

Transcription

Metso-Outotec Q2 / 2021 Interim Report

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04 August 2021

PRESENTATION

Juha Rouhiainen

Good afternoon, good morning, ladies and gentlemen, this is Juha from Metso-Outotec IR, and I want to welcome you all to this audio cast and conference call where we will discuss our second quarter and half year results for 2021 that we published earlier today.

The results will be presented by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipilä. And after the presentation, we will have time for Q&A, as always. We will try to limit the length of this call to 60 minutes, so please be brief with the questions when you ask them. And as you can see from our presentation in the first pages, we have the usual forward-looking statements and then some information about the financial data we have put out in terms of both IFRS-based numbers and illustrative financial information.

Without further ado, we will kick off the presentation. I'll be handing over to President and CEO, Pekka Vauramo. Please go ahead.

Pekka Vauramo

Thank you, Juha, and thanks for joining this call and we will go straight into quarter two.

We saw, as we said in our outlook, a strong market activity during the second quarter and I'm sure you have noticed that in our order announcements that we have made several of them during the quarter and order intake was really strong in all of our three segments.

Then when we look at the top lines of segments, aggregate – we saw really strong order intake, sales and profitability as well – in fact we are on record level now in aggregates all together. It's of course a good result but I have to say that it was something that we were expecting to happen now in this kind of market environment.

On a slight disappointment side is the low sales of minerals. Good order intake there as well, but low sales primarily because we are now delivering low order intakes that we did book end of last year. And we've been saying all the time that one should not expect our top line to start to grow before second half of the year and that is still the outlook on that side.

Metso's turnaround programme is progressing, and we were able to show black numbers now – a small one, but more important is that we are moving ahead with that plan. And integration as such: we are ahead of the original plan and well on speed and plan to achieve 120 million cost synergies by the end of the year.

And clearly, sustainability is gaining importance, and this is visible in many areas; obviously in our own operations, but we are seeing it already in our order intake and the type of orders that we are receiving from our customers.

Then on the figures, orders received grew by 43%, so a good strong performance as we were expecting second quarter to be very positive and favourable. Sales flat, just like we had been saying that we shouldn't expect top line start to grow before second half of the year.

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Adjusted EBITDA slightly below last year's 135 to 139 last year, and this is primarily because of the low sales during the quarter. Operating profit – 97 million last year, 89 million we are seeing now a smaller number in our adjustments as we have progressed already quite far in our integration and synergy work, so that is then increasing that line.

Cash flow continues to be our strong side; however, we will see that one going down as we move on and as the top line start to grow and we start to tie working capital into our supply chain primarily. And in integration side, the cost synergies, we tracked a 105 million run rate and well on track to achieve 120 by the end of the year.

COVID is still with us, as we all know, and by no means it's not over yet. We see different variants as we all read about and third waves and fourth waves coming. We are seeing some domestic travelling recovering, [? 00:05:34] from Australia but reason from Australia is that part of the country is in complete lockdown because of the recent cases there. So, the situation is still changing. This is affecting primarily our service activity and our minerals business.

Our own operations as such have been running well with the measures that we have in place, and we haven't had any major outbreaks of COVID in any of our locations.

Then going into segments. Aggregates – really strong order performance, 363 million. That's nearly 70% more than a year ago and it is the infrastructure packages that is encouraging the industry to invest and have the production machinery in good shape for the upcoming projects.

Sales – 320 million. That's up nearly 30%. And obviously that is basically orders that we did book in the fourth quarter of last year and beginning of first quarter of this year. And that was the basis for higher sales right now. Adjusted EBTIDA 47 million now – last year, 34 million; record margin level and to a great extent, thanks to volume growth but also good self-help that we have done, implemented the improvement programmes and measures during the past 12 to 15 months in our aggregates business.

Then in minerals, order performance was up from last year, 645 last year and now 755 million. Good performance in that regard and if you remember reading from our order announcement that some of our orders, they are joint orders for metals and minerals, and that type of order has really contributed nicely into minerals' order intake but good flow of smaller orders, medium size orders, orders which is always healthy in the business. And of course, the order line growing so much faster than the sales line. It means that our sales will start to grow as well as we move on.

We do have negative currency impact on these top line numbers but that doesn't really explain the profitability drop as such so much because we do have quite a lot of natural hedging in our system.

