Transcription

Metso-Outotec Financial Statements Review January - December 2021

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10 February 2022

PRESENTATION

Juha Rouhiainen

Good afternoon, good morning, ladies and gentlemen. Welcome to this Metso-Outotec's conference call where we will discuss our fourth quarter and full year 2021 results, which we put out earlier today. We will first have the presentation by President and CEO, Pekka Vauramo, and CFO, Eeva Sipilä. And after that, we'll be ready to take your questions.

We try to limit the length of this call to 60 minutes. And we are ready to start after I'll point your attention to forward looking statements that are mentioned in the disclaimer in the second slide of our presentation deck.

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

Pekka Varaumo

Thanks, Juha. Welcome to this call closing our fourth quarter and also finishing last year with sort of fairly positive market conditions. Strong activity has continued in all segments. We are growing both orders and sales as we will see later on in the presentation. We still have headwind, as I guess everyone else has headwind with the supply chain, with inflation, with logistics, with many issues, but nevertheless we are in growth mode and with the backlog we should see the growth also to continue

By the end of the year, we also ended our integration project, and we will finish off the follow-up on cost synergies and revenues synergies also with this call basically and then we have achieved the targets, over-achieved, and faster than originally planned.

But looking just first at the sort of Group numbers. Orders received fairly flat on the quarter. We need to remember that that a year ago we had more big orders than now fourth quarter this year. Last year we had in 2020 at least two big orders in the quarter and now we only had one order exceeding 100 million in 2021.

Sales finally growing, that is about 300 million growth, that we showed there for the fourth quarter. And if we look at the annual growth, it's just over 300 million. So, all the growth that we delivered took place in the fourth quarter, or 90% of it, in fact, in the fourth quarter of the year. So clearly growing now and with the backlog we expect that one to continue

EBITDA improving by nearly 60%, adjusted EBITDA, and the margin going up to 12.88% and good solid increase in operating profit and APS [ph 00:03:22] naturally growing as well and strong cash flow and it was strong also for the full year, exceeding 600 million as it was on the same level a year before.

And these are the full year numbers here. Here really strong order growth. Sales only 9%, but that's mostly coming - all the growth coming from the fourth quarter. EBITDA going up by about 100 million. Margin going up by 1.4%.

Operating profit nearly 70% up and EPS up by 75% now at 35 cents and strong cash flow as I've already said; 600 million and this of course has had a clear positive impact on our balance sheet, as we will see later on.

Looking at the segments. Aggregates - fourth quarter is typically the low season for aggregates, as is well known. Orders, however, were on growth path. Some 10% more orders than year before. If we recall a year ago, fourth quarter was the first strong order intake after the initial COVID impact that we had very strong in the aggregates.

But the strong activity continued. Our order intake was limited by the component availability, and we declined, or we didn't confirm orders for approximately 50 million of sales. These have not been cancelled. They are still there, and we will book them as soon as we get confirmations for mainly engine deliveries for them. And services are growing as well. Sales - really growth from year before. And equipment growing faster now than services, which is always the case when cycles turn positive and services' share now at 27%, slightly below of last year. And here again, supply chain is an issue for us.

Adjusted EBITDA affected by some year-end adjustments. There's some discontinued products that we decided to do at the end of the year. And then we also have been in the process of renegotiating our joint venture in China and that programme is still ongoing there. But, we decided to take some write-downs relating to the stock that the joint venture is having in their inventory out there. But a sort of low season, but overall strong performance from aggregates for the full year and best year ever for our aggregates business.

In the minerals side, orders did grow. Strong market activity. Service orders went up as well by 22%, but what was more important for minerals was that finally we did get the sales number to grow and also service did grow as it started to grow already at the end of third quarter. And it continued throughout the fourth quarter, and we are now 16% on a higher level than a year ago in services. And services' share dropped a little bit because of the mix change, now at 58%.

EBITDA went up 210 [? 00:07:31] in 14.1. We had positive impact from volume and synergies, but the supply chain, freight, energy costs, primarily in our consumables business, went up quite drastically during the fourth quarter, and we are, of course, taking countermeasures to that one. But there was really rapid cost increases of primarily natural gas affecting some of our foundries' profitability during the quarter. But mineral segment overall in very good growth mode at this point.

Metal segment, to turn around, is now confirmed with the metals segment. Orders are stable on a high level. Good activity over there. There was only one order a year ago. We had two orders in metals that were bigger ones and this year only one. Sales doubled from last year, basically, and services share dropped slightly to 50% because of the mix impact here.

Adjusted EBITDA; 20 million, good margin. We were targeting at 10. We have some provision releases. At the year-end, we always look at the balance of projects that we have closed, and the closure was slightly positive but up but there was clear underlying profitability in project delivery and then the minor impact out of these provision releases that came from the closed and finished completed projects. Main impact really came from the volume and the turnaround programme.

And then Eeva, over to you to the financials.

Eeva Sipilä

Thanks, Pekka. Good morning, good afternoon on my behalf.

For a final time, I would like to, for the sake of clarity, remind of the Metso-Outotec merger completion date June 30th, 2020 impact on our financials. Nothing to note or remember on looking at quarterly figures, but when looking at the year over year comparisons, please bear in mind that the 2020 first half under IFRS only includes the financials of Metso Minerals. Whereas when we discuss illustrated combined figures for 2020, they also include Outotec's figures for the January-June 2020 period. Hence offering better operational comparison.

