Transcript for "INTERIM REPORT FOR JANUARY – SEPTEMBER 2023"

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Juha Rouhiainen: Good afternoon and good morning, everyone. This is Juha from Metso's Investor Relations, and I want to welcome you all to this conference call where we discuss our third quarter, 2023 results, which were published earlier this morning. As always, we'll start with a short presentation by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipila, and after that, we'll be taking questions. Since it's a busy day for all of us, we try and limit this call to 60 minutes. Please help us out by only asking two questions max each. With these words, I'll be handing over to Pekka to start the presentation. Please go ahead.

00:00:47 - 00:01:34
Pekka Vauramo: Thanks Juha. Welcome to this call. A few comments about, the quarter itself. We saw stable activity in mining, and we communicated softly in the aggregates. The sales development as such was flat over the quarter. The margins were holding reasonably well. We continued to improve from the third quarter last year. The adjusted EBITA margin was 16.1 percent. We also upgraded the financial target to the adjusted EBITA target of 17 percent, or exceeding 17 percent over the cycle. When we look at the numbers both for top lines, orders, and sales, we have a negative currency impact on them, about four percent as you see in the tables attached with the report but orders received a decline with actual currencies, minus 10 percent sales being flat or one percent growth.

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Pekka Vauramo: Adjusted EBITA came to 213, which is 11 million above last year, a five percent improvement from last year, and 16.1 versus 15.5 in terms of the margin. Eeva will soon go through the numbers below that one more in detail. When we look at our segments, aggregate orders came down to 269 million. Quite a drop from the year before altogether in terms of equipment, a 30 percent decline, and services declined nine percent, so the mix improved to some extent here. Europe continued to be softened and we saw further softness in North America. We also need to remember that there's seasonality here, which is right at this moment, the highest throughout this time of the year. Also, worthwhile to note that we see some improvement both in India and in China, particularly the super quarries that continue to be active and we are getting nice orders from that segment. Sales came down by about 50-something million to 308 and this was because of lower backlog and was quite expected.

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Pekka Vauramo: Services share improved slightly because of a smaller decline in the services side. Good execution adjusted EBITA, 53 million compared with the previews with much higher volume, 57 million and marching performance, 17.3 versus 15.7, and good execution with much lower volumes, so is the conclusion out of aggregates performance in a quarter. Then on the mineral side, we saw orders decline. Though the market was stable and we had very high proposal activity, the proposals were not converting at the pace. We would like them to see converting into orders and the obvious reasons for that one it's the funding interest rates and other uncertainties that we have around us affecting the decision-making. Services continue to hold better in particular modifications and upgrade activities.

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Pekka Vauramo: Back in that area, we see some decline in the consumable side. All of altogether services are better than the equipment side. Sales all altogether exceeded 11 percent, last year's exceeding slightly 1 billion services, five percent growth and a minor decline in the mix services share being 60 percent from last year's third quarter. Adjusted EBITA margin, we saw an increase to 70.2 percent versus 16.8, and 174 million was the adjusted EBITA for the minerals segment. That is mainly from the deliveries and higher gross margin as assets. These are the quarters in short and Eeva you open up the financials more in detail.

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Eeva Sipilä: Thank you, Pekka, and good morning, and afternoon to everyone on my behalf as well. Indeed, continuing what our CEO already mentioned. Maybe a comment regarding adjusted EBITA on the group items. Whilst the operative run rate in that row should be some five to 10 million costs in a quarter, this year has indeed had some one-off related items. Now in this quarter, we were at 15 million, and that is visible in the numbers. Then, regarding the year-to-date operating profit comparison, I would like to remind everyone that the 22 figure of 306 million includes the 150 million charge to wind down our business in Russia, and nevertheless, even excluding our operating profit exceeding 600 million years to date this year is a significant improvement.

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Eeva Sipilä: Net financial expenses continue a few million up sequentially at 23 million euros. Our effective tax rate for the nine months rounded up to 26 percent. As such, at a level, we would expect for the full year as well in this 25, 26 bracket. Our earnings per share for continuing operations were 14 cents for the third quarter and year to date, we are at 49 cents. Following the move of the two previous metals businesses into discontinued operations, we now have a slightly positive result there leading to earnings per share including discontinued operations to be a cent higher i.e. 15 cents for the quarter. Then moving on to our balance sheet. Total assets are up to some 50 million from the end of June and roughly 200 million from the beginning of the year from June. Sequentially we did see a further small decrease in intangibles combined with some further increase in plant and equipment following ongoing CapEx projects. Otherwise, the changes are in working capital items and liquid funds and I'll say a few words on them in the next slides.