Sales – 578 versus 650 last year and that is plus the timing of deliveries and the low orders end of last year and of course, yes, COVID is affecting our service sales still and we are somewhat behind, and service naturally has bigger – lower service sales have naturally bigger impact on profitability.

Adjusted EBITA down from 110 to 82 million, margin of 14.2. And we have some internal issues relating to our integration and merging of our warehouses and things like that, in addition to the issues with global logistics that we all suffer from.

In the metals side, orders really grew from 87 million to 243 million, so three times more orders roughly now than a year ago, and market activity really is improving, and we saw several orders, medium size orders, from the [? 00:09:46] plants and that is very positive development overall.

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Sales – 112, flat compared to a year ago and there as well timing of deliveries, the big orders that we – and large order intake end of last year will only start to realise in the second half of this year and beginning of next year.

Adjusted EBITA slightly on black side – 2 million. Important is that the turnaround programme is going well and the orders that we booked during the quarter and of course the major order that we booked after the quarter is contributing really nicely to the possibilities to have a nice turnaround for metals business.

Eeva, please.

Eeva Sipilä

Good morning, good afternoon on my behalf to everyone as well. One year since the closing of the Metso-Outotec transaction, our financials are getting easier to read. And similar to Q1, the actual Q2 figures are straight forward as is any sequential comparison to year end in the case of for example balance sheet numbers.

However please do remember that on the comparison to 2020 first half or second quarter under IFRS that year over year comparisons is only to Metso Minerals numbers. So, for an operationally better comparison, I recommend using the illustrative combined figures when it comes to second quarter 2020 or first half 2020. Earlier words of caution still apply that they do combine the history of two separate companies, so they are, as their name says, illustrative.

But moving to the income statement. So, Metso-Outotec sales in the second quarter were just over 1 billion – so, flat year over year. Sales are however over 9% up sequentially. I do appreciate that even if we have highlighted that the backlog composition, especially in minerals and metals segments, after several weak order quarters last year in the midst of the COVID-19 is very second-half weighted this year as that backlog only got more support from orders from Q4 last year onwards, this sales number of just over 1 billion is on the low end of expectations.

Only in our aggregates segment is the revenue recognition more immediate following order intake and overall of course leads times to order to delivery are much shorter in that segment.

Now, fortunately this is a timing issue. Our order intake is very encouraging for future revenue growth. However, you should more expect in the minerals and metal segments the sales growth to start moving up over the coming quarters rather than assume any abrupt leaps.

We did see some unplanned delivery issues due to having a few bigger footprint moves in our supply and warehouses coincide with a quarter with overall very challenging global logistics availability and even small misses get big if the availability and cost of a new routing is far from normal. It was not a big number in volumes. The fixing was not free either. And hence, gross profit is also slightly impacted and does not really reflect the good work done in most of the company.

Nevertheless, 131 million euros translating into 12.9% adjusted EBITDA margin is 50 basis points up from Q1, and we are pushing on many fronts integration and business specific improvement measures – to mention the two main drivers – to continue towards our margin target of 15%.

Adjustments were 13 million in the quarter, mainly from the integration. PPA [ph 00:13:48] amortisation was another 13 million and another amortisation 8 million which then leads to an operating profit of 97 million. We have an unchanged guidance for the integration related adjustments for this year so you can expect some of that still to come through in the second half, but thereafter you only then need to model the non-cash amortisation elements.

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Moving to the P&L elements below operating profit on the next slide. I would perhaps just note that we are delivering integration benefits also in our effective tax rate, which is at a 25% level year to date. Earnings per share for continuing operations were 7 cents for the quarter and 15 cents year to date. Thanks to a small capital gain from our divestment of the aluminium business in April, the year to date, the EPS including discontinued operations is 2 cents higher – so, 17 cents.

Moving to our balance sheet. So, total assets are up some 100 million from the beginning of the year. You still see a modest growth in inventories and receivables. However, clearly indicating the direction we see when you sort of remember the strong order intake that we've seen in the first half. We were able to pay back debt as well as the first instalment of our dividend and still maintain a solid level of liquid funds.

A few highlights on our cash flow. Firstly, obviously, very happy to see continued healthy cash flow in the second quarter. Since the merger of Metso-Outotec, we have delivered solid cash flow in every quarter which has helped to quickly strengthen our balance sheet. As we move forward, we do expect sales growth to affect our working capital increasingly but similar to Q2 where in addition to profit from continuing operations, we saw a positive contribution from divestments under discontinued operations. We do expect to see further support on that row also in the second half from the divestment announced.

