transcript

Q4/22 Metso Outotec conference call 17.2.2023

Juha Rouhiainen: Good afternoon and good morning, everyone. This is Juha from Metso Outotec Investor Relations. I want to welcome you all to this conference call where we discuss Metso Outotec fourth quarter and full year 2022 results, which were published earlier today. We will have the usual agenda with the presentation given by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipila, after which we'll be taking your questions. As you can see from our slide deck, we have the slide discussing forward looking statements there in the beginning. With these words I'll be handing over to Pekka to start the presentation. Please, go ahead.

Pekka Vauramo: Thanks, Juha. Welcome to this, our fourth quarter results call. We had a strong fourth quarter, strong finish of the year, which if I look back is somewhat exceptional because we normally have had a dip in the fourth quarter, but last year the execution was solid throughout the year until the last day of December. Therefore, the quarter was strong altogether. The market was very active, and if you remember our numerous press releases during the quarter, especially in December. Our order intake was strong, and it was mainly consisting of medium sized and small orders. Three orders exceeding 50 million were also recorded during the quarter, but I think that's over our normal number of let's say, bigger orders that we booked in a month. Solid activity in smaller orders. Also, high sales growth, and I think it's also worthwhile at this moment to mention that growth, both in orders and in sales, were 99 percent organic.

Pekka Vauramo: M&A impact is very minor. M&A impact in the numbers, and worthwhile to mention that all the comparison numbers include in 2021 also our Russian sales and orders, and we have not eliminated them away. If we did that one then of course, the growth percentages would be even higher than what they are in these coming comparisons. Adjusted EBITA, 14.82 percent, two percentage points more than a year before, the same margin as we delivered in the third quarter of the year. If you recall the second quarter where we had major currency headwinds. We've been solidly on this level the past three quarters of the year. We're making progress in sustainability in many areas. Internally, we're looking into our plants and operations, and delivering good steps towards cleaner operations there. Then externally, our Planet Positive sales is growing very rapidly at this moment. During the year, the cash flow has been the weak point in our performance, but we did turn the corner in the fourth quarter and delivered a cash flow which was equal to our adjusted EBITA at the end of the year.

Pekka Vauramo: Then looking at the group numbers as such, orders received grew by nearly 300 million to 1.59 billion, a growth of 21 percent. Let's remember the Russia impact here, which without Russia the growth would have been much bigger, plus then the fact that it's all organic growth. Sales growth, we grew to 1.43 million from 1.3, a growth of 12 percent. Solid growth there as well. Adjusted EBITA, 212 million, 30 percent growth over last year, and the margins 14.8, and last year comparison number for the same quarter, 12.8. Very strong growth on that line as well. Operating profit 185, 130 in last year and 12.9 percent of the sales. Earnings per share 16 cents, and last year same quarter 11 cents, and cash flow 212 for the quarter.

Pekka Vauramo: Then if we look at the full year numbers, Orders just exceeded 6 billion, 11 percent growth. Here especially we see the impact of Russia. All Organic Asset sales growth of about 1 billion, 25 percent altogether, adjusted EBITA 731 up 34 percent from year before representing 13.8 percent, nearly one percent higher than a year before, and operating profit, 504. Here the 150 million provision that we made for Russia in last year in the second quarter is visible and reduces that number then accordingly. EPS for the full year for the continuing operations, 40 cents, and 35 cents last year, and here as well, the 150 million provisions for Russia is clearly visible. Without that one, I think the EPS would have been somewhere in the ballpark of 50, closer to 60 cents, and cash flow for the full year 322, thanks to stronger cash flow, cash conversion in the fourth quarter. On the graph we see the dividend history and proposal for this year. Now, the proposal that we do put forward for the AGM is 30-euro cents payable in two parts as before, representing a clear growth from year before.

Pekka Vauramo: Then when we look at the segments, we only have the quarterly numbers here, but really strong performance on all lines from aggregates. When we look at orders, we've been flagging a little bit softness in European market earlier. European market has performed better than what we expected. It is not back to normal yet, but it's clearly better than what we thought it would be. Then, of course, depending on the next few months development in Europe, we see then this positive trend either to continue or not to continue, but uncertainty is there. The war is still there, and those reasons are in place. So far it has not affected as heavily as we thought. We saw increase in orders. Orders then was roughly 10 percent growth on order line.

Pekka Vauramo: Markets in North America continue to be very strong. We've been actively managing the inflation through many means by being cost conscious and active in the pricing front, and that is, of course, visible in all lines of our operation. I'll continue with the same comment that we've been ahead of the inflation with our actions in cost and pricing side, and that is visible in the aggregates results very clearly. Strong growth in the Equipment orders. Services declined slightly in the quarter, a quarter that five percent represents quickly calculated about 5 million drop in sales. One should not read too much about that five percent negative development in Service line. Sales stronger growth than Orders. This was really delivering the backlog and executing that part. It was done in a solid way. Services' share now 30 percent as it was 32. This was because of faster growth of Equipment sales than the Services.