But with those words, really, a few points on the income statement. Our CEO already commented on the sales and adjusted EBITDA, so I'll really focus my comments on the other items.

One final point, perhaps on the adjusted EBITDA, for those of you interested in the FX impact included in it, namely the net figure of mark-to-market valuation of derivatives as well as any impact of items falling outside of hedge accounting. So, the figure for the fourth quarter was a negative €6 million, and that is included hence in the €164 million adjusted EBITDA figure.

But then going forward, we had adjustments of 16 million in the quarter, relating mainly to the finalisation of our integration actions, leading then to an operating profit of €130 million for the quarter. The full year adjustments were €50 million, so for the full integration period, including also adjustments from the second half of 2020, the one-off total ended up at €81 million, so slightly higher than the earlier indicated €75 million, yet still clearly below the original €100 million estimates.

With the slightly higher cost we did achieve a run rate of €22 million more than estimated cost synergies, the total of €142 million at year end. So, we are indeed very happy with the achievement.

I'm also very pleased with the work done in our treasury and tax area. Integration benefits are clearly visible as lower financial costs than a lower effective tax rate. On the effective tax rate, I would note that the unique level of 24% was partly thanks to tax exempt divestment proceeds. So going forward, I would still guide on the same approximately 26% level as I have done earlier.

In the graph on the right you see the solid EPS [ph 00:12:27] development. €0.11 in the quarter and €0.35 for the full year from continuing operations. Now, when looking at the grey pillars, including also the results for discontinued operations in Q2, we booked a gain on the divestment of the aluminium business and in Q4, from the divestment of the waste recycling business. So, unlike in 2020, our EPS [ph 00:12:45], including discontinued operations, was slightly higher than the one from continuing operations.

Moving to our balance sheet. So, total assets are up almost €300 million from the beginning of 2021. Assets held for sale have decreased following the successful completion of the [? 00:13:00] two divestments. The growth in assets comes mainly from working capital items. Inventories are up mainly in work in progress, as can be expected from our order backlog. Due to the strong sales growth in the final months of the year, a big portion of that landed in accounts receivable at year end. As such, we have done well on collection and the overall ageing profile is healthy.

The graph on the right tells the most important story on our balance sheet. Very proud of the fact that in 18 months following the merger, we have been able to halve our net debt. This gives us the possibility to move forward on our growth strategy, as well as supports the dividend proposal of the board for the AGM.

The cash flow is obviously the story behind the successful debt reduction. We generated €164 million of cash in the fourth quarter from operating activities before financial items and taxes. The figure for the full year ended at €608 million.

In the quarter we saw a negative impact from net working capital. For the full year, it was a positive contributor - for the full year it was also similar, sort of slightly negative.

As the supply chain continues very tight, I do expect us to tie more money in inventories as we can expect imbalances of what we're able to stock on and what not, causing us some inefficiency on the overall level, but considering all the challenges on the supply chain side last year, I think this sort of outcome from a cash flow point of view was excellent.

Moving to the breakdown of our net working capital. So, inventories are up by some €30 million from the end of September and about €230 million from the start of the year. Payables more than offset receivables, and additionally advances received have slightly grown still in the fourth quarter. Provisions and other non-interest bearing liabilities reduced then the overall networking capital figure to €254 million at year end.

I will conclude with a slide on our strengthened financial position. Our net debt is down to €470 million at year end, thanks to early repayments of bank loans of €350 million during the year. This we have been able to do while still maintaining a strong liquid funds position. During the year we cancelled early two credit facilities being unnecessary, totalling €90 million.

Following our sustainability-linked revolving credit facility launch of €600 million in Q3, during the fourth quarter of the year we entered into another sustainability-linked funding arrangement and this time with a Nordic investment bank. Both arrangements include 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.

Finally, I would mention that we also note in our financial review published earlier today that we have further repaid debt in the beginning of 2022 with a new €50 million repayment to balance the ample liquid funds we have.

And with that, I will hand it back to our President and CEO, Pekka, please.

Pekka Varaumo

Thanks, Eeva.

So, a few slides about our strategy and integration, as such. I said already we closed the integration follow-up now with this info call [ph 00:17:13] we reached now €242 million of cost synergies at the end of the year and this is above our target of €120 million and just to remind the original target was €100 million and a year later, basically so I'm very satisfied with the performance and our organisation has such really done a great job in in taking the cost out of the operations globally.

We really have the same list of where these synergies are coming from, but organisations - restructuring of that one - eliminating overlapping parts, facilities, IT and procurement despite of the inflationary environment. We made good progress in procurement as well, but these are the main items where the synergy costs are coming from.

On revenue side, our sales in last year totalled €110 million and we were targeting €150 million by the end of next year on annual [ph 00:18:19] basis. We have now order backlog of €115 million of revenue synergies and we know that we will reach €150 million by the end of the year even though we are not providing the follow-up anymore from here onwards. And the one-time cost, €81 million, slightly more like Eeva said already than planned but less than the original estimation of €100 million.

So, overall really good and happy with how the integration process has gone and adding on top of that one that all the work has been done during the restrictions of pandemic. So, another reason to be satisfied of the outcome and results.

