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Metso-Outotec Q3 / 2021 Interim Report

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PRESENTATION

Juha Rouhiainen

Good afternoon, good morning, everybody. It's Juha from Metso-Outotec's Investor Relations, and I want to welcome you all to this Conference Call where we discuss our third quarter 2021 results, which were published earlier this morning. These results will be presented by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipilä. And after the presentation, we'll have, as usual, time for Q&A.

In our presentation deck, we first have information about forward-looking statements and also some information about financial information we have published. So, please take a look at those.

And as a last reminder, we intend to keep the duration of this conference call to about 60 minutes, so please take that into account when asking questions.

With these remarks, we're ready to start, and I'll be handing over to Pekka. Please, go ahead.

Pekka Vauramo

So, thank you, Juha. So, I will start with a few comments on the market and a few bullet points or numbers. Eeva will then go deeper into our results, and I will then finish off with some other topics at the end of it.

But looking at the results, a few bullet points on that one. First of all, strong market activity in all of our three segments, and that is naturally visible then, also, in our order intake. So, we were able to turn the high activity in the market to orders.

We also are seeing very strong demand for our Planet Positive products and technologies. With Planet Positive, we mean products that are in line with our target to limiting the global warming to 1.5 degrees. That is a label that we gave to our products earlier in this year, and aiming to make it easier for customers to make the choices when planning for their plants.

We still have the supply chain issue that is affecting our capabilities to deliver. And then, our backlog and timing of the backlog is such that we really didn't see the growth that we really need in order to deliver the results. But the growth is in pipeline, and we started to see all of our segments show growth towards the end of the quarter already.

Profitability improved in all segments. And when you look at the numbers later on, you can draw, then, conclusions where the profitability improvement came, and it's basically from our synergy work. And then, additionally, yes, we have been active in naturally responding to the inflationary pressures with our pricing actions to compensate the impact of that one.

We have also upgraded our emission targets. We now target net-zero emissions by 2030. Earlier, we said that we're going to halve them by 2030. So, now, it’s net zero emissions by 2030, and this is a consequence of the IPCC report that was put out some months ago and a response to more urgent action.

Integration is progressing. We are ahead of the plan. We have already exceeded the original plan of €100 million of cost synergies, and we are currently tracking at €116 million in that one.

Then, looking at more detail, the numbers. Orders, yes, more than doubled from last year, which was a lowest quarter on quarter, clearly. But €1.65 million is a very strong order number, as you can think about it. And sales growth was 7%. Like I said, that's mostly because of our pricing activity in the marketplace. We were able to tackle the cost increases. It's also visible in our margin side. We were able to tackle the cost increases with our pricing actions. And then, yes, some of the businesses started to grow as well, already. So, some volume impact there, but mostly it's about pricing.

The EBITDA €139 million, last year €111 million, but more remarkable is that the margin improvement from last year was 200 points from 11.6% to 13.6%. Operating profit improved clearly. In fact, more than doubled from last year, and EPS, €0.09 per share. And cash flow continues to be strong at this moment. And I would say that we should not expect that to continue to be as strong as it is currently when the volumes start to grow and our supply chain starts to tie working capital.

The segments more closely: Aggregates continues good strong performance in all lines, orders, and this is seasonally a low quarter already. Second half is the low season for aggregates, especially the orders. But this was strongest third quarter ever in our aggregates business, with €325 million of orders altogether. And same markets as before: Europe and North America are the strongholds at this moment; China is taking a little bit breath at this moment, maybe controlling the overheating that was happening, but by no means, China market is not dead at all. There is still a lot of activity there. Primarily, it's infrastructure spending that is boosting the demand in that side.

Customers are already now placing orders well into next year's spring and summer season in the Northern Hemisphere and the demand side is really strong at this moment. We don't necessarily want to see our order book getting that long. We'd rather serve our customers with shorter delivery times, and then also, make sure that we don't expose ourselves to component and raw material price increases. And we want to keep that side under control as it has been well under control, in fact, in all our businesses so far.

Sales did grow by about €50 million in the quarter, and truly came from strong backlog that we have, but we saw also good development in services. Our distribution management organisation is doing a good job in managing our dealers to sell all our offerings, equipment, spare parts, consumables in a more balanced way than before, and that starts to be visible. And naturally, the supply chain and logistics is affecting the business. Component delivery times are getting longer, and therefore, our delivery times are getting longer, and some minor delays in shipments because of these two factors there.

Adjusted EBITDA €42 million, €26 million a year ago. Margin of 14.4%; very close to our target 15%. Over there, volume growth and good drop-through is behind this number. And we have taken over the past year, year and a half, many improvement measures, and they are clearly bearing fruit now in our aggregates.