Pekka Vauramo: Adjusted EBITA nearly doubled from year before and margin reach 16.2 for the segment in the quarter, and it was 10.6 last year, so, very strong improvement. We had some one-time issue last year so that depressed a little bit the numbers, but nevertheless the performance improvement was strong in the aggregates and it's really in a good phase of the development at this moment. Well managed, well executed business with very strong integration capabilities of the number of bigger and smaller companies that we have acquired over the past three, four years into our aggregate segment.

Pekka Vauramo: In the Minerals, the quarter, we saw an order growth, strong order growth. Here especially, the Russia impact is in Minerals and to some extent in Metals, but mostly so in our Mineral segment, and we need to read the numbers against that fact. We were able to compensate both the order line and the sales line from other markets because our capabilities to deliver to Russia were very limited. We only delivered those things after 24th of February that we were committed through our wind down agreements. We did not book any new orders, as we have said, and of course, we have been very strict and careful that we haven't delivered anything that is restricted, and we have not dealt with any of the sanctioned customers in Russia. Therefore, good performance, very strong performance.

Pekka Vauramo: We actively took actions in other parts of the world in order to secure good compensation for the last part of the business in other areas. Sales, we saw Equipment sales declining slightly, seven percent, and that was because of the Russia wind down. At the same time, the Services growth was strong in there, and Services share was 62 percent of the sales in the Mineral segment during the quarter. Adjusted EBITA grew by almost 40 million margin, 15.8, which is almost three percentage points higher than year before. We really see and feel all the final synergies that we did achieve through integration. Naturally the volume development was positive, despite the fact that Russia was taken out of the equation early in the year. Here as well, we've been able successfully to mitigate the increase of our input costs, and that is, of course, visible in the results as well.

Pekka Vauramo: Metal segment, good strong growth in the orders, includes one bigger order there, and then a solid flow of smaller orders. Healthy activity and those activities are continuing in the Metal side. Execution of the order book 120 million, 25 million sales, almost 20 million growth from last year. Services share increasing, some good activities we've been able to initiate in the Services side, and now Services represent 18 percent of the Metal sales and contributing of course, to the successful turnaround of Metals.

Pekka Vauramo: Adjusted EBITA 15 million, last year 21 million. We did not have any sort of major provision releases as we had year before. That made the number last year higher than what the fourth quarter number now was. This was more sort of operational fully than the comparison a year before 12.4 percent margin, thanks to good growth and also well mitigated costs in the projects that we delivered in the Metal side.

Pekka Vauramo: With this one, I'll hand it over to Eeva for a more detailed number review, and then I'll come back with some other things after that.

Eeva Sipilä: Thank you, Pekka. Good morning, good afternoon, on my behalf as well to everybody. Pekka already presented our strong operative figures.

Eeva Sipilä: I'll focus my comments on the items after adjusted EBITA. As adjustments, we recorded a negative 10 million euros in the quarter at the group level. However, you may have noted in the notes section that we had a sizable negative in Minerals, and a sizable positive in the group. These both relate to the Russia wind down. Originally the 150 million provision was made on group level at the end of June. By year end, as we have progressed and settled customer by customer, we have transferred the provision for use into the segments, mainly Minerals where the actual project related inventories and AR have been booked and need to be written off. Of course, they're there as well. We had 65 million euros of the provision left at year end, waiting for the final wind down activities.

Eeva Sipilä: This, we are confident, will suffice. Net financial expenses are slightly up quarter on quarter and more visibly year over year, reflecting somewhat higher gross debt and interest costs in today's market. Our effective tax rate for the year ended at the lower end of our target range at 25 percent, where the figure for 2021 was 24 percent. Our Earnings Per Share for continuing operations was 16 cents for the fourth quarter, and 40 cents for the full year. The full year figure, including a loss in discontinued operations. Then the number including the discontinued operations was 13 cents for the quarter. Moving to our balance sheet. Total assets are up some 900 million from the beginning of the year, but down 70 million from the Q3 end. M&A in the year consisted of two small acquisitions which had limited impact on our balance sheet. Net debt at the end of the year was 684 million euros, so, an inch down from the end of September.