Several structural developments that have taken place or are taking place in Metso Outotec waste recycling. We completed the divestment in December. Metal recycling we've agreed to divest, closing expected in first half of this year of that one. And then our announcement a few weeks back, where we said that our metals will go through a strategic review. And as part of that review, we concluded that hydrometallurgy is more synergistic with our minerals business area, and we move it to the minerals and that move has taken place already.

Reason for this one really is the synergies. Hydrometallurgical plants, they are very open at the mine site and the same people operating them as [? 00:20:12] as the remaining part of the process is operated by and same people are taking decisions on services, on investments, as they are in the combination part of the process. So therefore it's much more synergistic with the minerals, and that's the main reason we wanted to move that to minerals.

And the remaining three business lines - smelting, metals and chemical processing, heat transfer - will go through strategic review where we look for best environment for the future growth and development of these businesses and they might be within Metso Outotec, they might be together with the partner. They might be also divested, but like I said, we are now going through the review. It will take several months to go through and depending on outcomes we will then communicate about them when the time is right for that.

Sustainability is really on top of our agenda, and we launched the Planet Positive label for our products that are the most sustainable products and that keep us on track achieving the max 1.5 degrees warming target as we have set for ourselves. The sales are growing nicely as we speak of Planet Positive products and technologies. We still don't have the services included in that one due to complexity of and great variety of services, but in future we will see also services joining and that will naturally add to the sales of that one.

We have upgraded our commitment to net zero. It stands now at 2030 and we made really great improvement and progress in the last year already. CO2 level in all operations was reduced by 58%. Mainly moving into use of renewable energy in our consumables business, which is really the energy consumer of our business and then some further reduction in logistics contributed 18% for that part.

And, in our science-based targets we have also committed to engage our suppliers into this programme and we are making good progress. More than 10% of our suppliers have already or are already committed to science-based target and this number is by the spend, it’s not by the number of the suppliers.

We have also several acknowledgements that we received throughout the year. We are on the list of Global 100 CDP ranking - we have AA- there - and those are really important milestones for us to be on this list and we are clearly either the only company or amongst one or two companies in this business that tare making those listings.

COVID is still with us as we all know. Latest version seems that it is going through especially those operations where we have big concentration of people working at the factories not capable of working remotely. As well known, this variant sweeps through quite extensively, but rapidly through the organisation with very mild symptoms. So we're not expecting any major disruptions from that one, but those factories that have been affected; yes, they may have a slowdown for about a week or so, during the first quarter of the year. But we feel that that is something we can catch up then. Then, either during the quarter or latest by the second quarter.

Same restrictions do apply with customers but since the symptoms are mild and we know that restrictions are being lifted in some parts of the world and this might happen also more globally once the sort of variant spreads and goes through our main markets. But still affecting our business but not a major concern at this moment. Of course, no guarantees of what the future variants will bring along then in the business and what their impact is.

Market outlook; we repeat the same outlook that we have had already for several quarters. We are currently on a strong level. We expect that one to continue and yes, unknowns in the world, COVID is one of them, but maybe some other ones there as well but they are all more, most of them are speculative ones these days. Or the factual COVID [ph 00:26:00].Strong current level expected to continue.

Thank you.

Juha Rouhiainen

And operator now we are ready to open the telephone lines for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do 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. There will be a brief pause while questions are being registered.

Our first question comes from Klas Berglind with Citi. Please go ahead.

Klas Berglind

Thank you. Hi Pekka and Eeva. Klas at Citi. So the first one I have is on the margin [ph 00:26:56] in minerals. It seems like there is a 15 million net drag to the margin for not yet compensating for the logistics and energy costs and the margin minerals therefore would have been 16% if you would have compensated fully. So, from what you can see now Pekka, do you think these costs will be higher quarter on quarter into the first quarter? And can you please tell us how we should think about the magnitude of the pricing running in the P&L at the moment? It was most of the 7% sales increase in the third quarter at the Group level. How much was it now in the P&L and how much do you think it will be in the first quarter, given your new price increases, if you like, thank you.

Pekka Vauramo

Thanks for the questions. Yes, we saw really rapid increase in some of the costs during the fourth quarter. The main item affecting, or most rapidly increasing, during the quarter was in fact energy, and that affected our consumables business, which is a big part of our minerals segment altogether. We also have some freight charges that tend to come after deliveries. Some of the invoices come really late in, so those were unfortunate things that we needed to book in.

We have not seen the freight charges going down yet. We have not seen them really going more higher lately, so we're expecting that one to be more or less stable level going forward. Then on the pricing side, always need to be cautious commenting on the prices, but naturally we are following the cost development and working together with our suppliers in order to secure our competitiveness in all conditions and I would say that overall, when I look at our margin levels, sales margin mostly, which is the best indication on that one, I would say that our margins have held reasonably well.

Klas Berglind

Just a follow-up. I know it's tricky to know exactly, but you said freight costs stable. Would you say that on the energy side as well into the first quarter? And just on the pricing, if you could help us at least on what happened in the fourth quarter, because last time you said that it was most of the 7% organic at Group level and I was just curious, is it still around 6% in the P&L? Thank you.