Looking then at our net working capital by item. The balance of the items really is similar to earlier. Inventories stood at 1,154 million at the end of June. Trade payables continued to exceed trade receivables also in Q2. We've seen the advances increase slightly as we booked some bigger orders where they typically form a part of the payment structure.

Lastly, on our financial position. As mentioned, healthy cash flow has improved our balance sheet KPIs since the merger. During the second quarter, we cancelled two revolving facilities which would have become short term and were signed when the COVID-19 uncertainty was highest, and we didn't feel we would need them anymore. The base revolver of 600 million euros is more than sufficient for our needs.

Also, we had a strong cash position. As we had a strong cash position, we made an early repayment of 50 million euros on our term loan. So net debt totalled 686 million euros at the end of June and our debt to capital was 33.4%.

And with that, I would hand it back to our President and CEO, Pekka. Please.

Pekka Vauramo

So, thank you, Eeva. A few words on integration and strategy before we go into outlook and Q&A. Like mentioned already, run rate basis, the cost synergies we track at 105 million now. Now this means that our original plan that we announced at the time when the Metso-Outotec transaction was announced was 100 million. So, we are ahead of that plan both time wise and in total already and 122 remains the target at the end of the year. The remaining work is primarily in the area of IT and procurement for the rest of the year.

Restructuring of the organisation is almost completed now but we have enough work and enough programmes that will contribute to the 120 by the end of the year. Then the sales revenues synergies we have reported in our current sales line year to date of 40 million of revenue synergies. And there's an additional 91 million that we have in our order backlog so that number is starting to be already sort of meaningful number and is getting closer to our target, which is 150 million by

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the end of next year. And the estimated restructuring cost, integration cost, is 75 million and so far we have booked 51 million out of that.

Then I mentioned earlier on that sustainability, we are seeing sustainability already in our order bookings. We are developing a measurement which we will be able to track in future. We were not able to do it yet, but we already know that the share of planet positive products and technologies is increasing and it's really becoming coming a criteria for customers when they take decisions and part of justification of projects and investment cases.

We are committed to 1.5 max global warming, and we have the science-based targets established for that one. We are tracking well in achieving those science-based targets. We are in fact well ahead in some of those lines, but this is also a volume related issue, especially the emissions side of it, and currently we are going through a low volume period and therefore we are slightly ahead of those targets at this moment. We will sort of get closer to these once the volumes get normalised later on.

And we are engaging our suppliers as well into this work. We have set a target that 30% of suppliers spend by 2025 – need to have science-based targets and that work has started.

And we launched the planet positive product portfolio and that is really to make it easy for customers to make the right ecological choices or the best ecological choices and to make easy also for external world to track our performance in sustainability.

And then in other fronts of ESG safety work that we have been doing very consistently by addressing things that are not moving in the right direction and addressing those locations where we may have had issues is really bearing fruit now. We are on a year-to-date basis on LTIF on record low level at 0.6. And just to mention in the month of June we didn't have any lost-time injuries with our own employees and only one with our contractors. So, a good improvement on first time for Metso-Outotec to be on monthly basis at that low level. But the work continues. Any incident or injuries are unnecessary, and we keep on working with that.

Planet positive is visible in orders, pellet plants. Several orders as we have booked them, they all contribute towards our lower emissions in steel production. The lightweight Metso-Outotec truck bodies that we selling and still in the launching phase of that one, but we're starting to have a very good footprint already globally with those ones and if you recall the lightweight truck body means that any ore that is hauled with it requires 10% less fuel and reduces those 10% emissions.

And yes, we have some process plants, precious metals recycling plants, and lithium plant orders that we have booked, and they are naturally in this area.

On highlights, really, the major one is the 360 million order which we booked after closing of the second quarter. So, this number will be reported in the third quarter order intake. It is a joint order between metals and minerals. About 80% is metals and 20% are minerals. It is a massive project as such, copper smelter, well known technology. We have delivered flash smelting technology-based copper smelters, more than 550 [ph 00:23:55] pieces to different parts of the world and therefore we don't feel that this includes any technological risk, as such. So, very happy about that one. That is a project that has been discussed and debated in Indonesia [ph 00:24:15] possibly for ten to 15, maybe 20 years. And now finally then the parties decided to progress with that one.