Eeva Sipilä: The story of 2022 was really the growth in net working capital from 29 percent of sales in 2021 to 36 percent. Supply chain challenges and inflation led to a significant over half a billion euro increase in our inventories. Accounts receivable and payables were both up as well, but in smaller proportion, receivables grew much less than sales, representing 16 percent of sales in 2021. They were down to 15 percent of sales in 2022. However, importantly, as Pekka also already referred to, we were able to change course during Q4 and our inventories decreased by 40 million euros during the quarter. As supply chain challenges have reduced, we have been able to take down our buffer stocks, and whilst the impact in the quarter was rather small, it was nevertheless important to stabilize and improve.

Eeva Sipilä: It had any direct impact, the positive impact on our cash flow. Also, good to remember that the decrease in euros is reduced because of the price component continuing to increase until year end. The volume reduction in inventories was somewhat more.

Looking back at the inventory growth during 2022, I would say it was more 5050 volume and price, whereas earlier in the year we communicated it was roughly in the 60 percent volume, 40 percent price split.

Eeva Sipilä: Cash flow in the fourth quarter was a clear improvement from the earlier quarters, whilst the net working capital change was still a slight 36 million negative. However, our net cash from operations before financial items and taxes was 212 million for the quarter, contributing nicely to bring the full year figure up to the 320 22 million. Clearly, the full year number is only half of the 2021 level, as the negative change in net working capital really consumed quite a bit of cash in 22. Then maybe a point just for the sake of clarity, the other items in this chart. They mostly relate to the Russia wind down. The negative provision affects the profit for the year. However, when the vast majority is non-cash write downs, the negative impact is neutralized from a cash point of view in these other items row.

Eeva Sipilä: Moving then to my final slide and main points on the financial position. During the fourth quarter, we issued a new 300-million-euro bond while also making a tender offer for the outstanding 2024 bond. Of that, 103 million was purchased back. Now, these transactions improved our maturity profile significantly. Additionally, during the fourth quarter, we signed a new 100-million-euro term loan, and 50 million RDA loan, of which the former was drawn during the quarter. Liquidity at the end of the year was more than 100 million euros higher than at the start of the year. Debt to capital stands at 33 percent. Finally, there were no updates on our ratings in the quarter. With that, I would hand it back to our president and CEO, Pekka, please.

Pekka Vauramo: Okay, thanks, Eeva. I'll sort of have a few notes on our strategy, sustainability, and then finally, outlook before going to the Q&A.

Pekka Vauramo: Already mentioned that we saw very strong growth of our Planet Positive offerings, and this is clearly a sign that our efforts to launch more and more Planet Positive products and solutions is really a right direction to go. We continue to launch new products, 30 products altogether during the year. Of course, the digital part is even more strongly present now, and we see that there is much further potential to improve the results through improving quality with digital solutions for our customers processes. We've also signed several partnerships for developing mainly decarbonized steel production. Therefore, we also took a decision to invest in Circored pilot plant to make tests with hydrogen based direct reduction of fine iron ore.

Pekka Vauramo: We do see activities around the decarbonized and hydrogen based direct reduction growing at this moment. These are of course, very early phase developments, but clearly a direction where the rod and steel industry are headed. We also saw several orders with significant Planet Positive content battery metals activities, high ordering activity, but we're doing a lot of research work in that area for our customers, a lot of pilot plant work as well for our customers. We see more and more inquiries for tailings management and dry stacking solutions which are very positive for water consumption. They are also very positive for biodiversity as the dry stacking allows higher storing of tailings, and therefore reducing the footprint that mining causes. Then in the smelting side, next generation Pelletizing, smelting, and Pelletizing are potentially merging to some extent at one point.

Pekka Vauramo: Then also sulfuric acid plants for decarbonizing many of our customers industries. We see potential there and a lot of activity in those areas. Very important part and looks like that sustainability is really maturing throughout the industry and decisions are more and more being made with the sustainability as a sort of leading thought in each of the decisions.

Pekka Vauramo: Some other sustainability highlights. We have internally completed several green transition projects in-house. Our science-based targets implementation of those targets and actions behind the targets is progressing. Now 20 percent of our spend is with suppliers that have committed to the science-based targets. Nearly 100 percent of our R&D projects do have sustainability targets in them. Part of our ESG is naturally our progress in people and culture side, and we have there many actions driving diversity and inclusion. Like we have said earlier, we measure very frequently the engagement of our organization. We have reached to very high level in our engagement, and we are now on top 10 percent with our international reference group benchmark group, consisting of about 100 companies. Therefore, it is a good position to be at the time when there is a lot of movement in the labor market and people side in marketplace globally.