Pekka Vauramo

We are managing our pricing product line by product line, and I do not have any number to give you out on that side of it. Energy prices, currently it's more or less on the same level where it was sort of in the middle of fourth quarter and towards the end of the quarter. The biggest really variable for us has been the cost of natural gas, and natural gas primarily in Europe affecting our European foundries to some extent, rubber plants as well, that are the main natural gas users for us and these price hikes, they're really extraordinary in the fourth quarter, and remains to be seen where they then end up and how they stabilise. But they haven't really gone further up from those levels yet.

Klas Berglind

Thank you. My second one is on aggregates. The margin here is 12.2% underlying if we back out the inventory adjustment as you reorganised the JV in China. Still pretty low level. How much of this is mix of more OE sales versus services, versus you not being able to compensate for the cost increases like we've seen in minerals? I'm just trying to understand if this was largely mix, or also price cost.

Pekka Vauramo

I would say that it's a mix issue. That's one thing. And second thing truly is then those adjustments that you that you mentioned. Those are the main impacts that we do have. There's also some currency impact on those numbers, but that's where it comes from.

Eeva, do you have anything further to say?

Eeva Sipilä

Yeah, I would also point to the mix. I think in aggregates because of the shorter term cycle. It's been a bit - we've been able to react quicker on the inflationary pressures and hence I think that still, whilst obviously third quarter was great, but I think it kind of falls in the sort of variation in that we've seen also in previous years in aggregates.

Klas Berglind

Okay, but the 12.2% given that the mix will continue to be quite challenged [? 00:32:03] about that. But that suggests that this is a new level for the first half then.

Pekka Vauramo

Yeah, well, we continuously improve and take actions within the minerals as within aggregates as well and that is something that the business area is very much focused on.

Eeva Sipilä

And I think, Klas, as we come into the sort of seasonally high season - high months in a way - I don't think there's any reason to expect why we wouldn't also sort of be pushing out as much as possible on the sort of higher margin equipment in a way. So, as said, in that sense, I don't think you should necessarily draw too long sort of standing conclusions on that, but it's fair to point out that there is a certain sort of variance that does happen between quarters.

Klas Berglind

Okay, thank you.

Operator

Our next question comes from Mano Rintala with Nordea. Go ahead.

Mano Rintala

Good afternoon. My first question would be on the pricing topic still. So, when you look at the cost inflation and your prices. So, when do you think you will see the kind of net pricing turning neutral or positive and flowing through into P&L? And then also with the orders you're taking at the moment, so are you able to take those in the backlog on a kind of a net neutral pricing or do you see that you kind of have not been able to anticipate all of the cost increases in Q4 when you deliver those, they will still be under pressure on the net pricing level? Thank you.

Pekka Vauramo

I would say that we've been able to respond well on those that have behaved with a bit more sort of - on those cost items that have behaved on a more sort of consistent way. But the energy prices, especially the natural gas price increase, was really very high and steep. It was out of normal inflationary development and the same happened, in fact, in the fourth quarter with the freight charges. But we've adjusted on those levels at this moment and then of course the future will show how well we are able to then compensate for those things.

We also need to remember that this changes the competitive arenas in some of our businesses, like consumables for example. We may have a high energy cost here, but we are also protected by various low logistics from Asia, against Asian competitors, and also very high logistics charges for their supplies to Europe, so it's not only a one-way street and not necessarily showing the trend as it is. But some of these unexpectedly high increases did sort of cause a surprise to us, yes.

Mano Rintala

Okay, and following up on that. So if you take the consumables where you probably had the biggest surprises, that's probably a fairly fast turnover business. But if you started to implement price increases in the fourth quarter, so the orders you're booking now, are those reflecting already all of the higher costs? Which means that then you will probably start delivering those into the sales, maybe in the second quarter or third quarter, or what's the lead time from order to sales [? 00:35:42]

Pekka Vauramo

We are of course taking very, very fast actions on situations like that.

Eeva Sipilä

Maybe just to add [? 00:35:53] yeah Mano, just to add on that, it may be good to bear in mind that that there is a certain sort of lead time of all the orders. Obviously we're able to sort of react on new orders, but, maybe just to caution a bit that everything into consumables would be in and out. These are big parts, and the market has been very good and there's - a lot of these things are easily booked, so there's several months in advance, so it's not sort of an in and out business. This is sort of a serious manufacturing operation, so it's more closer to six months than one to two months, so just that you understand the type of production when you are fully sort of really selling rubber or metallic parts. You have to remember the size of the room [ph 00:36:46].

Mano Rintala

Perfect, thanks for that clarification. The second question would be on the cost savings, so can you help us to understand how much do you still have on a kind of P&L basis we should expect will hit this '22 P&L from the programmes that you ended last year?

Eeva Sipilä

Yeah, so the 142 is the run rate. So, obviously that will then sort of flow fully through during '22 and of course we're very happy with the over-achievement, in a way, of the target because with the sort of pressures we see that sort of a tailwind will obviously be important for us and in a way support margins going forward.

Mano Rintala

Are you able to say the kind of - what's the remaining part that these activities [? 00:37:46] in 2021 year?

Eeva Sipilä

Yeah, you can basically sort of - one thing is obviously you can go and compare and think that we generated some 20+ million more of savings during Q4 and then that sort of comes through in the coming four quarters if you think of a run rate being and then you have the 12 months coming in. So, that's one way to look at it, if you have the models already in the Q3. Other way to look at it is then perhaps that, okay, under 42 run rate, so that means that by sort of during the next year over the coming quarters that will be the sort of better margin result as we get then to the end of this year. Depends a bit on how you want to model.