Then we just announced signing of the agreement with Ahlström Capital to divest waste recycling. We expect that one to close during the fourth quarter of the year and the metals recycling divestment is in progress, and hopefully we'll hear

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something about that one by the end of the year. The market outlook – we are on a relatively high level as our order intake is also indicating that one. We are expecting the high and strong current level to continue and remain.

COVID is of course around us, as we all know, and we will see still impact of that one and especially the changes and the new variants of the virus will cause sort of unexpected events in near future as well. But I would say that, in the big picture, our industry has shown that it's very resilient against this kind of pandemic, but it does cause some operational issues, which is affecting slightly our numbers as well, but we expect in general the environment to remain at the current strong level.

Thank you.

Juha Rouhiainen

All right, thank you, Pekka. Thank you, Eeva. And now it's time to open the lines for questions.

Q&A

Operator

Thank you. If you wish to ask question, please dial 01 on your telephone keypads now. Once your name is announced you can ask your question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Magnus Kruber at UBS. Please go ahead. Your line is open.

Magnus Kruber

Hi, Pekka, Eeva. Magnus Kruber, UBS. A couple of questions from me. I guess, first I'll start where you ended, Pekka, on the outlook and to hear what you're thinking about the outlook statements in terms of the different business areas. I mean, you shifted from improving to current strong leverage. If there's sort of an element here of sustained momentum in mining offset by perhaps a slight tempering or cool down in aggregate as we go into the second half? Or how do you think about the different business areas in the context of the update and the outlook? That would be very helpful.

Pekka Vauramo

It's a very good thought by you. Our aggregates business is seasonally lower in the second half of the year, and that is of course reflected here in the statement as well. Then on the other hand we are on high level in our order book both in metals and minerals. So now it's time really to deliver and execute the order book.

We will see nice orders going forward as well, but very difficult with the COVID situation to say that we would go much higher than where we are at this this moment. In order to climb higher level at this moment we really would have to clear the pandemic first.

Magnus Kruber

That's very helpful. Actually, continuing on that point. If you could talk a little bit about your pipeline for the year in mining overall, do you have anything similar in the nature of the recent Freeport [ph 00:28:09] order? Maybe also if you could discuss if there are any differences between the minerals and the metals. That would be most interesting. Obviously, the metals market seems to be heating up quite a bit now.

Pekka Vauramo

Yeah, that's right. I would say that minerals market is heating up as well, but the nature of minerals businesses is different. There are project orders as well in minerals, but they are smaller orders. Metals orders tend to be bigger ones, and because the business is somewhat lower, it makes the business a bit more difficult to forecast the metal side and then makes it look also very lumpy, especially the order intake. But we like the way how minerals currently is that the orders are smaller in size. They are well manageable as such, and risk profile is something lower than typically in our metals businesses.

Magnus Kruber

And in the metals specifically, do you have anything in the pipeline that sort of similar to the Freeport [ph 00:29:16] order? I mean, I know there's a Swedish company building something in Norway that is pretty big.

Pekka Vauramo

Yeah, that's right, but I mean anything that would start with three, no, we don't.

Magnus Kruber

Okay, got it. Thank you so much.

Operator

Thank you. Our next question comes from the line of Klas Bergelind of Citi. Please go ahead. Your line is open.

Klas Bergelind

Thank you. Hi, Pekka and Eeva. It's Klas at Citi. So, my first question I had is on the margin drag from the supply chain issues in minerals. And part of this relates to the integration of Metso and Outotec. So, firstly, what impact was this on the margin in minerals and do you think this effect will last into year end? And I would also assume that the lifting of the mobility restrictions eventually should help the service business quite a bit into the second half. So, if you could perhaps help us also with the pent-up effect there. How much below normal levels is the servicing business? So, several questions in one, sorry for that, but impact first to the margin pressure because of the integration, will it stay until year end? And then likely pent-up effect in services. Thank you.

Eeva Sipilä

Thanks, Klas. If I try to answer that. I mean we are not talking about a huge number per se on the drag from the action. Now clearly, we have had challenges in being on time in some of our supply units and hence then we've had to use air freight, for instance, to compensate and catch up to make it still on time or less late to the customer, these type of things. Now, obviously we wouldn't be talking about them if they weren't millions, but it's still a sort of a more single million issue. We tried to estimate how much sales we lost on the aftermarket side from the hassle and in the consolidation actions, we have basically been moving, consolidating inventories from several locations to fewer locations and kind of gearing up in the new location, then the operations is where we've sort of had the issues.