Then moving on to minerals. Strong growth in orders as well, and nearly €970 million during the quarter. And here, the Planet Positive side is clearly visible as well as productivity. Productivity is really at the core of many of our customers' decisions at this moment because there's high demand for metals that continues. High metal prices also continue, but very few greenfields, so customers are focusing on their bottlenecks and debottlenecking their processes and taking these steps in existing operations. We had two bigger orders exceeding €50 million, but a really strong flow of smaller orders and service orders also continued to grow at the pace of more than 20%.

Sales still behind last year's sales. We are still delivering those orders that we booked during the low-order-intake months earlier in the year. But we started to see growth in equipment orders as well already in September, and we expect that to continue, though the supply chain logistics challenges are here as well as in all other businesses and segments.

EBITDA: good margin development there, but because of the volume, we didn't see any bigger increase in that one, but €96 million adjusted EBITDA for minerals and margin of 15.9%. We are clearly seeing the positive impact from the integration work. And we also see stronger equipment profitability because of our pricing actions and other improvement actions that we have taken.

Then, moving on to our metals segment, which has come through the turnaround programme. Turnaround programme is now completed, and we do see the impact of cost savings. We reduced the fixed cost by €15 million earlier in this year as part of the turnaround programme. And now, we are focusing on delivering the order book which is very healthy. Orders during the quarter, €357 million, dominated really by one single order, the copper smelter order, but then, €61 million of smaller orders, as well. And the market outlook continues to be there as well strong into the future, though we don't see any such huge packages as we have had now during the coming quarter. And that applies to minerals, as well, but then, moving into next year, then there is more of these bigger packages coming. But we expect smaller orders to continue at a steady flow, both in minerals and metals.

Sales: we saw clear growth to €126 million. Last year, just below €80 million. And adjusted EBITDA now on black numbers; €6 million positive, whilst last year we were €8 million on negative territory, and that's when we decided to initiate the turnaround programme. Now, we, of course, are starting to see the higher volumes kicking in, and we're expecting then of course profitability to improve during the coming quarters.

And now, I'll hand it over to Eeva for financials more in detail.

Eeva Sipilä

Good morning, good afternoon, on my behalf. And we're finally reporting financials for a quarter where the comparison period was already Metso-Outotec times, so happy to say that our financials are getting easier to read. All quarterly comparisons are now really like-for-like.

The only thing to pay attention to is the nine-month comparison to Q1 to Q3 2020, where the first half of 2020 under IFRS consists only of Metso minerals. So, for an operationally-better comparison with the nine months of 2021, I recommend using the illustrative combined figures for the nine months of 2020. And the 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 our income statement. Sales in the third quarter just over €1 billion, as Pekka explained. And towards the end of the quarter, we really started to see the expected growth in our minerals and metals equipment businesses as per the backlogs which are weighted towards the latter part of the year. And we do expect this trend to continue further in Q4. The share of aftermarket in sales dropped sequentially quite a bit in both of the segments already based on this end of quarter development.

And whilst we saw the long-awaited strong growth in our services orders in both of the minerals and metals segments, we do expect the sales mix to move further towards equipment in Q4. We hope to see the stronger service orders continuing, so that they would again balance the mix a bit more in 2022.

In aggregates, on the other hand, we saw a clear jump in services sales, helped by a seasonally lower equipment delivery quarter as many of our aggregates factories had some shutdowns over the summer period.

Now, in addition to a smaller share of services of sales in the Group, gross profit in the quarter continued to be affected by the extra costs from tackling supply chain and logistical issues. However, we've made good progress in clearing our internal footprint move issues, but the external environment, as you all well know, is not exactly easy. Nevertheless, we were able to improve our adjusted EBITDA margin to 13.6%. Thanks to the synergy work and the other internal actions, we have now improved the adjusted EBITDA margin of Metso-Outotec every quarter this year.

Adjustments in the quarter were €14 million, mainly from the Metso-Outotec integration, PPA amortisation was another €13 million, and other amortisation, €5 million, leading then, to an operating profit of €107 million for the quarter. Our effective tax rate was 26% in the quarter, a level we're quite pleased with, and it is indicative of where we expect to land for the full year as well.

Thanks to the good performance of the relatively small recycling business within the discontinued operations, we generated some additional profit there as well, leading to €76 million of profit for the quarter. And on the graph on the right-hand side, you see the EPS development. In Q2, we booked a gain on the sale of the aluminium business in the discontinued operations. And we do hope to close the divestments of, at least, the waste recycling business in Q4 to generate also some positive EPS from discontinued operations then. And the fact that we see contribution from discontinued operations is a clear improvement from 2020 and supports our overall profitability improvement and the earnings per share generation.

Moving to our balance sheet, total assets are up some €200 million from the beginning of the year. Inventories are up mainly in work-in-progress, as can be expected from the backlog growth. We've done very well on receivables collection as it is up only €36 million during the year.

