort of see more work in progress and then really dependant on the global logistics flows that how quickly these post-COVID unbalances will ease out that. Are we able to kind of rely on tighter turnover or not? But obviously, whilst they are causing some headache in the short term, when we are reducing the number of distribution centres, reducing the number of sites, it all is in the long term a sort of - builds for better, more efficient working capital management and that of course will sort of problem come through in the sort of medium term and is visible already.

Klas Bergelind

Yeah, no, that's very clear. I think when we compared with [? 00:50:27] they started their supply chain programme in 2013 and then it took two to three years until they started to see an improvement in inventory turns even under stronger growth. I guess it's a medium term ambition rather than anything short term.

Then my second one is on the guidance. So, given that aggregates will likely flat line into the second quarter of a seasonally strong first quarter, Pekka, that would suggest that you see stronger sequential demand on the mining side to push the overall guide higher. I know you don't guide on orders, you guide on market, but is that how we should interpret the outlook? Stronger mining from here than aggregates into the second quarter.

Pekka Vauramo

We have a solid, good, strong, and strengthening proposal pipeline and then, of course, it depends how successful we are in turning that to orders and then of course also timing of the actual orders and decisions that customers will take. But this improving market environment, our guidance; it applies to allow businesses equally to minerals as well as aggregate and metals.

Klas Bergelind

Okay, good. My final one is on the on the green agenda and your handprint and how we can drive quickly replacement. So, it's pretty clear underground with battery electric, but it's less clear mid and downstream and I know that aggregates have several dual-powered products of different sizes and some even fully electric. But can we also see conversions to electric on the mining side? I guess the water efficiency, the safety aspect of ESG for you, but I'm trying to think if electric equipment can play a role for metals to take on a broader scale.

Pekka Vauramo

Well, electric equipment is not really where we see the potential. Most of our equipment - I mean you pinpointed aggregates. That's an exception, but most of its already electric and has been electric for tens of years already. We have other areas. We have technologies that can contribute to lower emissions with our customers. We are working on things like separating the non-valuable part early on in the process that we don't have to push the non-valuable part of the ore through the entire process and that means reduction in energy usage, reduction in water usage.

We are looking into ways to have separate water flows for different parts of the process so that we can re-circulate the water better. And those are the type of activities. And just one example, which we have a new product line within our consumables, and it's not connected with the rest of Metso other than [? 00:53:34], it's a rubber truck body. What this does is that it reduces the empty weight of a vehicle by 9% average. It depends a little bit on the size of dump trucks. And this 9% translates either 9% lower fuel reduction because of the lower weight or 9% higher productivity, which means again that fuel cost per moved tonne is 9% lower and if 9% less fuel is burned, it means that 9% less emissions are produced. So, these are the type of things that we are offering and launching into the market as we speak and those are more of the things that we do develop rather than electrification.

Klas Bergelind

Thank you.

Operator

Thank you, our next question comes from Artem Tokarenko from Credit Suisse. Please go ahead.

Artem Tokarenko

Good afternoon. It's Artem Tokarenko from Credit Suisse. Thanks very much for taking my questions. My first one is around the services and minerals business. It's great to see them coming back to some growth, but still there is, it seems like a lot of miners have been postponing lots of services, so I guess, do you expect that at some point this year there should be a considerable catch-up in postponed services considering the very high level of production which miners are running at the moment?

Pekka Vauramo

I think that we are already seeing first signs of that one. We have - where we saw the reduction because of COVID was in shutdown services, it was in upgrades and modifications, and those are the businesses where, currently, the proposals have increased recently by more than 100%. So, double the amount of proposals are out there. And it takes some time before they turn into orders and sales but that is something that we believe is to come.

Artem Tokarenko

Great. Thank you. My second question is about minerals EBIT and revenue. I think in the report you mentioned that you see some order backlog, some postponements [? 00:55:53] of your order backlog. Could you maybe help us quantify how much impact on revenue and EBIT it's had? And also do you expect some catch-up of those deliveries later this year?

Eeva Sipilä

Well, it's actually not any delays or postponements, it's how originally the sort of order intake was built. So, I think it's just kind of that they –it kind of starts creating revenue perhaps a bit later than sometimes you and your colleagues consider and hence really if you look at the COVID impact of order intake of Q2, Q3 last year, then it obviously is kind of what we see now in Q1 and Q2 coming through.