Maybe it's around sort of roughly 15 million euros of sales, so it's, of course, money in the quarter but I think the sort of bigger impact really to the sort of consensus sales were really from the backlog and we were just not clear enough in our communication on the sort of order backlog composition, perhaps earlier.

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Then, the actions are now complete. I mean we are in the locations we want to be and ramping up operations. So, in that sense, we're well on track. Of course, it takes a bit of time to catch up, but we're not really expecting or planning for disturbances in the second half. We do need to sort of just fix issues and in that sense sort of move forward.

Then you had a question on the mobility. Yeah, that's of course when the news is daily changing on what restrictions one has and where, it's difficult to answer. But as we write in the report, when the restrictions have eased, we have sort of seen then the possibility and the willingness from customers to meet us at site and get kind of a bit back to normal. But of course, it is subject to the number of changes back to restriction mode as well. So, I think that is something that I assume we'll see for the rest of the year as partly of course we are learning to move around it, but there's just an element of things that actually have to happen on the site and hence sort of it will just need to sort of follow where the pandemic takes us.

Klas Bergelind

Have you done any anything, Eeva, in terms of looking at how much pent-up it could be once restrictions are lifted, the services? Because I would assume that we are trailing the very strong activity from a mobility point of view.

Eeva Sipilä

Well, obviously you kind of look at the installed base and the average consumption and average demand and these types of indicators and of course plan together with our customers. I mean clearly sort of the challenge for both of us will then be if demand leaps, the availability question will come. We now see the availability problems already in components and in many fronts, not only in our industry. And of course, that's something that we together need to manage and prepare with our customers, and we've been trying to sort of caution on that, that not everybody can move at the same time and that's something but really sort of, as said, when there's so many moving elements now on a daily basis in some countries, super difficult to be more sort of – quantify it more.

Klas Bergelind

Fair enough.

Pekka Vauramo

I would assume that we are maybe 10% below in our service, excluding really the consumables. That has sort of an almost like normal now. But in the rest of the services, we are probably 10% behind with the volume and I would estimate that this volume comes back at one point.

Klas Bergelind

Thank you very much. My very final one is on the mix between equipment and services. Now, when equipment will be a bigger part of sales into the second half – and I'm referring to minerals here – do you think, Pekka, you have enough self-help efforts to lift the gross margin in equipment? Or shall we expect a big negative effect from higher equipment sales into the second half? I know that this is difficult to guide on magnitude, but we have inefficiencies because of supply chain

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a little bit and then obviously the question is, will we have another impact on the margin as we invoice out more from the backlog?

Pekka Vauramo

We also need to remember that we do suffer from under absorption at this moment and with the higher volumes in equipment side, that will reduce and that will sort of mitigate the impact of margin and the mix impact in that regard. I'm expecting our services to recover. Like I said, I mean we are about 10% below where we should be in a normal sort of course of a year, and once that returns, so I'm not too concerned about that we would see margin drop. That would be too dramatic in that one. We see also volume growth at the same time.

Klas Bergelind

Yeah, very clear, thank you.

Operator

Thank you. Our next question comes from the line of Artem Tokarenko of Credit Suisse. Please go ahead. Your line is open.

Artem Tokarenko

Good afternoon, thank you very much for taking my questions. It's Artem from Credit Suisse. I have three, please. My first question is about synergies. Could you help us understand what was the P&L contribution in H1 and with a faster delivery, what should we expect in terms of P&L contribution for H2 please?

Eeva Sipilä

Sure, Artem. So, we tried to clarify it in our report. Now we made reference to Q3 and Q2 specifically. But basically, I would say that if you use the run rate number we have given out at the end of every quarter, and then as it is an annual number you kind of divide it by four to get the impact on the next quarter. So now we were at 105. So, we're going in roughly 26 million impact for Q3. We were at just above eight end of March and hence it was around 24 for Q2 and I believe we were at 60-ish at year end. So again, that will be then sort of 15 roughly for Q1. So, that's kind of the speedier the progress has been adding roughly 5 million sequentially from one quarter to another.

Artem Tokarenko

Thank you very much. My second question is around your comment in the reports around supply chain and logistics costs. I guess, could you maybe talk a little bit about whether that's something temporary or whether that's more structural, like your supply chain raising prices, cost, inflation, et cetera?