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Eeva Sipilä: Before that, just noting that the net debt at the end of September stood at 815 million euros. Turning down as expected and indeed looking at cash flow from operations, it did improve in the third quarter, both sequentially as well as year-over-year, amounting to 261 million euros. The improvement now comes from clearly less cash being tied in networking capital, and hence our profitability becoming more visible. Whilst we didn't quite get to our target of networking capital to turn into a release, we did turn the tide as expected. The next slide provides a bit more detail on our working capital items. At the end of September, networking capital was 926 million. At the start of the year, it was some 600 million. At the end of June, it was on a rather similar level at slightly below 900 million and lower than the September number only due to higher payables deducted from the total.

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Eeva Sipilä: Now, this flat sequential development supported the quarterly cash flow as you saw from the previous slide. However, with the sales growth slowing down the percentage calculated over 12-month quarterly averages rose to 14 percent, which is clearly on the high side. We do expect this to come down. The right-hand chart shows the items in absolute euros, and compared to the end of June, we are down on all items. This comparison to the beginning of the year still shows a growth in inventories but we will continue working to improve our cash flow generation by releasing capital tied in working capital as discussed previously. The market environment will enable us to continue on that path. Moving then to my final slide just a few points on our financial position.

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Eeva Sipilä: Very little change from our last quarterly call. We did agree on an extension of one year on an existing term loan with one of our banks to improve our maturity structure. Otherwise really are no changes our committed facilities are ample. Then looking at the table, liquid funds are stable compared to the previous quarter while the net is down, which then brings our gearing at the end of September down to 32.6 percent and debt to capital to just below 30 percent. With that, handing it back over to you, Pekka.

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Pekka Vauramo: Thank you, Eeva. We upgraded the financial target, as I already said to 17 percent. The upgrade is based on the other hand the fact that over the rolling 12-month period, we have exceeded the previous target, 15 percent. We feel that there is room for further improvement of the margin with the divestments progressing. We will have a very focused portfolio having two segments' aggregates and minerals going forward. Two very synergistic segments and the business model in both segments is more de-risked compared with the previous full portfolio that we had in Metso. Further growth opportunities in service, which we will end up tackling both through organic and inorganic growth. Then the third thing we continuously see opportunities for further performance improvements.

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Pekka Vauramo: Also, when looking back by no means, we had perfect execution in any of the preceding quarters. We see further potential there now through the focus portfolio plus also a more cautious view on projects than what we have had in the past. The other targets that we have remain unchanged i.e., the dividend policy remains the same. We aim to maintain an investment grade rating and then on sustainability, which they committed to our action plan to support the 1.5-degree max global warming target by 2030. Those are the new targets. We are going forward, and we feel that the potential out there is, and that's why the upgrade was made on the ESG side. In the third quarter, we continue to deliver planet-positive products increasingly to our customers.

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Pekka Vauramo: The sales crew by 34 percent in the rolling 12-month period and reached 1.5 billion euros in that period. You can see that the growth has been fairly steady over the previous quarters. We feel that there is further potential to grow in that one. Naturally, all our R&D and new product development goes into practice to develop new planet-positive offerings. We work also with our suppliers. We have committed to increasing engagement with the science-based targets and with our suppliers. Currently, we have 24 percent of our suppliers spend committed to science-based targets, and we continue to grow that rate as we move on. We also do very good work in cutting the emissions in our operations. The baseline year comparison is minus 65 percent now as we speak, and we are on track to meet the 2030 net zero call. It's not worthy also that the battery minerals are playing a major role now in our test work, which is some proxy of what we have ahead of us.

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Pekka Vauramo: Ahead of us, we are really busy. About half of our test work currently goes into battery minerals, and then if we add another metal relevant for electrification, copper onto that one, that covers almost all of the test work, then what we do in our labs at this moment. We also feel that employee engagement is important for our business and the success of our business. We are at an all-time high in our survey, which we repeat quarterly basis. We are with our international benchmark group within the top five percent of the companies in terms of employee engagement. Then the market outlook. We expect market activity to remain at the current level in both minerals and aggregates. With these, we can move on to the Q&A.

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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.