As you saw from our release yesterday, we will be paying out the second instalment of our 2020 dividend next week with the ample liquid funds available. I'm very proud of the speed at which we have been able to reduce our net debt post-the merger, as you can see from the graph on the right. You see this also very well from the debt-to-equity KPI indicated by the black line.

A few highlights on our cash flow. Firstly, obviously, very happy to see continued healthy cash flow in the third quarter. Since the merger of Metso-Outotec, we have delivered solid cash flow in every quarter, something that was very visible in the debt-level graph on the previous page.

Now, whilst we continue to expect sales growth to increase our working capital needs, we continue working hard to counterbalance this. And in the third quarter, we were very successful with the receivables collection, supported naturally by the fact that our customers are generally doing very well. And it is fair to mention that the global supply chain challenges are not making it very easy to build inventory, even if you would want to do it for better availability.

Moving to the breakdown of our net working capital, inventories are up a bit more than €200 million from the beginning of the year, totalling €1.236 billion. Payables more than offset receivables, and additionally advances received have slightly grown. Also, provisions and other non-interest-bearing liabilities reduced the overall net working capital to a total of €310 million at the end of September.

I'll conclude with this slide on our strengthened financial position, well-visible from the KPIs on the right. However, I specifically want to mention one key achievement in funding this past quarter. This was that we signed the first sustainability-linked funding as we included sustainability targets. We have as part of our science-based targets to reduce emissions, not only in our own operations, but also within our supply chain. And now, these were linked to our revolving credit facility, which we then simultaneously lengthened in maturity with a year. And obviously, sustainability-linked funding continues to be well in line with our strategy, and we are working further in that area.

And then, just to draw your attention to the fact that, with the ample liquid funds, we continued early repayments of our loans, also in the third quarter, with an additional €50 million repaid, and we have already done a similar instalment in October, i.e., in Q4. So, we are clearly in a position to be able to also invest further in growing Metso-Outotec, as per our growth strategy, as we move into 2022.

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

Pekka Vauramo

Yes. Thanks, Eeva. A few words about the integration strategy and the outlook then, finally before the Q&A. As I already said, we stand at €116 million in our synergy work - cost synergies. This is on a run-rate basis, and our target is by the end of the year to be at €120 million, and we still have three months to go - two months from here, but three months from end of the quarter - and we will reach the €120 million - hopefully, a small upside in that one as well - at the end of the year.

More than half of the savings have come really from the organisation, and the rest from the facilities, IT, and procurement side of it. And some of these are longer-term actions, like in IT, we still have some work to do for the next couple of years to come in this area.

Revenue synergies year-to-date have €68 million of revenue synergies that we have booked in our sales. And then, we have an additional €158 million already in the order backlog. So, we are well-positioned to achieve by the end of next year 2022 the announced €150 million annual revenue synergies. And we have so far spent €64 million one-off costs pre-tax, and forecast is about €75 million for that one by the end of the year.

So, we are really nearing end of the integration, and currently we think that by the end of the year, we will close the integration programme, and then will not any more continue to follow from that onwards the progress of integration. It will be then business as usual and normal business improvement, then, after end of this year.

Our Planet Positive label which we launched earlier in this year has really proven a success. The demand for these products and technologies is growing at very high double-digits, a really strong double-digit number at this moment. And we have given our commitment to limiting global warming to 1.5 degrees. To back that one, we have the science-based targets, as well.

And we just recently, as a result of the IPCC report, did change, did upgrade our CO2 emission reduction targets, and it's now 50% in own production by 2024, and to be net zero by 2030. So, these are the commitments that we do have.

And then, we are working with our suppliers. We won't be able to reach our science-based targets without strong cooperation with our suppliers, and we are targeting to have 30% of our supplier spend committed to science-based targets by the end of 2025.

We continue to have sustainability targets in all our development projects, including the R&D, and our aim is to have Planet Positive product for every part of the customer process, going forward. We already have a pretty good coverage, but we want to make it complete.

And we have booked several orders and packages during the quarter that are really an indication that our Planet Positive products are high in demand and wanted by customers. These are in different parts of the world, in different business areas, in minerals, in our metals business, and they are very different by nature. Some are really deep into technology, what we do, like the copper solvent extraction technology here in the first one. Some of them are related to combination, like the second one with the Vertimills. The third here is a Concorde flotation Cell technology that we are to supply to a customer in Australia, and very recently to separate the fine materials that previously have been wasted in the process. And the last is an example where the municipal wastewater is used as a source of processed water in a mine site. So, all under our Planet Positive label.