Pekka Vauramo

Yeah, there's two things. Logistics is one area and yes, we have seen freight charges going up. Just read a report of a shipping company and they said that their container charges have gone up by 69% – if I recall correctly the number – from a year ago. And of course, we are seeing this cost. We are carrying some of it and some of it our customers are carrying of course. So, that is one part of it.

Then inflation. We do see the inflation, of course, but we have taken different mitigation actions in that one. We have synergy work ongoing in the procurement area where we are combining the volumes of the [? 00:39:15] past two companies and we have gained the benefits out of that programme and then of course we have been very active in our pricing.

And I would still say that most of the inflation is still in the supply chain, but most of the price increases are in our order backlogs at this moment, but inflation is there and it's sort of a reason to be cautious about that one but not overly concerned. Our customers are also enjoying good business as metal are contributing quite a lot to this inflationary picture and it makes it easier for them to justify new investments and new expenditure.

Artem Tokarenko

Thank you. And my last question, maybe could you help us quantify how much of that inflation you've seen in the quarter in terms of EBIT bridge? And as a quick follow-up to this question, I guess in terms of the contracts which you already have in your backlog, do you have any price escalators which would allow you to pass over some of that inflation or are contract prices firmly set? Thank you very much.

Eeva Sipilä

Well, I think the majority of the inflationary impact, Artem, is actually on the balance sheet. I mean the inventory value of course is based on the prices which could have come in due to the sort of rapid change really and how quickly certain component prices have changed haven't really drilled through the P&L much in the – and the logistics, Pekka mentioned. Of course, that comes more immediately, but what comes to these areas.

So that's something we kind of expect to see. I mean, we've been very actively managing prices, because of course, this is a an environment. This is no news to the customers, no news to us and kind of preparing in that sense. That's of course how we should sort of prepare for it and balance it. There are cases where it makes sense for both parties really to have a certain sort of index clause on that. But of course, the sort of less typical in product type of business where a customer is kind of agreeing on the price at the time of purchase, and then it's for us to manage the order to delivery. It is a kind of normal course of business.

Something to certainly sort of be attentive to [? 00:41:59] but I would still say that it's a positive challenge to have because we also at Metso do benefit from the inflation, as Pekka mentioned.

Artem Tokarenko

Thank you.

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Operator

Thank you. Our next question comes from the line of Nicholas Housden at RBC Capital Markets. Please go ahead. Your line is open.

Nicholas Housden

Yes, hi everyone, thank you for taking my question. My first one is about the revenue synergies that you mentioned – the 40 million euros so far, with more in the backlog. Is this all from cross selling products or has any of this come from increasing the service penetration of the old Outotec business which obviously had had a much lower penetration level than the Metso business? I'll start there, thanks.

Pekka Vauramo

There's both of it, yes. I don't have a breakdown for that one, but there's quite a number of consumable stuff going to grinding mills and really sort of aftermarket consumable deliveries which Outotec wasn't really participating at all. But then cross selling is there as well. The pumps typically that Outotec sourced from other than Metso and now of course we are supplying to most of the cases and offering very sort of actively Metso pumps in new proposals. But there's both cross selling and really new areas as well.

Nicholas Housden

Okay, great. And my second question is about the large acquisition that one of your peers announced last week of a well-known European mining equipment business. And I'm just wondering how you see that and how it affects the competitive landscape from your standpoint?

Pekka Vauramo

Yes, well I was asked the same question in our employee meeting this morning and I described what we'd been through since we announced Metso-Outotec. That was two years and one month ago, and it's quite a journey that we've made, and they have that journey ahead of them and we still have some distance left of our journey. So, I think in that regard they will be busy with many things. I'll leave it there.

Nicholas Housden

Okay, thank you very much.

Operator

Thank you. And our next question comes from the line of Tomi Railo of DNB. Please go ahead. Your line is open.

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Tomi Railo

Hi. This is Tomi from DNB. Just to clarify a little bit on the sales impact due to delays. Did you say 50 million for services and bigger, let's say, maybe 50 million for the equipment side from the backlog?

Eeva Sipilä

Yeah, my answer to Klas's question was that around 50 million probably was kind of revenue that could have landed from the services into the quarter but got delayed, yes.

Tomi Railo

And higher impact from the backlog. So comparing to–

Eeva Sipilä

Yeah well, referring to the consensus. Yeah. And obviously there was a wide range in the analysts' estimates, but just referring to the consensus average in a way, clearly that even you if you add that, our sales were on the low end of the average on the consensus. So really, that was backlog. Backlog I think was the area where we could have done a better job in the communication.