Pekka Vauramo: Our market outlook has changed. We're saying that we continue the current level. If you recall, our current level is a strong level. We're not flagging the weakness, in particular, weakness in aggregates in European market anymore. Of course, the war is still there, war is not over. We need to be aware of that one, but clearly, we see that the markets are not as soft as we thought them to be earlier. Fairly confident on near-term outlook. Metal prices are on reasonably high level. They, of course, are bouncing a little bit up and down, but bouncing on high level aggregates. Customers, products are also enjoying very favorable pricing terms in many markets, and there seems to be continued demand. This makes us to believe that the markets will continue to be active in that area, especially in North America. Then we see first signs also in China, rebound impact of Chinese market. It's currently on proposal and activity pipeline level, which then remains to be seen if it turns into orders later, but a fairly strong and solid outlook view at this moment.

Pekka Vauramo: All right, that concludes our presentation. Operator, we can now open the conference call lines for questions.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Klas Bergelind from Citi. Please, go ahead.

Klas Bergelind: Thank you. Hi, Pekka and Eeva, Klas here. The first one I had is on Services. You say that demand is still healthy, but all the growth slowed to low single digits xe currency and minerals. I'm trying to understand if this was softness posed perhaps earlier pre-ordering, whether you perhaps, lacked any larger service orders that will come through now at the start of the year. If this is just a timing issue, why we saw this sharp slowdown, and also obviously, quarter on quarter down nine to 10 percent. I'll start there. Thanks.

Pekka Vauramo: Yes, I think what we saw when I look back, we saw a peak in demand in Services, which probably was the pent up of the COVID times. It looks like that pent up demand is over, but we see still a very healthy demand in Services altogether. When I look at current trading and things like that, I really don't see that Services is turning down. Clearly there was some peak because of the pent-up demand.

Klas Bergelind: I know it's tricky maybe to gauge this, but do you think service orders will stay at the current level into the first quarter, or can we be up on some sort of seasonality into the first?

Pekka Vauramo: We are not really guiding it as such. Like I said, our activities are on a high level in Services. So, I really don't see that there would be a downturn in that regard, that demand for Services would drop. We have been very busy delivering equipment in all areas, and therefore we can also expect the services to follow.

Klas Bergelind: Okay. My second one is on the margin and your 15 percent target. When you think of the positives and negatives back for fy2023, we have increased wage inflation, component costs, that is value add is still not levelling off out there. You still carry good pricing through the backlog, at least in the first half. At the same time, your synergies is no longer a big tailwind in the bridge. So, let's say, high single digit revenue growth supported by a solid backlog. Do you think you can reach your 15 percent margin for the year? Just to understand the moving parts, and I know you don't guide margins, but just to understand the moving parts or potentially how to get there.

Pekka Vauramo: Of course, same wish that I had last year, a bit more normality that we wouldn't have big swings that we need to take and make on a business basis. I'm referring to Russia. Russia now, in last year and that sort of thing. I think we have all the pieces of the puzzle in place. It's a question about execution. Let's remember that we were continuously also in our cost side even though we don't announce major campaigns. We have roughly what we have said before, that in the past we used to say that it's about salary inflation, that we work on improvement actions. Now, the salary inflation might be somewhat higher, and we necessarily don't reach that level in our improvement actions, but it's still a sizable number of millions that we work on that side.

Klas Bergelind: Okay. My very final one is on further margin upside and thinking about Minerals, obviously. You said earlier that you're working on standardizing the equipment, going into projects, more modularization and so forth, to get that gross margin up. Improving obviously, margin in this way at the growth level is more sustainable, but it can take quite a long time. Is that still a three-to-four-year journey, Pekka, from here, or do you think you can do that 20 percent quicker than that?

Pekka Vauramo: We need other actions for that 20 percent. We need to grow faster in Services, and that is an area that we are currently looking into. Obviously, in our annual strategy update, we will address that one, then a bit later on in this year. We're just putting our thoughts together, but that's an area that we want to speed up. Speed up and increase the Services share, especially in Minerals on a higher level.

Klas Bergelind: Thank you.

Operator: The next question comes from Antti Kansanen from SEB. Please, go ahead.

Antti Kansanen: Hi, Pekka and Eeva. It's Antti from SEB. A couple of questions. Firstly, on aggregates, and if we think about the demand outlook sequentially stable. If we go back to last year, I guess, the market in Europe was still active in start of the year. Would you say that the demand is probably slightly below last year's levels still when we are entering the year, as we are stabilizing on a bit lower level?

Pekka Vauramo: Yes. We are now, of course, almost at the end of February. We all know what happened in February last year. If I comment more or less from this day on, I wouldn't say that we are necessarily down from last year's activity level at this moment, but if we look at it from beginning of year, maybe that is the case.

Antti Kansanen: Yes, exactly. Then secondly, on kind of the profitability numbers in aggregates, in second quarter, you had that kind of FX related growth in the numbers. Since then, we're seeing a really strong margin improvement. So, is this fully operational on your pricing and execution, or is there something FX related reversal that is in the figures?

Pekka Vauramo: Well, Eeva?