So, in essence, not sort of - the only area where we have sort of some challenges is really the sort of end of some of the projects that were well into execution before COVID, but then some final tails would require some sort of final work at the site with rather large crews and, of course, those have been postponed. But really, this is just sort of how the backlog is built and that timing.

Artem Tokarenko

Understood, that's very clear. Thank you. And my last question is around cost synergies. I think you've already achieved 70% of your targeted range. And in the past you have mentioned that after the two companies are merged you will have a much better visibility on what other inefficiencies you can tackle, like, let's say, Outotec having an overly heavy Europe and developed markets headcount. So I guess, have you done any more work on this and do think potentially there could be more savings to be generated - sorry, synergies to be generated?

Pekka Vauramo

We have not really revisited the total yet. At this moment, we still have some work to do to get 220 by the end of the year and we know that, for example, the procurement side will be challenged because of the inflationary environment that we see and we needed to divert some of the procurement actions to such areas where there's no raw material component in the costing side.

But we are well off when it comes to reaching this 120. And then, of course, anything beyond that one will have to be later on. We are generating new items all the time, but also some of the older items do prove out to be not as quite effective as we thought in the beginning. So, this is where we are at this moment.

Artem Tokarenko

Understood, thank you very much for answering my questions.

Operator

Thank you, our next question comes from Antti Kansanen from SEB, please go ahead.

Antti Kansanen

Yeah, hi. It's Antti from SEB. A few questions from my side. First coming back to the Planet Positive portfolio and Pekka you mentioned a few examples. But where do you think you are seeing the most differentiation to your mining equipment competitors there? And where do you also see the biggest interest from clients today? And are your clients today realising the value of it, which would be reflected on let's say pricing and margins you can receive from that offering today?

Pekka Vauramo

Yeah, I think this is a developing scenario with the sustainability. I mean there's no company who wouldn't talk about sustainability in today's world, yet we truly need to see companies taking actions. This requires investments from – it requires investment from us in the product development. It does require additional investment from our customers truly to get serious about the sustainability. So, that's why it is a sort of developing scenario what we have ahead of us.

But we do have several technologies where we are ahead of competition. We have them in our minerals site. We have to have them in our metals site. Metals site specifically have several of them starting from flash melting and the later development of that one to many other areas; areas where we can already, today, highlight clear energy cost and emission savings to our customers.

And then the new products that I explained that we are developing. We have - almost in all our R&D approaches, we do have sustainability targets that we need to do as a part of the project when we develop the product. I mean, be it then through productivity, be it then through better use of energy or fuel, it has so many different dimensions in this regard.

And I just would like to remind that we do invest about 100 million annually on R&D and it is in this part of the value chain where we are the biggest number in this business.

Antti Kansanen

Okay, and how would you expect this demand to kind of develop? Does it need kind of a Greenfield cycle to get the solutions out there or is there kind of a strong retrofit or modernisation demand already placed for existing mines today?

Pekka Vauramo

It is both and when we develop things, we are, of course, very much focusing on something which is faster cycle business than just the Greenfields that are several years out there. We want to turn them into products and aftermarket products and services very fast.

Antti Kansanen

Okay, very clear. And second question would be on the minerals services side. And you mentioned that the proposals for different types of field service activities has doubled, but at the same time the downtime is currently very costly for your mining clients due to the high prices. So, how do you think that they will kind of balance out between more demand for field services, but at the same time not wanting to shut down production or curtail it in anyways?

Pekka Vauramo

Yeah, of course. The longer mines operate without certain maintenance, the more uncertainty they have in their planning and at one point you just have to take the shutdown. So, it will come to an end at one point and then of course many operations, they plan on having shutdowns seasonally whenever it is a holiday break or whatever; they normally extend those shutdowns then and perform these things. We will see some rebound of those things coming.

Antti Kansanen

Okay and then lost left from me is the ordering level in aggregates, what you've seen since the market started to recover late last year. If you reflect on kind of historical levels in Metso and McCloskey, where are we right now? Is the market clearly overshooting after a very poor 2020 or are we near levels that can be sustained over the cycle? How should we think about this?

Pekka Vauramo

Yeah, now, of course, what we see now is there is a little bit of rebound from things that customers didn't do in last year because of COVID. Then we do see a reaction on current market environment which is boosted by the stimulus packages. And the stimulus packages, I don't think they are really yet available physically, but there are promises and forecasts out there and when these funds truly become available, then we do see what the real impact of them is and will be. But the GDP growth figures and forecasts, they are very strong and robust globally now and that normally tends to support investments in aggregates.