Tomi Railo

Good. Thank you. And the second question on the quoting new sales proposals. As you say in the report that it continued during the second quarter. How do you see July and August, early August, developing?

Pekka Vauramo

Yeah, basically no change in that one other than of course in our aggregates because its seasonal pieces and seasonally the second half being the slower one. So, we see some decline but just ongoing trading for aggregates. July was the strongest July ever for us, so in that regard, but even though we had a slow season, we're still seeing relatively strong months.

Tomi Railo

And thirdly, a quick one, if I may. Synergies processing ahead of the plan. Do you see any upside for the 120 million target?

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Pekka Vauramo

Well, we are working on new items continuously but we of course we want to deliver what we've said, and we stick with the 120 million target and inflationary environment hasn't made it easy for us to be more bullish with that target, but we have been able to generate new items so that we can fulfil the 120.

Tomi Railo

Thank you very much.

Operator

Thank you. And just as a reminder to participants, if you do wish to ask a question, please dial 01 on your telephone keypads now. The last question in the queue so far comes from the line of Robert Davies at Morgan Stanley. Please go ahead. Your line is open.

Robert Davies

Yes, thank you for taking my questions. I had a couple. One was just around the sort of I guess bigger projects that you're managing. You highlighted the one that you had post the close. Just from a risk management project, could you just walk us through what sort of different notes and maybe the way Outotec used to manage those businesses as a standalone entity. I know that you mentioned a year or so ago you'd seen some of the processes. Just be keen to hear – given this is a good example of a bigger project. What was sort of different to maybe that project would have been signed or how are you going to deal with that over the next year or so? Thank you.

Pekka Vauramo

Yeah, thanks. Really good question. As such, we need to sort of remember that previous project of that size was booked really long, long time ago, nearly about seven or eight years ago all together. And Outotec already before merger had upgraded the risk management and the risk analyst part and mitigation actions as such, and we have of course continued along the same path. We have certain decision-making grids and matrix and we are reviewing the offer and the contracts of this size. We are reviewing very thoroughly.

First, I would say almost like minutes before signing for any changes. So, we are on the pulse of what is happening. And then of course, we do have ongoing project reporting and review of the projects on a monthly basis in the management and our audit committee is looking into these projects on a quarterly basis, how we are tracking on bigger ones and major ones and that is the visibility that we do have.

We have upgraded also and changed also how we behave at the work site. We are now accumulating documentation in a different way than what was done in the past and this is always important in projects because there is a tendency that towards the end of the project all the things will be reviewed and revised and potentially claims will be presented both ways and we are now much better equipped for that one than we used to be.

Eeva Sipilä

Maybe to add Robert to that in the specific case. So, as you may know, it's a pure engineering design really licencing contract, so there is nothing on the construction or kind of any EPC [ph 00:50:50] elements. It's really pure engineering. And of course, that's at the core of our competence area. It clearly happens to be a big engineering project.

And the other thing I would highlight that it is very known technologies. If anything really copper smelting is something that has been sort of well proven over the past. I believe there was more than 50 sort of copper smelters delivered by Outotec in the past. And of course, that's something that was another main criteria kind of ticked our risk management books that we can assume that there will be no surprises. But obviously, like Pekka said, it's really on the focus on the execution is always crucial and continues to be so.

Pekka Vauramo

We took the decision in Metso-Outotec that we are not accepting and participating EPC contracts anymore and now 13 months into Metso-Outotec, we have not booked a single EPC contract and I don't feel that we have lost too much. We haven't lost a single order because of that one. Some of the orders have turned into smaller by volume, but at the same time, when volume goes down our margin levels do go up and our risk exposure reduces. So, this is what we have been doing and this is what we will continue to do with regards to the projects.

Robert Davies

Thank you. Then my second question was just around the order progression within the minerals business. You've obviously seen three or four quarters now with improving momentum. I'd just be keen to hear what your view there is through the back half of the year, I know you mentioned, or there was a couple of questions earlier talking about a potential catch-up effect. I guess, is it possible? Or do you think it's reasonable to assume more than double digit growth in that business through the second half of the year? I realise that maybe the comps are becoming less week as we get towards the tail end of the year. I'd just be curious the cadence of growth profile in aftermarket specifically as you go into the back half of the year. Thank you.