Mano Rintala

Perfect. No further questions from me. Thank you.

Operator

Our next question comes from Max Yates with Credit Suisse. Please go ahead.

Max Yates

Thank you. Good morning. Well, good afternoon. I just wanted to check firstly on the aggregates backlog, because we've heard a few companies in construction equipment talk about some of the earlier orders that they took in 2021 and that the pricing situation – or the cost situation is now very different to the way that those orders were priced and that may hit sort of margins shorter term in Q1. So, I just wanted to understand is any of the margin weakness that we've seen in aggregates related to this and is there risk that we have some lower priced orders still to come through to revenues that is a risk for first half margins, maybe getting worse rather than better. Just I'm saying how you feel about the price cost and the backlog in aggregates.

Eeva Sipilä

No, I wouldn't say that's an issue. I think we have a more sort of more rapid turnover of the backlog, but that's one important reason why we are managing the back - this sort of order intake. Some of you may have been felt that the quarterly order intake was a bit low, but that was really sort of a conscious decision to manage and not confirm orders when we don't have confirmation on supply.

And obviously when you don't have either confirmation availability on price, you would sort of expose yourself if you were just too keen to book. So, I think we've done a very good job in aggregates in being cautious and really sort of taking into account the fact that this has really been a moving train throughout ‘21 and we don't expect it to change in ‘22. So, one really needs to take it step by step so that you don't end up into overbooking yourself with lower margin business.

Max Yates

Okay. And just my second question was on minerals margins and maybe thinking about them going into next year. The EBIT is pretty similar, year over year in minerals, despite obviously the cost savings and the synergies that have come through. I just wanted to understand, was there any element of, I guess the synergies erosion that has come from what you would consider more self-inflicted actions. So maybe some of - I think you've talked about sort of changes to your warehouse systems. Do you have any double costs in the business that will naturally roll off as we go into next year, as the implementation, as the completion of the merger is or the integration is now done? Or is this really all market conditions related to mix cost increases? Is there any kind of double cost that might roll off that we should think about?

Pekka Vauramo

Maybe some absorption issues, because if you recall, we really didn't grow in our mineral business, including service and equipment. In the first part of the year we started to see some growth in the third quarter, but mostly the growth we were up in growing speech in the fourth quarter. Only our backlog is good, and backlog looks solid as well so I'm a bit more optimistic on how it looks like.

Max Yates

Okay, so what we've seen, I guess the synergies now. Kind of quite a big bit behind us. It hasn't changed your sort of ambition to get this division to high teens margins given the price cost or the cost environment is clearly more challenging and mix is maybe more in favour of equipment. But I assume that high teens margin still stands?

Pekka Vauramo

It still stands. We have not changed anything in those ones. Those ones, like I tried to say is that last year is not really very stable volume-wise for us, and then it always means that you have, especially in this type of business that requires really specialised engineering and resourcing that one cannot really sort of reduce during the months when things are a bit quieter, so there's always some under-absorption when things are not sort of going in a stable way forward.

Max Yates

Okay, thank you very much.

Operator

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

Robert Davy

Yes, thanks for taking my questions. My first is just, I guess, stepping back a little bit, just on the broader outlook that you see across the minerals division. Obviously there's been a mixture of and sort of issues with Covid and logistic costs, and all these kind of things, but just generally in terms of sort of tendering activity on the ground. What are customers saying in terms of is there any catch-up effect coming through from things that were sort of pushed out, but I think you mentioned in your initial release, particularly on the aftermarket side. I just wondered how if you could in any way kind of quantify if there A), is a catch-up a potential and B), how long and how big you think that'll take before it sort of flushes through, and we get to a sort of normal run rate in the minerals business. Thank you.

Pekka Vauramo

If you look at our past quarters in minerals business, the hunt and the service portion of that one, that one we've been able to grow the service orders almost every quarter last year. But sales did not really move up before now, really only fourth quarter and that's probably telling the story.

In financial terms what we said earlier that modifications and upgrades that have a longer lead time. Customers did not take decisions early on in during the COVID on those things because the prices have been fairly high. Metal prices have been fairly high all the time, and customers didn’t want to want to stop their products, and they kept on producing and very often these longer lead time modifications, they require shutdown to be taken and with this disruption in the production and now that work and activity is clearly catching up. Providing the growth.

Robert Davy

Thank you. And then my other question was around the profitability within the metals division. I guess it’s obviously been pretty volatile in the last, six or eight quarters. There was a big benefit in 4Q ’21 just because of the level of organic sales growth. But just as a sort of sustainable run rate, are you still kind of happy with the sort of upper high-single-digit achievable level, or are you expecting it to still be quite volatile on a quarter by quarter basis depending on the lumpiness of these contracts that come through? I guess should we expect a more steady upper high-single-digit number, or should we average that but be bouncing around anywhere from sort of zero to 10 on a quarter? Just trying to get a sense of with all the portfolio change you’ve done and moving bits of businesses around, whether you’re happy that stability there is going to improve.