Eeva Sipilä: Yes, obviously, sort of the Q2 was the pain point when we saw such a rapid sort of change, then thereafter it has stabilized. The full year impact of FX was still negative for all businesses, including aggregates, but of course, too much. It's often we started to see much more of the positives also from the sort of accounting losses correcting themselves in Q3 and Q4. I think you could consider this very much a sort of operational result. There are really no one-offs. I think the team has just done an excellent job with price management, addressing fighting inflation proactively. Then obviously, being able to also execute well. We had good, steady volumes in all the plants. That helps as well.

Antti Kansanen: All right. Very clear. Then secondly, or lastly, follow up on the previous question regarding mining services. When you are talking about this kind of pent-up demand being over, are you referring to this kind of a longer lead by modernization, refurbishment projects, or has there been kind of an inventory adjustments as well regarding spares and consumables demand that your clients perhaps have been filling up inventories and now adjusting them to a more normal levels?

Pekka Vauramo: It's mostly relating to modifications, really like you said yourself, less to, or not at all to destocking or anything like that. Now, there is still a great demand for spare parts, wear parts, and those kind of items in the marketplace. Also, these modifications, but we are getting to more like a normalized level when it comes to orders. These modifications, their cycle is much longer than in any of the other service activities. So, the orders might be a bit lumpy there, but the actual deliveries will be much more even on that side.

Antti Kansanen: Yes. Should one assume that perhaps your services sales development will be a bit stronger than the orders, given that you have this longer lead time items that you have taken, but not yet fully converted to sales?

Pekka Vauramo: Yes. Well, I wouldn't necessarily draw that conclusion. I think both lines are still solidly developing. Some lumpiness on order line. The Services sales side is a steadier development on that side.

Antti Kansanen: All right. Very clear. That's all for me. Thank you.

Operator: The next question comes from participant from Goldman Sachs. Please, go ahead.

Christian Hinderaker: Yes. Good morning, everyone. It's Christian Hinderaker here from Goldman. Thank you for the presentation. I've got three questions, if I may. Perhaps, we'll take them in turn. Firstly, I just wanted to come up on margins, obviously, better than consensus had expected across each of the businesses. Can you provide a little granularity perhaps, on the contributions to that to date? I guess there were some mix tailwinds within Minerals, for example, but you've also talked about mitigation of costs, pricing, as well as more perhaps, structural cost savings. I just wonder if you can help us a little bit with how to think about in particular the cost actions in the year ahead.

Eeva Sipilä: Sure. Obviously, mix varies from quarter to quarter to quarter. It's not just the sort of capital versus aftermarket mix that we also can have different mixes within capital or within services impacting. Of course, over time, it's not that relevant. I would say that clearly the overall Service after market share improved towards the year end. We had a slower start but then we had good sales volumes in Aftermarket and that obviously, was a positive. Then again, in aggregates, the margin improvement is really much coming from Equipment, as the growth there was just so much stronger. Then on per se cost actions. I think the main focus as we continue to see inflationary pressure is really around price, and being head on that, and proactive on that is most important. Then second is solid execution. Then obviously, the cost savings then come on average efficiency improvements, but as we are growing. I would still say that the focus needs to be on that, on the price and inflation management. I think we did well in '22 on that front, and that certainly was one of the main success factors in our '22 earnings definitely. Of course, the idea is to continue with those learnings into '23.

Christian Hinderaker: Thank you, Eeva. Maybe I can come back then on the aggregate side. I guess that's where you had a positive surprise in terms of demand. Just interested in the developments that you've seen there. You mentioned a pick-up in seasonality in Europe, for example, and I wonder whether that factors into the increase in the guidance or the outlook, at least for the quarter ahead, how we should think as well about the sort of price versus volume. Then finally on Tesab, I think you've been shifting there to a dealer led model. Wondering how that's going, and also how revenues for that business have developed versus I think, the 30 million euros that you reported for 2021.

Pekka Vauramo: Yes, that's right. We are not really basing our outlook as such on seasonality. It's a fact of life, a well-known fact. We are, of course, comparing it to the season at any given time, that's where we should be going. It's not about seasonality, this one. On our aggregates side, yes, the volumes are also comparing previous seasons, we are on lower levels when it comes to volumes, but we have taken many actions because of inflation, or the pricing levels are different from what they used to be. That's evening a little bit the output where our guidance, or the outlook change really refers to is that we don't see that softness right now. What we saw during the previous quarter or two quarters, in fact, when changed the aggregates guidance, so, not about that one. Then the other part of the question was about the margin and that side of it. Of course, the inflation is still there, even though it's on reduced level, some of the freight charges have normalized to pre-COVID levels, not all of them, but some of them.