Eeva Sipilä

Yeah, in a way, as Pekka mentioned, the sort of [? 00:53:09] have of course been steadier because it's production rates related, and I think customers have been running flat out now for a few quarters, so hard to push for more. But certainly, in the services, I think that sort of opportunity is there. We would be a bit cautious on calling and giving and confirming any specific number for you, because there is just this uncertainty around the COVID-19 situation that can easily change.

But clearly as you see also from specifically the mineral services order growth number things have improved, and in that sense, we would expect to see that trend continue in the second half.

Robert Davies

Thank you. My final one is more of a big picture question really on – in terms of some of these orders in minerals that we've seen in the last year or two, different companies have talked about seeing bigger projects cut up into smaller pieces. When you look in the total across these projects that have been broken up into smaller pieces, do you feel like you're still able to get as much value out of them? Is pricing more difficult when they're sort of so granular and sub-segmented into little bits? Is it easier to push pricing more aggressively if you have a sort of large, encompassing project? Or is it a bit more easy to get pricing when they come in bit parts, smaller medium size pieces? I'd just be kind of curious in terms of pricing on the sort of smaller medium versus sort of bigger projects that you historically had. Thank you.

Pekka Vauramo

We're very comfortable with the way how business is going in that regard. We like the small orders rather than big, lumpy ones.

Robert Davies

Okay, thank you very much. That was all my questions.

Operator

Thank you. We have a follow up from Magnus Kruber at UBS. Please go ahead. Your line is open.

Magnus Kruber

Hi, thanks for taking my follow-up. I just wanted to ask you a bit following Artem's question on pricing and raw material headwinds. Which quarter do you see as the peak headwind quarter as we start now – obviously it can change – but as we start now, which is the peak headwind quarter? And also, on minerals and aggregates separately, are you sort of pricing ahead or in line with inflation or lagging on the pricing side? If there's a difference in the phasing of those pricing versus the costs would be interesting to hear.

Pekka Vauramo

We do pricing of course differently in different businesses. In projects our aim is to fix our costs at the time when we book our project orders and then we like to have cost escalation clauses in those ones where we sort of time-wise cannot lock them, and recently we have been very successful in doing so.

Then the products businesses, which is spare parts, consumables, aggregates, we of course work with the price lists and that is more sort of working ahead of the curve.

Magnus Kruber

Okay, so is it fair to say that you believe you are ahead overall on pricing in these two business areas into the second half?

Pekka Vauramo

That's a difficult topic always to comment on pricing.

Magnus Kruber

Fair enough. Thank you so much.

Operator

Thank you. And we have one final question in the queue. That's from the line of Antti Kansanen of SEB. Please go ahead. Your line is open.

Antti Kansanen

Yeah, hi. It's Antti from SEB. Thanks for taking my question. It's on the minerals equipment sales side. And I mean you are on a 250/260 million level pre pandemic and obviously now bit below that but if the growth is heating up, do you see scope for more and where do you see kind of the bottlenecks right now? Is it supplier capacity? Is it your own assembly capacity and so forth? If we see the continuous growth on the minerals equipment side going into 22 and onwards?

Pekka Vauramo

I think our current – our order book is really in I would say hectic engineering phase both in metals and in minerals. Minerals, businesses. And that is the phase where the revenue recognition is fairly low. We have a smaller number of actual deliveries in this one. But as we move on and deliver the order book we get into a different phase where bulk of the revenues will really come from deliveries, so that's where the growth then comes into picture.

Antti Kansanen

Yeah, I was more thinking about if they are starting to be at some point [? 00:58:27] strong order intake only leads to a prolonged and prolonged delivery times and you're struggling to get the deliveries out of the backlog or how should we think about this going forward?

Pekka Vauramo

Yeah, of course, and business is clearly products [ph 00:58:47] at times like this when we are selling longer delivery times and in project businesses, we of course are dependent on the capability of our supply chain to keep the promise on our

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deliveries, but that's how we work. We work both in pricing side and in delivery wise together with our suppliers and we of course want to align and streamline those things and have back to back agreements 100%. So, that's how we work. The fact of life is that in the days like this, delivery times do get long, without them being delayed in fact.

Antti Kansanen

All right, thank you.

Operator

Thank you. And as there are no further questions, I'll hand back to our speakers for the closing comments.

Pekka Vauramo

All right. Ladies and gentlemen, we are at the hour, so it's a good time to wrap up this second quarter results conference call. We are looking forward to speaking with you very soon again. And in the meantime, enjoy your summer. Bye-bye.