Pekka Vauramo

Of course, we have the orders now at hand and we can operate at very stable load in our businesses and some variation we need to expect because some projects are early on there and early on we tend to do engineering. And revenue recognition tends to be low at that moment and then when the projects get into delivery phase, that’s normally where we see the sales pick up, but we have now projects in different phases: some in engineering, some in delivery phase. The orders that we have, they are solid orders so I'm not expecting a huge volatility but always some volatility because of timing of things, how they do.

But we are not happy with single-digit profitability. Not at all. We said that first phase target is to reach 10% for every business out there. We are now quarterly basis just above 10%. There are some provision releases, but they are not sort of significant provision releases as such, that there is really good strong underlying profitability as well in high single digits. But that's where we stand at this moment, we are rather full now there and things are progressing well now in metals.

Robert Davy

Thank you and my last one was - if I can just squeeze one more in - just in terms of bridging the gap between where you are from a Group profitability standpoint and where the targets that you're trying to get to. Given that you're effectively at the end of your synergy programme, or at least the sort of reporting of the synergies, what's going to get us from where we are now to the 15% Group margin targets? Is it just operational leverage? What's going to get us there?

Pekka Vauramo

Yeah, really executing our order book. We have a strong order book right now. Right now we don't count on having major disturbances in supply chain either, so a certain stability that we expect. We expect also the COVID restrictions at one point in to go away and COVID moving to a normal influenza or something like that, that we all can live with and move freely. So, those are the kind of things that we do, and after all it's the operational leverage that we can concentrate on executing and delivering, rather than managing exceptions.

Robert Davy

I see. Great. Thank you for answering my questions.

Operator

Our next question comes from Anti Karlsonen with SEB. Please go ahead.

Anti Karlsonen

Hi Pekka and Eeva, this is Anti from SEB. Two questions from me. First is on the minerals and if we think about the mix going into this year. Could you comment a little bit about the backlog that you have on the mineral side and what you expect to deliver for this year, how does that compare to the previous year’s figure, and then as you mentioned, kind of the conditions on the mineral services side have perhaps returned to normal, so one would assume there's a quite high growth in early parts of the year or from comparison periods. So how should we think about this service versus equipment this year?

Eeva Sipilä

Yeah, it's a good question, Anti. Obviously the sort of now having two good quarters of aftermarket orders was important for us. I believe we highlighted in the previous call that it was that one quarter of strength in orders is not that good [ph 00:50:03] for the mix. And now clearly sort of fourth quarter orders, we were happy with that. That does provide a better balance for the mix.

Now obviously we are at that point in the cycle where we are perhaps a bit more CapEx heavy, quite naturally, and nothing wrong with that. But as said, I think we're more now nevertheless into a sort of better balance that we can expect to see clear growth on the services. Maybe one point to note that obviously these supply chain challenges do also impact part of the aftermarket business in a way that they do lengthen lead times and so I think you should take into account a certain longer lead times also on that sort aftermarket backlog than perhaps what we've seen in the previous cycle.

I think we'll see very much during this year, all of us, how that evolves and develops in a way but that may be the sort of only thing I'd say also to my earlier comment to the discussion on consumables, and I think it's fair to assume that there's a certain month of additional lead time on just how this, when you're working with a full pipeline and in a way, dependent on orders. But yeah, that would sort of, as said, still important now really is the cost we mentioned earlier that we have a sort of good sort of a low absorption level from the beginning where we have full sort of efficiency. And that we'll try to take care of.

Anti Karlsonen

Okay, and then kind of on the backlog. It's up substantially on the mineral side as well. Is there any kind of a ballpark figure? How much kind of more equipment would you expect to deliver out of the backlog each week compared to the situation a year ago?

Eeva Sipilä

Well, I would say that the number I have in my head is that some three quarters of the backlog are for '22, but this is now the total for the total backlog, so including capital and aftermarket, so that kind of gives you a bit of an idea and then the rest really for 2023 and also parts into 2024. But certainly we are sort of expecting sort of double-digit growth in the equipment side, clearly, and with the current outlook also on the services. So overall sort of good growth what we're planning for.

Anti Karlsonen

Okay, that's very helpful. And then the second was still on the aggregate side and on the profitability development. I didn't fully understand. You found it like that, there's no discrepancy between price and cost on the Q4 deliveries and it was more about the mix issue and obviously the write-downs that impacted margins. However, at the same time you are a bit more cautious on taking on new orders in order to manage kind of the cost side. So for me this sounds a bit contradictory. Or are you just seeing a very rapid increase in cost headwinds during the quarter? Or how should I understand this?

Pekka Vauramo

It’s a cost issue, but at the end of the day, when we look at really orders that the dealers or customers are placing with a very, very long delivery time, it’s also about revenue management because if we book up our capacity long, long into the future, we might lose some pricing opportunities out there. So, I think this is very important and that has been managed very well with our aggregates’ business management lately.

Anti Karlsonen

Alright, that's all from me, thanks.

Operator

Our next question comes from Magnus Gruber with UBS. Please go ahead.

Magnus Gruber

Hi Pekka, Magnus from UBS. A couple of questions for me also and a follow up from Mano’s question before regarding the higher than expected synergies. I think you had a ‘22 million high [? 00:55:02] on the run rate than originally planned. How much of that impacted you in Q4? How much positive impact [? 00:55:01] in Q4 from that?