Pekka Vauramo: There are some positive signs, but inflation is still there. It is something that we need to manage. Even though we don't guide how we plan to do that one, but our track record has been, especially in our aggregates side, very good in managing that inflation. I think we are well alerted of the fact and have actions in place to work under these conditions.

Eeva Sipilä: Maybe just a final note on Tesab, Christian. Yes, a good start. Integration proceeding very well, and yes obviously, we're integrating also to optimize our reach, the customer, planning the sales channel work on that, but going very well. We certainly see also clear profitability improvement areas with the synergies then that the Metso Outotec platform can offer the products.

Christian Hinderaker: Thank you both. Then finally, maybe just on the cash flow. Interested in how we should think about working capital developments in particular into 2023, in particular around inventories and the 40 million reductions in Q4? I guess, curious in broad terms for '23, how we should think about it, and also on a quarterly basis, what might one consider a best-case inventory improvement to think about?

Eeva Sipilä: Yes, obviously, whilst we turned the corner, which was important and a clear target for us in Q4. Then obviously, there's always room to improve. The inventory is still in absolute terms on a high level, and from the very challenging supply chain situation, it does take several quarters to balance. Of course, we're still a bit cautious. Let's see what the year ahead has for us stored, so that we don't want to risk availability. That's our main customer promise and we need to be very focused on that. Certainly, the target for this year is much better cash flow generation, and really that must come from net working capital releasing cash unlike it did in 2022. Usually, the early part of the year does tie some capital. We are especially in the aggregates side building for the upcoming construction season in the northern hemisphere, so, not necessarily the best. Then we're going forward, I hope to improve on that. There's certainly potential, and we don't have an explicit target on, rather than it being a clear focus just based on the levels where we are. All businesses have an opportunity to improve.

Christian Hinderaker: Okay. Thanks very much.

Operator: The next question comes from Vlad Sajeski from BofA. Please, go ahead.

Vlad Sergievskii: Everyone, thank you for taking my questions. I'll start with Services, if I may, but focus on sales. Obviously, record sales in Q4 in Services. At the same time orders declined sequentially for two quarters. Now, for the reasons you explained, growth to Minerals and Services was, I would say, materially below one time in Q4, which actually rarely happens to you guys. Under this backdrop, can Services sales grow versus the record Q4 level in the coming quarters, or they may moderate?

Pekka Vauramo: Yes. Like I said earlier, we don't see any particular decline in activity in Services, and don't feel any softness in that market either. Maybe the only point is that really the pent-up demand for some of the activities within Services is maybe over now. We are still on clearly higher level than pre-COVID with our services as we speak right now.

Vlad Sergievskii: Brilliant. Thank you very much for that. If I can ask two quick questions on the P&L place. Firstly, on gross margins, it's down a bit sequentially in Q4 while the mix between equipment and aftermarket was broadly stable on my calculation. Any particular reason for that? Secondly, there was a pretty meaningful positive contribution from other operating income and expenses line in Q4, it was about 20 million, if I'm not mistaken. While this line is mostly negative historically, would you be able to comment also what drove this positive contribution in this other income line?

Eeva Sipilä: Sure. On the gross margin side, nothing in particular as such. It is obviously a question of the mix of the different businesses. Then the exit execution in those, and also a bit between the segments as it does vary, but nothing really to point out on that. On the other operating income indeed, it was a plus. I don't have anything specific in my mind, but why don't we have a look at that with Juha. We can come back if this was anything worth highlighting.

Vlad Sergievskii: That's brilliant. Thank you very much. Maybe the very last one. Housekeeping from my side. Your balance sheet provisions in Q4 have moderated quite materially, which is obviously a good thing. Could you comment on the key drivers? Have you utilized most of them? Have you released some? Any color would be really helpful.

Eeva Sipilä: Yes, there's a couple of factors. The Russia wind down, obviously, affects the overall provision level that there was a pretty significant provision. As said, we had from the 150, 65 only left at the year end. That obviously impacts the numbers, and generally the provisions tend to move with us as the projects evolve. Again, I think there has been quarters when you've noted that it's been up, and so the project portfolio moves it somewhat, now towards the better. We had pretty good sales deliveries on that. Again, that part will flow, sometimes a bit up, sometimes a bit down, but really, the wind down obviously, is a specific topic.

Vlad Sergievskii: That's all clear. Thank you so much.

Operator: The next question comes from William Mackie from Kepler Cheuvreux. Please, go ahead.

William Mackie: Good morning. It's Will Mackie from Kepler Cheuvreux. Good morning, Pekka. Good morning, Eeva. Thank you for the time. I guess, the first question is a follow up on the positive price initiatives that you've achieved during the year across the business. I recall during '22 you had to manage very sharp inflation within your consumables business, which affected margins in a number of quarters. Could you actually scale or quantify, please, the level of price impact in Q4 or for the full year across the business, and how you were able to nett improve when you compare that to the inflationary pressures?