On COVID front, we still do see the impact of that one, even though the travel restrictions are easing little by little. But still really, international travel is limited, and it's affecting our capabilities to perform certain types of project preparation and certain service works and tasks. But with the vaccination rates getting higher, we are expecting the situation to be under control. And our operations specifically, we've been able to run them throughout the pandemic with only minor disruptions in the earlier phase, but we don't foresee that one happening now going forward any more.

And then, the market outlook: we expect the activity to remain at the current strong level. And of course, the pandemic might change it, but like I said, we are a bit more confident that we are towards a better development in that front as well.

Thank you, and I think we are now ready for Q&A.

Juha Rouhiainen

Yes. Thank you.

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PRESENTATION

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question is from Klaus Bergelind of Citi. Please go ahead. Your line is open.

Klaus Bergelind

Thank you. It's Klaus Bergelind from Citi. Hi, Pekka and Eeva. First, on the equipment deliveries in the year end, they improved here towards quarter end on the mineral side and are growing year-over-year in September. We know that the bottleneck issues are more marked on the aggregate side and in the aftermarket, but on the mining side, I would like to understand, Pekka, to what extent we can have a strong fourth quarter looking to deliveries that we typically have at year end. I'm getting €280 million to €300 million of deliveries; if that's a reasonable range. There will, of course, be a negative mix impact from higher equipment deliveries, but your utilisation should also improve, driving good margins. I will start there.

Pekka Vauramo

We are at good speed. I would not like to give a number where we are, but we are at good speed. And like I said, we saw clear growth already towards the end of the third quarter, and we're expecting that to continue now into the fourth quarter.

Yes, the mix will change, but, of course, some of the internal logistics issues we have been able to improve, and I would say almost already eliminate. There's still some work and some late backlog that we need to do, but we're expecting also our service to contribute in a positive manner to the top line.

Klaus Bergelind

OK. Very good. My second one is on price cost. And it's good to see that price hikes are in the mid- to high-single-digits running through the P&L, but is there anything we should know when we look at the cost inflation relative to these price increases that can impact you with the lag. Obviously, a big focus as you know among investors is on the margin progression, and a bit more clarity on price versus cost in the coming quarters would be very helpful. Of course, if logistics and raw mats go up a lot again sequentially, that's a different picture. But if you could comment, Pekka, a little bit what you see here and now on the cost side.

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Pekka Vauramo

Yes, certainly. We do have cost increases in our supply chain that have not yet come through, but we have been very active in the pricing as well. And I would say that there's been price increases every month in this year in different parts of the business. Some of the businesses have already had several rounds of price increases in this year. And as the costs are coming through, we are naturally active on pricing fronts in future, too. So, we don't let that easily to come in.

Then, one area of cost increases is, naturally, the freight charges. But when we analysed our freight charges up to now in this year-to-date number, we do see about €20 million increase in freight charges. That's a gross amount. Some part of that is paid by our customers, some part we had to absorb, but that gives you the extent of the freight charges alone that, yes, €20 million is there as a gross amount, but not more than €20 million.

Klaus Bergelind

OK. Very good. My final one is on the guidance. Last time, you said that there weren't many large orders in the pipeline, but then we saw lots of order announcements, and I guess you meant not as big as the Freeport order when you made that comment. But you made a comment now, however, that you expect to see these big projects, again, in the three-digit range for next year. Can you tell us more about these discussions you have with the customers, and perhaps on the probability that this will materialise i.e., to what extent can these come through, should we see a similar good commodity price backdrop, of course?

Pekka Vauramo

The potential is out there. But like we know, there's a great deal of uncertainty on timing always. And therefore, we don't forecast major packages to come through in this year any more. But we are clearly working next year on bigger packages as well. But also, like earlier said, we value also the small orders and smaller orders. We'd rather have a big number of smaller orders than a small number of big orders.

Klaus Bergelind

Make sense. Thank you very much.

Eeva Sipilä

Maybe, Klaus, just a word from the aggregate side. One point, I think, that's important for you and the colleagues is that we certainly have a very abnormal year this year on how the seasonality plays out as we're in this post-pandemic recovery. So, as you saw, we really had very high orders in a typical low quarter already, the orders for early spring that usually come in November, December. And hence, I think that whilst we're definitely very positive about the aggregates market outlook, you should specifically not read it as us being able to show continued order growth year-over-year in Q4. It's just the fact that we've already booked those March orders that we usually book in December. So, just a sort of word of caution between how things play out between the Q3 and Q4. And again, no impact on the market activity, but it's just people have been earlier out and fearing for not otherwise getting their gear in March/April.

Klaus Bergelind

Exactly. Some pre-buy both on supply chain and price increases perhaps from you. OK. Thank you.

Operator

Thank you. Our next question is from Tom Skogman of Carnegie. Please go ahead. Your line is open.