Pekka Vauramo

Very, very minor positive impact because those are things that were achieved during the Q4. Q4, it's really marginal impact.

Magnus Gruber

Okay, got it. Thanks. And then on the cost headwind in minerals. I just wanted to verify that number. Was it 15 million between supply chain issues and energy costs?

Eeva Sipilä

I think that was the number your dear colleague used, and we didn't sort of aggressively deny his calculation, but it's not our number, per se.

Magnus Gruber

Good, okay, thank you. Thank you so much. And then finally on the margin mix in minerals in the quarter, you obviously stepped up the deliveries quite a bit there. Do you have any comments around the what the impact on from mix was in the quarter?

Pekka Vauramo

The sort of mix impact was really mixed because we had issues in our consumables, which is in the services side. We really had there this energy price increase did hit our numbers in consumables during that time. We also had some freight charges. Those invoices that came late in, we were not fully prepared for those things and then also the currency impact that we saw during the quarter.

Magnus Gruber

Perfect, thank you so much. I guess the final one on the organic growth on the minerals aftermarket side. Could you discuss a little bit how the different products developed there, their refurbishment upgrade versus [? 00:56:55] spares?

Pekka Vauramo

Really, the growth has been in the upgrades and modifications. That part of it that we were lagging, we booked a lot of orders over the past quarters in this area, but the deliveries have been really minor deliveries in that area because of lead time and secondly because customers have been really hesitant to either initiate the works because they didn't have guarantees that there is the workforce available, and access ability to decide. But now it seems to be better situation in that regard, so that is the growing part. But the space we have continued to sell well throughout the normal space. But this kind of modification parts and modification works, that has been the lagging spots.

Magnus Gruber

Perfect. Thank you so much.

Operator

Our next question comes from Nick Hausten, with RBC Capital Markets. Please go ahead.

Nick Hausten

Yes, hi, thank you for taking my question. There was only one left for me that hasn't been answered. Obviously the balance sheet has strengthened quite nicely in the past few quarters, so I guess that maybe starts to lead into a conversation about capital allocation and whether you're maybe thinking a bit differently about either M&A or returning more capital to shareholders in sort of the medium term. So, if you could just give us some thoughts on that, that would be helpful, thank you.

Eeva Sipilä

Yeah, I think you're right and based on the kind of updated strategy work already late last year we did sort of indicate that we will post a sort of integration move into a more growth-oriented strategy. And obviously the organic growth we have in the backlog and with the market outlook expect us to continue so really the sort of development where we think we can sort of reactivate is in sort of non-organic growth and that will be something that we have already been obviously looking at and I would certainly expect that we will see some activities. We have since been so busy on the divestment side. But I think it's really time for us to move back into the sort of other end of the M&A path. And obviously the market is, as I'm sure you well know, is active. So there are opportunities. It's then the sort of balance of finding the right opportunities at the right price for Metso-Outotec.

Nick Hausten

Great, thank you very much.

Pekka Vauramo

With this one we are just following what we said when we announced this combination of Metso and Outotec. We said that year and a half into the new company provided that cash flow is strong, and a reduction of net debt, which we have done now, and then we can move into next phase which includes then more M&A and this is exactly where we are now at this moment.

Nick Hausten

Thanks [? 01:00:20].

Operator

Our next question comes from Dominic Rilo with DMB, go ahead.

Dominic Rilo

Yeah, hi, this is Dominic from DMB. Thanks for taking my question. Just wondering if you could comment how the year has started in terms of customer decision-making order activity and if you can a talk a little bit about the pipeline. That's the first question.

Pekka Vauramo

Yeah, nothing really major to comment on that one as we don't sort of guide it, but I would say that no change from end of last year. Last year naturally, s big part of Asia has been celebrating their new year, so some slow-down because of that one, but that is over by now and then, but so far looks continuation where we ended last year.

Dominic Rilo

And then still trying to get the feeling: how much exactly did you receive or achieve synergies in the fourth quarter? Eeva has mentioned, 20 million plus. You had guided 29 million, so was it the – did you achieve less than you expected? And then also for ’22, trying still to get the P&L number for ’22 from synergies and maybe also from your business-specific actions. What do you think you can achieve in ’22 of those?

Eeva Sipilä

If I remember right, Dominic, the exact number we had at end of September was 116 million and then during the fourth quarter we grew that to 142. So that was kind of the 20+ million I was referring to earlier. Now, I think it was 116, please do check that if you want to get the million exact. And then as said sort of how the- as we look into, during the ’22, that’s the sort of by the end of ’22 we would expect to be at a level that is that 142 million sort of lower in a cost level. So obviously as then you know with no other changes, so to say. So, obviously then the P&L figure you will eventually see is obviously then will always be a net number of our pluses and minuses.

But that would be the tailwind we have, and obviously it's an important tailwind because there are some headwinds as we all well know. Hopefully they sort of eventually, at least there's some signs that the logistics availability would start to ease out and that would then most likely also have some impact then on prices because now of course the lack of availability is really pushing prices there. So that's at least one area that we will be following closely.

And did you have a follow-up, Dominic?

Dominic Rilo

Just on the business [? 01:03:55].

Eeva Sipilä

Okay, business-specific yeah. So there we have obviously during the year implemented still some changes in the footprint area that are benefiting. We are continuing. We have some investments ongoing as we speak in, for example, in India, that will allow us to sort to support growth in what we think is a sort of competitive cost structure and those would be the big ones.