Antti Kansanen

All right, thank you very much.

Operator

Thank you. Our next question comes from Maddy Singh from Bank of America. Please go ahead.

Maddy Singh

Yes, hi, thanks for taking my question. One question on the mineral order trends. Again, I know that you don't look at [? 01:05:13] orders and then compare those, but just in terms of understanding, if we have to think about the value chain, how long would it take for you to have a similar drop-through to your books in terms of orders received compared to [? 01:05:34] actually had a very strong quarter again in first quarter. So, I'm just wondering around that; when we expect to see such a strong order growth for minerals?

Pekka Vauramo

Yeah, well I would say we had a strong growth in the fourth quarter. Our order line has much more lumpiness than some of our other peers do have and that of course means that there are ups and downs on our order line. Order line by nature is - I recall reading [? 01:06:13] numbers through, they specifically said that they had three orders exceeding 200 million SEK, which is 20 million euros, in rough terms, and I think if we had - our order backlog consists primarily on say 10 to 20 million orders normally, and say up to 25. Those are the normal orders and then when we have the lumpy orders they are in then sort of 40 plus million orders. So, the profile is different: a smaller number of orders, a bit more lumpy.

Maddy Singh

But typically, in terms of, the time lag, if we were to say, think around that side, I remember the previous quarter, you said it should be around a couple of quarters lag, but generally when do you see the similar trends appearing? Is it longer than two quarters? Could it be three, four quarters or is it just really this quarter [? 01:07:16]? Maybe we get –

Pekka Vauramo

When we look at the cyclicality, we come a little later on and I think still it holds that we are two to three quarters late, but whether it translates then to order activity, it really depends on timing. Timing of single, bigger orders, more or less, than anything else.

Maddy Singh

Okay, and then one question on the synergies side. Revenue synergies, especially. You mentioned that so far, the synergies that you have seen only come from insourcing, so I just want to understand your guidance of 150 million revenue synergy. Whether that is based on only insourcing or if that also includes potential new revenue as well?

Pekka Vauramo

Yeah, I mean, for us, in order to get to the 150 million level, we would have to see some orders where we truly - some bigger order, some potentially Greenfields or major Brownfields where we really can start to fill in the complete offering what we have now available from Metso Outotec.

Maddy Singh

Great.

Pekka Vauramo

We'll definitely see that happening.

Maddy Singh

Yeah. Okay, thank you.

Operator

Thank you. Our next question comes from William Makki from Kepler Cheuvreux. Please go ahead.

William Makki

Yes, good afternoon. Thank you for taking the questions. The first question would really be perhaps standing back against this upswing in your end markets in mining, can we go back to your ambitions for the 20% operating profitability and just talk around some of the levers that need to fall into place to reach the 20% margin goal? So, within the framework of our thinking, when that is a realistic possibility.

And then also, I guess more conceptually, but you talked about the lag between sort of early cycle orders and late in the mining industry, but we're looking at your service business in mining. From your experience of past cycles, could you share what sort of lag there typically is between an upturn in the mining segment and an upturn in your service growth?

And the last question is relating specifically to the synergies and cost savings in minerals. Could you perhaps just frame or split out, when we look at the step-up in profitability, how much is volume related or mix related and how much specifically is the benefits of the integration? Thank you.

Pekka Vauramo

Yeah, a broad question. Maybe I'll start with one and Eeva will sort of then continue from that one. I think what we need to remember that we are still suffering from COVID and the pandemic and our top line is not really what we were sort of seeing when we looked at the merger in the first place. So, we would have to see us coming out of these restrictions. I think that is truly one requirement that we do have. And then of course, the integration and the synergy cost part of it, that is something that we are working with and I'm confident that we will get there.

But Eeva, can you continue from that one?

Eeva Sipilä

Yes, so William maybe just to answer in a brief way on what does it take to get to 20%? Obviously, synergies play an important part of that. We're well on our way, but as Pekka mentioned, so of course there's a way to go. Then obviously we need to progress also on the business-specific improvement measures, which when it comes to minerals are very much around the consumables footprint, and the logistical footprint.