Tom Skogman

Yes. Hi, Pekka. This is Tom from Carnegie. The order book is now up by 70%, and we all know that analysts have been a bit wrong on estimating in 2021, the cost level and the margin progression. And now the question is, how should we model 2022 sales because you don't really have any insight into the order book split between deliveries next year and beyond that? Currently, consensus expects sales growth of 17%, and orders were 10% ahead of expectations. I do not expect you to provide any exact guidance, obviously, but I just want us to avoid having some misunderstandings on what's possible in terms of deliveries in 2022.

Pekka Vauramo

I haven't looked at really what the forecasts are, as such. But of course, we need to see that from the price increases there is a carry-over effect into next year that is at least 5%, I would say, is that one. And then, the real growth starts from that one. And then, what we don't know exactly what the supply chain will be like next year, and then that's causing, naturally, some uncertainty in that one. But clearly, we are talking about the growth year and growth on top of that 5%, as well. 17% sounds high-ish, but we'll give it the best go that we can. Order book we do have, but questions still on supply chain truly.

Tom Skogman

You do not have any indications on how large part of the order backlog is for deliveries after 2022 or so to avoid misunderstandings here? Because I just read from the text that there are more and more things in the order book with long delivery times, and you have booked also larger orders.

Pekka Vauramo

Big orders, they spread out over several years. And naturally, we do the percentage of completion revenue recognition on them, and that's what spreads them over several years, I think. Some of the longest and biggest orders that we have currently, I think, they run until 2024, in fact. But naturally, out of our order backlog, most is next year.

Tom Skogman

And then, I just wonder about the logistics costs going into next year. Do you have a lot of things agreed on cost there, or are you open to the spot market? I just wonder how large increases we should model year-on-year in the first half of next year as there was really no problem in the first half of 2021.

Pekka Vauramo

I think, the whole area of transportation, they are working more on spot basis at this moment. Of course, there are some agreements, but it's a networked industry and therefore, the daily prices will reflect with some delay into the contracts as well. And I think these rules are very much the same for everyone in this business. But it really depends how fast the ports and ship handling will really open up. That is really the bottleneck that's causing the perceived container shortage as well, because they are sitting on both the ships and waiting for unloading. So, that's a difficult area to say, what the next year will be like. But we need to be prepared to see this one to continue into next year.

Tom Skogman

Yes. Thanks. And then, finally, about business-specific savings, you said at the Capital Markets Day, I think, they should be around €70 million or €50 million in total. But I would appreciate just an update on savings not being part of the synergy savings programme and whether you plan new savings for next year as well once the programme ends.

Eeva Sipilä

We progressed well, Tom, also on that area. You remember quite right that we talked quite a bit in the Capital Markets Day on the fact that, in addition to the diamond integration-related synergies, we do have this business-specific. Especially, of course, aggregates is a good example, which was unimpacted by the Metso-Outotec merger, *per se*. But obviously, we've done a lot of work on the supply footprint, and also, I think visible in the margins that we announced today.

I would say that we're progressing well, but there are certainly actions that will continue next year. The message from the Capital Markets Day was one of a couple of years' journey. And we have some actions that have been waiting on the list, and also some, then, new ideas as we work further on the potential. So, good progress, but again, something that we believe is best visible really in the segment-specific numbers. Our metals turnaround, of course, is a similar activity that was a specific programme needed to get that segment back into black.

Tom Skogman

All right. Thank you.

Operator

Thank you. Our next question is from Max Yates of Credit Suisse. Please go ahead. Your line is open.

Max Yates

Hi. My first question is around the services business. And obviously, you've seen a pretty healthy improvement in order intake, but I just wanted to understand if you could give us a feel for where you are versus normal service levels, whether there's still a further catch-up that you think needs to happen as site access continues to improve? So, just a feeling of where the service business is versus normalised levels would be helpful.

Pekka Vauramo

Yes. If we look at the full quarter third quarter, we are still behind where we should be. But if we look at the end of the quarter, finish of the quarter, second half of the quarter, we are more or less on a normalised level in that one. But then, of course, the fact is that the industry is booming. And the question is how much higher up we should be. We have solved our homegrown problems. Other than the supply chain, there is shortage of things. And in some areas, longer service works, like modifications, upgrades, there, we do see some extended deliveries at this moment. But things are moving in the right direction in our service side, as well.

Max Yates

OK. And just to follow up. You've talked a lot about your Planet Positive offering and how customers are taking up orders on those products. Could you talk a little bit around do you just see, effectively, these products as developments of existing products that you have that are just more efficient, and therefore, this is effectively cannibalising something that you would have sold to a customer anyway, but it's a more modernised, perhaps more expensive version? Or are you actually selling newly-developed products that are essentially increasing your addressable market? I'm just trying to understand a little bit more about whether those products are incremental to your offering, or whether this is just an enhancement of something that you would have sold already.