During the year quite a lot has been done on the consumable side and that’s obviously we need to evaluate. We evaluate going forward all the time. But, we haven’t given an exact number, but certainly that work continues, and we need to - there's still opportunities where we can fight for some additional efficiency, like we said earlier, for instance in some of the indirect costs, that was the integration period ends. Not all sort of areas we were able to address in the time span. So there's still areas we’re working on, for example in IT or in other indirect areas, but that I would think, that any sort of normal company would be focusing on, and especially in this type and in environment, so maybe nothing specific. I think the footprint ones are really the ones to note.

Dominic Rilo

Thank you.

Operator

Our next question comes from Vlad Shorviaski with Bank of America. Please go ahead.

Vlad Shorviaski

Yes, good afternoon. Thank you for squeezing my two questions. Hopefully two straightforward once. First of all, book value of provisions you have increased about 40 million during Q4, which if I'm not mistaken, one of the biggest quarterly increases since the combination with Outotec. So basically questions here: What drove this increase? Is it linked to any specific project? And secondly, did this increase actually went through the P&L impacting the P&L?

So that's on provisions and then second one related to your progress on Saudi smelter [ph 01:06:17] project. How is the ramp-up going? When do you expect to have more visibility on how this ramp-up process completes and when do you expect some potential discussions on the liquidated damages related to this project? Thank you very much.

Eeva Sipilä

So on the provisions. It's actually more accounting treatment as changes. You've seen a rather substantial decrease in discontinued operations because of the length of the process in divesting the energy business which was started already during the Outotec times. We've had to apply certain IFRS rules and move some of these order book values between the rows and out of discontinued operations back into other assets rows, so that really explains.

There is no P&L impact. Obviously it always changes between a quarter as projects advance, but that's the sort of bigger, so more sort of accounting issue-related change. And then Pekka, maybe you can comment on the Saudis?

Pekka Varaumo

That's right. There, the ramp-up is ongoing. We're following the plan that we had for the ramp-up and we are on a level of which is about half of the maximum power level and capacity will be of the furnace. No major issues so far. What is typical for ilmenite smelting in general is that it takes a long while to learn to operate, and every furnace is an individual as such, and so is this furnace and we're expecting to hear something of the progress by the end of second quarter. That's what it looks like. It looks like currently, and that is provided that we are able to progress with the ramp-up as planned. But before that, I don't think we hear anything major out of it.

Vlad Shorviaski

It's very clear. Thank you very much.

Operator

Our next question comes from Tom Stoggman with Carnegie. Please go ahead.

Tom Stoggman

Yes, this is Tom. Could you specify how large these best business-specific savings were in 2021?

Pekka Varaumo

Sorry, can you repeat? How big -?

Tom Stoggman

Can you quantify [? 01:08:57] business-specific savings were in 2021?

Eeva Sipilä

We haven't quantified that number. We gave some general comments in the Capital Markets Day in November of 2020, and that's kind of what we have detailed on that.

Tom Stoggman

Okay, how large share of the orderbook is scheduled to be delivered this year, and what was the number one year ago?

Eeva Sipilä

I mentioned earlier that for this year it's a bit more than three quarters of the backlog. Now I unfortunately don't remember what it was a year ago, but this would be what we're looking for ‘22. So between 75/80%.

Tom Stoggman

Yeah, I just wonder how much it is up of course year on year that you will deliver this year. That's the critical number.

Pekka Varaumo

I don't think it's percentage-wise too much of a difference. We put two big orders right at the end of the quarter.

Eeva Sipilä

Because usually the percentage doesn't change that much, but obviously they underlying figure has changed quite a bit, so we're talking about a much bigger number in euro terms now than a year back. And that's where the sort of the main impact comes from then when you turn it into euros.

Tom Stoggman

Yeah, okay. Thanks. And then could you please specify these discontinued operation? What should we expect going forward? Will you move some metal businesses there and is this all now coming from businesses that have been divested at that end? So what should we expect going forward?

Eeva Sipilä

Yeah, so what we have in the discontinued operations is the metal recycling business where we have announced just before the end of the year our plan to divest and said that we expect that to happen during the first half. So when that happens then it will move out of that and then only thing remaining is the energy business that was part of the discontinued operations coming from promoter textile [ph 01:11:25] and that businesses is still for sale, and we obviously hope to move forward on that divestment as well.

So that would kind of then empty what is in the discontinued currently. Depending on the outcome of the strategic review in metals, that may obviously lead to then, conclusions. But it was there in a process of reviewing, there is no change to what is continued operations and there was nothing continued to report [ph 01:11:55] the metals business as a separate segment without the hydro business. Of course, that moves to minerals, but it will be reported as today when it comes to Q1.

Tom Stoggman

Okay, thank you.

Operator

At this time, we have no further questions. I will now hand it back to our speakers for a final remark.

Juha Rouhiainen

Alright, we are 12 minutes past the hour so it's a good time to wrap up this call. Thanks for the questions and discussion. Our next scheduled disclosure will take place April 21st. Then we'll announce our January-March results and have our annual general meeting on the same day, so thanks for this and looking forward to speak to you all soon. Bye-bye.