Pekka Vauramo: We really don't have a chart that would break down that one. I think we commented on the headwind in our consumables. That it was on an annual level of about 40 million and looks like we have recovered that now with our actions going forward, so, a good result in that field. Pricing management has been an issue, and I feel that we've done it successfully through the year. Management, of course, includes all kinds of actions in the cost side, actions in pricing side and other things like that. We also have to remember that what effect on actual prices is also the currency development, and we have seen the positives and negatives in that area. Nett impact still is negative in the currencies on a full year level. Of course, we were expecting that one to level now going forward.

William Mackie: Okay. Thank you for the color. My second question relates to your current assessment of the market trends, particularly within the minerals segment. You mentioned that the group and the company was successful to compensate for the loss of volumes from Russia. Could you perhaps provide a little color of how you see, or how the sales teams are seeing the prospects in particular verticals like copper, gold, or cobalt and lithium, and other battery metals?

Pekka Vauramo: The battery metals activity is high currently, and we booked several orders end of last year from that area. Our research labs are busy with tens of samples. We're doing a lot of lab tests. We're doing a lot of pilot plant testing in that area and its mostly greenfield activity. It's lithium, it's nickel when it comes to battery metals. Some other rare earths as well. We see activity in many so-called critical metals and minerals, activity which is starting up. It's probably one very practical sample of the de-globalization in our customer industry, because all bigger countries have their own critical metals program. All regions like you have in the same way, and clearly the purpose is there to secure either domestic supply of these critical metals, or at least supply from the nearby countries and regions where the relationships are friendly. Therefore, clearly a sign of de-globalization in that part.

William Mackie: Were there any particular countries or regions that were able to specifically compensate for the loss of Russian opportunity?

Pekka Vauramo: I think that activity was in all regions, I would say. Of course, the initial reaction, what we saw in the metals market was that the prices went up. They went up from a very high level, and that is what initiated many actions and activities. When we, for example, first looked at that, how should we react on activity in Russia going down? The initial thought was that, okay, we need to reduce costs very quickly because overall volumes will come down. Within a few weeks, it was evident that the activity in the rest of the world will compensate. Instead of entering the cost cutting, we did all kinds of actions in order to boost our sales capabilities, and motivation in our organization to win and bring more orders in from those areas where the activity increased. It was really global, the increase that we saw happening.

William Mackie: Thank you. My final area of question follows on from that, relates to one of your comments during the presentation about China. Perhaps you could just refresh us on your current footprint in China and how Metso Outotec is positioned to benefit from the potential reopening and the various stimulus measures that are being discussed.

Pekka Vauramo: We do have several factories in China. Most of them are really focused and geared up to deliver and serve Chinese market. The Chinese market, of course, for us includes China itself, but it includes also what we call Silk Road business, that is business where companies are either directly investing, or Chinese government is funding construction or development of a mine in other countries outside China. We have been particularly successful in growing that business base for us. Combined, the Silk Road business and business inside China is not the biggest market area as such, but is growing rapidly to become one of the biggest market areas for us.

William Mackie: Super. Thank you very much.

Operator: The next question comes from Max Yates from Morgan Stanley. Please, go ahead.

Max Yates: Thank you. Could I start on my first question to ask about the strategic review in Minerals? Could you just give us an update? Sorry, strategic review of Metals. Could you just give us an update on where you are with that? Are you entering into negotiations about a possible disposal? Just any thinking with timeline and when that is likely to have results, and how it's evolved so far? Thank you.

Pekka Vauramo: Yes. We said in the Q&A part of our Capital Markets Day in last year that we see that we would come to conclusion during the first quarters of the year. Timeline as I said, is not fixed and last year when I look back at it was not really stable enough to conclude that part. The M&A market in particular turned rather difficult for unknown reasons. Not known reasons, including the interest rate and availability of funding and the valuation disparity between sellers and buyers that opened up. I would say that if we see a bit more stability in that one, then of course, that will help us to conclude. That's all I have to say about the strategic review in that part.

Max Yates: Okay. We should have an update in some form within the first quarter, is that correct? Is that the right way to interpret that?

Pekka Vauramo: That's what we look, but there's no guarantees for that one, because things will have to fall in the right places before we can conclude that.

Max Yates: Okay. Just a housekeeping question around the central cost line. That's obviously been quite a bit higher this year. Could you maybe talk a little bit about what was driving that, and what you feel a sustainable level or a normalized level for this line would be going forward?