Pekka Vauramo

I would say that it's more of enhancement at this moment. But looking at the different dialogues that we have with customers, we are in multiple discussions with customers to provide, really, step changes in processes that our customers are operating and running. And in future, we will have something that goes beyond incremental or enhancements, what we're mostly talking about. But of course, there's some, I would say, revolutionary thinking. Think about using municipal water as a source of processed water. So, if you look back, I don't think there's too many projects in the past that have been used. And by having that capability to supply a flowsheet that can use that water, it's something new for us. And naturally, we then are in pole position to deliver many pieces of equipment, as well, if we have a flowsheet like that.

Max Yates

OK. If was to take this kind of one step further, and obviously, it's difficult to quantify the exact benefit that you'll get from this, but if we go through the potential benefits from these products, which are, say, maybe a higher cost of the equipment because it's a new product development, the fact that you might get a higher share of aftermarket or more consultancy services, or you'll sell more incremental products or it's higher margin, I'm just trying to understand, if we think financially, as customers become more conscious about what they're buying, what do you think the biggest financial impact on your business will be? Will we see it come through the margins? Will it be the addressable market? Will it be the aftermarket? How do you think we should best think about that and explain that when we look at the customers becoming more focused on energy-efficient products? How will that most likely impact your business?

Pekka Vauramo

Yes. First of all, many of the communications with customers in this area, they are indicating that customers are working on their green products as well: green copper, green zinc, green steel, and they will be branding their products. They will go after premiums for their products. And that, naturally, opens the possibility for us to look at the margin side of it on our side, but also additional orders. And absolutely, we will see volume growth and the demand moving permanently into these Planet Positive products. And naturally, we will manage the business in such a way that we get our share of any new monies that are in business because of that.

Max Yates

OK. Understood. Thank you very much.

Operator

Thank you. Our next question is from Nick Housden of RBC Capital Markets. Please go ahead. Your line is open.

Nick Housden

Yes. Hi, everyone. Thanks for taking my questions. My first one: for the larger orders that you have in the book, obviously with the longer lead times, what inflation clauses do you have in the contracts to protect you if we do see more input cost inflation heading into 2022? I'm just trying to assess the risk of whether, with these larger projects, there's a chance that the margin ends up being a bit lower than you originally budgeted for.

Eeva Sipilä

It depends a bit, obviously, on the content of the offering, where the inflationary areas are. But clearly, in today's environment, in a way, it makes sense, both from a customer and our point of view, to try to have it very clear, so that if something happens out of either parties' control, so to say, on how it impacts the outcome, there will be, if there is, for instance, packages which extensively need steel, be it carbon or stainless, there can be inflationary causes that are specifically on to that quantity of steel needed there, or other similar raw materials. Then again, obviously, there's packages, where you may need less steel and there's more other things. So, hard to say as standard, but clearly, this trying to address the volatility or the uncertainty of the future is certainly a high topic. For some of the deals, obviously, the best protection is to have back-to-back offers from suppliers, as we bid together for a contract, that they are then linked. And obviously, this type of big projects provide certain good baseload volume. So, they can be, and are, interesting for suppliers also to have these commitments earlier on, despite the fact that there are certain unknowns going forward. So, it depends. But obviously, it's an important topic in today's environment. We, of course, are, I guess, in a way, fortunate, in a sense, that our customers benefit in many cases from these higher raw material costs. So, it's not, in that sense, it's not a double wham on them. It's actually maybe a reason why the CapEx is going forward in the first place.

Nick Housden

Understood. That's very helpful. Then for my next one: very strong development in orders year-to-date, a book-to-bill of 1.4x. Do you think that to deliver on this, you'll need to increase your capacities, especially given the comments about not wanting order books to get too long?

Pekka Vauramo

We are, of course, making minor investments in some of our product plants, I would say. But in our project businesses, we are mostly an outsourced model, and we do have a network of suppliers. And naturally, we need to develop and bring additional ones, once we have exhausted the capacity that they have. But I don't think the actual manufacturing capacity, as such, is a bottleneck directly to us. Indirectly, through components, yes, the availability of them, or shortage of them, is pushing our deliveries longer out there, primarily in aggregates. But in project businesses and packages, we, of course, work hand-in-hand and back-to-back with our suppliers so that we have the delivery commitments, according to our contractual obligations.

Eeva Sipilä

And Nick, on many of the business footprint improvement actions, we have had the aim to really simplify where to produce what, and in that way, debottleneck the overall system. And that has also provided us additional capacity, which, obviously, now comes very well in use. But, yeah, like Pekka said, I would say, we have had work ongoing on the CapEx side, and I expect us to do small additions also going forward, especially in the emerging market area where it's easier to quicker ramp up volumes.