And as you heard earlier, so they are there moving forward, but of course we're still in a sort of phase where there is also some sort of headache coming from the many, many changes. And then maybe on top of those ones, then clearly, if you just look at the sort of sales mix in the quarter, you might miss a bit of the challenge, but the reality, of course, is that the COVID pandemic has – this is the first cycle where we see sort of, relatively speaking, aftermarket more hit. And really we would need to see a sort of recovery to more normal operating conditions in our aftermarket business where we really can access sites, really. We can really leverage the overall wide offering that we have to our customers, and that really is tied to the overall pandemic situation improving.

And then maybe a final point that's worthwhile always reminding is around productization, standardisation. We talked a lot about de-risking and also making our products easier to produce and also easier to use, easier to sell. So, in all those four areas we need to move forward.

And I think the challenge, answering also your question on this cycle, is that I don't think any of us have seen a cycle like this, which is not the normal economic recovery. In any traditional mining cycle, you would see the aftermarket side jump up first and that would be kind of driving the recovery and then only later on CapEx. And here, the recovery from the pandemic is actually very much capital driven. Even on the aggregates side, it's really driven by capital. And hence maybe the earlier laws apply, maybe they don't, and I think at least we're a bit hesitant of give very clear indications that it's one quarter, two quarter, three quarters. I think this is just – we have to sort of accept that there is a bit more uncertainty around due to the fact that this is not a traditional GDP drop cycle.

William Makki

Thank you very much for the colour. There's one other follow-up also which relates to the materiality of the disposal of aluminium. How should we treat that? Is that material within the Q2 figures?

Eeva Sipilä

Well, we will see a positive cash flow impact from it. I would say that then – as such an, of course, relatively small business so the bigger chunk in the discontinued operations from an asset point of view is around the recycling business. And then from the sort of business performance point of view, the weakest business is the energy business. So, aluminium kind of doesn't rank out very material in either of those. But of course there was a good divestment, we hope, that both the buyer and us are happy and business will develop better in the new hands.

William Makki

Thank you so much.

Operator

Thank you. Our next question comes from Robert Davies from Morgan Stanley. Please go ahead.

Robert Davies

Yes, thank you for taking my question. Most of them have been answered to be honest, there was only one left which was just around the aggregates business and you mentioned India, some of the disruptions related to COVID. Just be interested, can you give us anymore colour in terms of the order cadence as you went through the first, second and third months of the year. What was the – Have you started to see any drop-off in the order rates already out of India and the aggregate side? And could you just remind the exposure to India and aggregates? Thank you.

Pekka Vauramo

Yes, India is one of our four big markets for aggregates equipment. We do not open up the market specific figures as such but if I say that Europe has performed very well, best performing market at this moment. North America close to it. China has been on a high level since China exited the COVID last year already. And India we're yet to see - have to see the recovery.

Robert Davies

Okay, thank you.

Operator

Thank you, the next participant has not provided their details so please hold while I connect.

Our next question comes from Nick Housten from RBC. Please go ahead.

Nick Housten

Yes hi, thank you for taking my questions. Again, most of them have been answered but something I would be curious to hear your thoughts on is the order pipeline in minerals and specifically if you could give us any sense of how big this pipeline is? Maybe if not with specific figures, then relative to what you've seen historically. And then if you could give any context on maybe the typical conversion rates that you've seen historically, that would also be very helpful. Thanks.

Pekka Vauramo

Of course, difficult to give such insight on our pipeline. And then also, the pipeline dynamics at a time when there's still uncertainty on COVID, it's also difficult to assess primarily because this is difficult to forecast how long the projects are in the pipeline before either orders are placed, or they are removed from the pipeline. So, it is - we are living like Eeva explained a little bit different cycle than what we normally would be with COVID. But anything, Eeva, to add?

Eeva Sipilä

Yeah, maybe just to say that it is Brownfield driven definitely, what I would sort of expect to be feasible in the next couple of quarters. And more really on the small medium sized end. And then as said, regional differences are very much related to the COVID situation. So, again there are big differences between some of the mining countries currently and that impact is difficult to just to know exactly how long that will be with us.

Nick Housten

Okay, thank you very much.

Operator

Thank you. There appears to be no further questions registered so I will know handover back to the speakers.

Juha Rouhiainen

All right. Ladies and gentlemen, it is 34 minutes past the hour, and we need to wrap up here. It seems all questions have been answered, so that's good. Our AGM will start momentarily, and our second quarter results will be published on August 4th. So, thanks for this session and looking forward to speaking with all of you very soon, goodbye.