Eeva Sipilä: Well, it's a combination, of course, Max, of many things. I would say the one specific item affecting this year has been Russia related items, which there's other costs than pure wind down or restructuring related, just from a quick exit, that are not business specific. That's been one abnormal impact. Typically, of course, we have variety towards the year end. We have all kinds of year end valuation, be it pensions, insurances and these types of things. Typically tend to have a bit of a bigger number in Q4. They're just difficult to plan and time better than during the year. In that sense, not necessarily the full year. Full year, of course, was on the high side queue for perhaps not so much. Then there's still some remaining group of IT related issues from the final tails of the integration, these types of things. I would guide for a lower number in '23. These are really quite a chunk of one-off. At the same time there will be costs also going forward in this row that don't fit naturally in any of the segments.

Max Yates: Okay. Just my final question is around pricing in the aftermarket. I guess, one thing I wanted to understand, now that some of the input costs around steel, freight, energy is coming down. I would imagine some of your aftermarket or your consumable contracts have indexation clauses in them that protect you on the way up. I just wanted to understand how these typically work as some of the costs moderate. If you could give us a feel for, do you think that a small proportion, medium proportion of your aftermarket contracts will be affected or will be impacted by these? Just how we should think about that in terms of indexation clauses now that some of those costs are coming down.

Pekka Vauramo: The indexes are there to protect our margin, and that's how they work. It's not a continuous adjustment. It takes place at certain frequencies, quarterly frequencies, and of course, within extraordinary cost increases or reductions, there is a possibility to see a faster react on that one. As I said, they are there to protect our margin, and as such, it's a positive development that we see. To date the activity is not very high. I don't hear our customers turning to us. Of course, there are some automatic index adjustments happening, which I necessarily wouldn't be aware. As I said, it's protecting our margins.

Max Yates: Okay. Just so I understand, would you say this is industry standard, if there is such a thing as a normal aftermarket consumables contract? Would you say they're on the majority of contracts or would you say it's on a less than 50 percent? I'd just love to understand how normal this is in terms of your typical aftermarket contract with the customer.

Pekka Vauramo: Of course, it is a contract detail, but we have spoken about it when it relates to our contracts. I would say that it's a standard term in our contracts.

Max Yates: Okay, helpful. Thank you very much.

Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please, go ahead.

Panu Laitinmäki: Thank you, I just had one final question about outlook. How should we really understand it? If you say that you expect the market activity to remain at the current level. Does it mean flat on year-on-year comparison for the orders, for the next six months, or the same pace of improvement? What do you mean if we think about it literally?

Pekka Vauramo: Yes. The guidance is the six-month guidance, and it's not really reflecting previous year, if I understand it correctly. From our side it is really sequential development. Development based on recent quarters, or in comparison with recent quarters.

Panu Laitinmäki: Therefore, basically, it's 1.6 billion orders for the next two quarters?

Pekka Vauramo: No, we don't guide the orders.

Panu Laitinmäki: Yes. Okay. Thank you.

Operator: The next question comes from Erkki Vesola from Inderes. Please, go ahead.

Erkki Vesola: Hi, Pekka and Eeva. Erkki from Inderes. Continuing on China. Could you compare your current tendering activity in China to the one prior to COVID close downs? Where do you expect this activity to materialize as orders?

Pekka Vauramo: I would say that the domestic demand in China, we see some early rebound from restrictions, and restrictions were lifted just a month and a half ago. It's a very recent thing. A big part of the past month and a half was in Chinese New Year and related traveling. It's not really actions that would be visible in our order bookings or numbers, but we know that activity level has increased there. Our dealers in aggregates market are busy in China. Their activity level is on a totally different level where it used to be. If things continue smoothly, we can expect to see things turning into orders during the coming months. In the Mineral side, the activity has been strong throughout in China. Same applies to Metals. If you recall, we booked several Pelletizing orders in China in last year, and that side has been almost unaffected. I commented earlier the Silk Road part of the business that has been active and growing all the time.

Panu Laitinmäki: Okay. Thank you so much. Then regarding the aggregates market in the US, how important will the IRA projects be for you in the coming years, and when do you foresee aggregates demand materializing linked to these projects?

Pekka Vauramo: I'm not that sure how much the IRA relates to our aggregates demand directly, maybe indirectly to some extent. What is the fact is that there's tens of billions of still unallocated highway reconstruction maintenance funds that wait for a reward, and that is what I think will be the main driver for aggregates in the US. That will keep the infrastructure segment of construction very active for months to come.

Panu Laitinmäki: Okay. Thanks so much.

Juha Rouhiainen: All right. I guess, those were the questions this time. We thank you for participating. We thank you for taking part in the Q&A. This concludes our fourth quarter and full year 2022 results conference call. We'll be back with the first quarter results on May 3rd, and I hope to see you at that time at the latest. Thank you and goodbye for now.