Nick Housden

Understood. And if I can just squeeze one more quick one in. With the strong equipment orders hopefully flowing through to the P&L more meaningfully in the next few quarters, do you think that the positive effect that you get of more leverage on volumes will be enough to offset the negative mix effect that you get from more equipment versus services?

Eeva Sipilä

I think that's the challenging question now. As, luckily - as I noted in my pre-words - we've really seen a significant improvement in the service growth because that has really been lacking. The growth of service orders, as you know, in the previous two quarters was something that has been falling behind. And, obviously, it's something we hope to continue. We have a sense that the need is there, the customers, they are willing to move forward. But, obviously, as I mentioned in Q4, the impact clearly will be that the mix will have a negative impact. But then, going into 2022, obviously, service, once it starts to grow, the lead times are so much shorter that it can be pushed quicker then, assuming no supply chain issues would then pop up. But that's, obviously, something where we need to balance.

Overall, of course, I think the important message from this year is that we have been able to improve margins also on the equipment side. And that development needs to continue, and is, of course, of vital importance for us to reach our 15% target. So, whether, then, the mix is one or the other way in a quarter, obviously, it has an impact, but it's not really something that we're strategically focused on. The strategic focus is on improving both, and now getting services back on the growth track.

Nick Housden

That’s very helpful. Thanks very much.

Operator

Thank you. Our next question is from Magnus Kruber of UBS. Please go ahead. Your line is open.

Magnus Kruber

Thank you. Hi. Magnus from UBS. Hi, Pekka, Eeva, Juha. Just a couple of follow-ups here. First, on Klaus’s questions on the pricing side. Thanks a lot for providing some ballpark figures for the sales there, but could you help us a little bit what the pricing looks like in the backlog? And also, which quarter you expect to see the most adverse impact from a cost inflation perspective, as it stands now. Obviously, it's a moving target, but any colour on that would be interesting to hear.

Pekka Vauramo

Rather difficult to approach that one since we have so many business models, and we have been active with our pricing ever since we realised that now inflation is coming, which goes back now nearly 12 months when this already started. And naturally, the inflation didn't start in all fronts at the same time. But now, it has spread already in, if not all, but most areas of our supplies. So, I would say that on a quarterly basis, yes, we still may have some additional things that are coming and some new areas. And, obviously, there are several rounds of price increases that we have seen, but I cannot see any major tsunami hitting us since we've been moving with both. Suppliers have been active in increasing prices to us, and we've been active in increasing our prices. So, we aim to go hand-in-hand. And I would say that, so far, the price increases have gone through reasonably well. And in some areas, we are clearly ahead of the cost increases, as well.

Magnus Kruber

Got it. Thank you very much. And then, on the demand side, I've seen the underlying equipment orders in minerals moving up now four quarters in a row, but we are still some way from the €200 million/€250 million level which we trended at between 2014 and 2018. Is there any reason that you can tell why we should not be able to hit those levels in the next, should we say, four quarters, assuming there's no material issues on the raw material prices or the like ahead?

Pekka Vauramo

Yes. We will see quarters like that ahead of us. And that's us translating the order backlog and the delivery commitments that we have given to customers. So, we are on our way towards.

Magnus Kruber

Also, on the orders side?

Pekka Vauramo

Yes. Outlook is strong, but naturally, the timing of bigger orders makes some variation into these ones. But, yes.

Magnus Kruber

OK. Great. Thank you. And just one final one. I know that the Jazan smelter is ramping up as we speak. To what extent are you engaging with that process at the moment? Anything you can tell us about what's happening at the moment?

Pekka Vauramo

Yes, we really started the hot commissioning last Friday, so very, very little news since that one. But obviously, this is a milestone there. We are currently heating it with the external sources of heat. The electrodes are not yet connected. It's a pre-heating that will last for about ten days, and then we will start with very small increments, connecting the electrodes with the grid, and we start warming up the material inside the furnace.

This entire ramp-up process for a customer takes nearly two years, by the way, to reach the full capacity. We are not involved the whole time of that one. Our role ends up when we have done the start-up procedures. And like we have said earlier, it's going to take now until some time second quarter of next year when we really, then, know how successful the ramp-up is and has been. But it's a very cautious start-up process, and all the parties are now committed to following that cautious process, which is important for the stability of the furnace.

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Magnus Kruber

Brilliant. That's good. Best of luck.

Operator

Thank you. Our next question is from Robert Davies of Morgan Stanley. Please go ahead. Your line is open.

Robert Davies

Thanks for taking my questions. One I had was just around the aftermarket growth in the minerals business that I think was north of 20%, 22%. Do you know, if there was any pre-buy effect in that, or did you aggregate any pre-buy effect from underlying demand, or was that all underlying demand? That was my first question. Thank you.

Eeva Sipilä

Not really pre-buying. I think what you see, Robert, in the number is a bit of that now that COVID-19 restrictions are easing in certain market areas, customers are able to move, comfortable that they are able to move forward with certain rebuilds and refurbishments, in a way. So, I think, that's maybe the thing to note. In a sense, we are optimistic that the needs of under-maintenance are there, so that this would be something that would continue, but I wouldn't really see much pre-buying in that sense. The pre-buying is really related to the Aggregates segment and pre-buying ahead of the season of 2022.

Robert Davies

OK. Thank you. My follow-up question is just around the comment - apologies if you've already answered this and I missed it - but around the strengthening equipment profitability in the minerals segment in the quarter. Is that a mix issue? Is that just underlying improvement in the business? What was driving the improvement in the equipment profitability specifically in this quarter? And was that a big factor in the sequential step-up in the minerals margin profitability, because obviously, it was quite a big jump quarter-on-quarter, nearly 200 basis points or so? Thank you.

Eeva Sipilä

I would say that we've had, for various product or business lines, actions ongoing. For some of them, they are very much related to the integration. For some of them, they are more stand-alone of nature. And I think, just takes a certain time and maturity to push things forward, and they're ramping up. I think we've commented on that earlier in the year as well that we're moving to that direction, and certainly a key strategic priority on that. And then, that it was clearly visible in Q3. Obviously, there's always a bit of a mix impact as well that makes it more visible for you and other stakeholders outside of the company. But really, it's a journey really that we are on and where we intend to be and where we see potential on really around the productisation, reducing the risk and complexity and uniqueness of always having to design from scratch, in a way. That's really the philosophy behind.

Robert Davies

I see. Thank you. And then, just my final one was just around some of the logistics and component shortages. Can you just contextualise where you're seeing the biggest bite points to the specific raw materials? Is it logistics out of certain regions? Where are you seeing maximum point of pain, I guess, is my question.

Pekka Vauramo

I think, in the logistics, everything in and out of China is difficult. Everything to get into US, especially from China, is difficult at this moment, and it's mainly the handling of goods at the port that's causing the bottleneck. And then, certain component shortages for some of our products. And we see less of the supply constraints in our project deliveries because there we work back-to-back with suppliers, back-to-back with our contractual obligations to customers.

Robert Davies

OK, great. Those were all my questions. Thank you.

Operator

Thank you. Our final question will be from Anders Roslund from Pareto Securities. Please go ahead, your line is open.

Anders Roslund

Yes, hello. I had a question regarding your outlook. Do you see any major differences in the various three divisions? Are we closer to the demand peaking, aggregates, for example, and you see better potential in minerals and metals? Where are we, regarding peak levels in those three areas? That's my first question.

Pekka Vauramo

I would say that we have seen probably the pent-up demand in aggregates that came from the first COVID year, and that's the impact in this year. Now, the strength that we already see into next year, with orders stretching out to next summer, basically. At this moment, it’s about the expected strength in next year in aggregate. So, this year was really to compensate about the investments, what customers didn't do last year, year before. Next year will be really on the demand on infrastructure packages that will be effectively available in Europe and in North America. And at one point, we see also China coming back, for sure. So, difficult to say whether we have seen the peak. At least, we are on high level, and maybe the top is flat on this peak.

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Metals side and minerals side, it's the metal supply and demand, and then, the systemic change that we see coming through, driven by the climate change and the need to electrify things. And there we are up for a longer cycle. How high up we are, I'm sure that in that longer cycle, we see ups and downs as well. Metal prices are on very high levels still. Somewhat moderated, but they are still on high level, encouraging investments. And so far, I haven't seen a change in that one, in the metals side and minerals side.

Anders Roslund

OK. Excellent. Regarding the metal, the turnaround there, you mentioned the €15 million in lower costs. Is that the crucial part of the margin increase, or is it also that, with the percentage of completion, we may see, at the end of a project delivery, losses coming up, or are you certain that this is an underlying margin improvement and not the percentage of completion calculation?

Eeva Sipilä

I think that, because the sales growth has been rather limited so far really, only now going a bit up towards the end of the quarter, it is really cost out that we have seen. And obviously, that's relatively straightforward to measure. And that has been a key part in the turnaround. And now, as we, then, start seeing a bit more volume and revenue recognition from POC in the order backlog that we have built, obviously that will provide important volume leverage to the business going forward. But for now, really, the turnaround is really around cost out.

Anders Roslund

Excellent. OK. Thank you very much.

Operator

Thank you. There are no further questions, so I'll hand back over to our speakers.

Pekka Vauramo

Thank you, ladies and gentlemen. It’s six minutes past the hour, so we need to wrap-up this call now. We thank you for participating and asking questions. Next time, we'll be disclosing our results. It will be February 10th next year. So, hope to speak with you then, at the latest. And in the meantime, we say take care, and goodbye.

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