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Klas Bergelind: Hi, Pekka and Eeva. Klas from Citi. My first one is on aggregate. You're not changing your guide further down, and it's a six-month guide, and it was a big sharp drop in equipment orders. When you go through the year Pekka and you think about North American infra stimulus, you talked a bit about India in terms of structural growth, does it mean that this is implicitly saying against six months behind us being weak? Are we bottoming and maybe improving six months out according to you on the aggregate side? I'll stop there.

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Pekka Vauramo: As I said, we are seasonally at the low point right now, and we are still expecting the season to be next spring, which means that we should see ordering activity increasing towards the end of the fourth quarter. Specifically, in the early first quarter. Before that, we really cannot say which way we are going, but at this moment we see that the season will be there next spring. That would mean that at least seasonally we are bottoming ground now.

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Klas Bergelind: That's good to hear. Then on the margin in aggregates solid, given the sales decline and you have the temporary workforce reduction, you have moved the business from supplying a lot of, or delivering a lot of solutions to more products, you streamlined this business. McCloskey has been a good integration. Let's say that sales next year when we just push through the current order weakness may fall at least 10 percent, which looks to be the case now. How should we think about the trough margin versus history? This is a business that typically troughs that low double digits. Is it more than the mid-teens margin we should think of, Pekka, as we look into 2024?

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Pekka Vauramo: We, of course, have many actions in place and further actions will be initiated to protect the margins. As such, we don't guide the margins as you know, well, class, and don't want to get into that part now either, but for sure, we need volume to keep the margins improving, and current order intake is not supporting that one. That's where I would like to leave it.

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Klas Bergelind: Thank you.

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

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Max: Thank you. Good afternoon. I just wanted to ask about the new margin target of above 17. I think when you had the 15 percent target, you quite helpfully gave us, how you're thinking about the individual divisions. I think it was around 20 percent for minerals and mid-teens for aggregates. Could you just help us understand a little bit of how you are thinking about those divisions? I guess maybe as an extension to that. This is above 17 percent through cycle margin targets. I guess you're saying this is where we think the peak is. This is just across the cycle. Maybe you could just clarify some of those points. That would be helpful.

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Eeva Sipilä: Sure. Max. Indeed we haven't changed our view on the mineral's potential, so that towards 20 percent direction is still we think a very good indication. Hence we didn't specifically note it. I think also referring to what Pekka just mentioned on aggregate, so indeed we believe structurally made a step change in that business. Whilst currently obviously it's challenged by lower volumes, we think the potential is clearly in the teens areas as well. Then the combination of these two results in that group target of 17 over the cycle and quite rightly so this is not the peak margin, this is as guidance for you on our ambition to further move the business despite the short-term challenges we see in the external market environment. We do fundamentally believe that this business over the cycle can deliver better margins and hence that's how boards are thinking behind the target setting.

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Max: I realize I've only got one more question, so I'll stick to cash. When we look at that working capital chart that you showed off working capital to sales has gone from nine percent at the end of last year up to about 14. Could you help us with, how you think about that evolving by the end of 2024? Where could realistically that number come down to based on the actions you're taking? It looks like you've had some early progress, but that would be helpful to understand at least roughly how to frame working capital in next year's cash assumptions. Thank you.

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Eeva Sipilä: Sure. I think the correct level for us would be at 10, 11 something in that region. I think the nine is a tough mark perhaps, but clearly, this is on the high side. What we've seen is not necessarily fully surprising as we've started to address working capital and reduce buffer stocks, the first impact you see is payables. Of course, on the calculation of that working capital, it is negative when the minus gets smaller but that's where it comes through before it then impacts inventories. I think we've done excellent work on the collection despite having strong growth in the earlier quarters on sales and now the focus really on inventory payables direction will help we're seeing less inflationary pressure. Things coming in also support that. Of course, your question on 24 would require crystal ball inflation and many other things.

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Eeva Sipilä: I think there are different views out there still. Our activities on the inventory side continue. Then it will depend also on the growth projections in 24 where the absolute numbers but again, if we get sales growth, obviously then the percentage is helped as well. That's maybe what I can help you with Max today.

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Max: That's great. Thank you.

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

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Antti Kansanen: Hi guys. It's Antti from SEB. Two questions from me as well. I'll start with minerals and a question on pricing. I guess we saw some negative impacts on the consumable side and perhaps in some equipment as well from pass-through costs or metal prices. Did you see growth in volume terms in of consumables? Also, is this pressuring the businesses that you have more dynamic prices in the sense that if we look forward, will pricing be a headwind for your orders in totality?

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Pekka Vauramo: Consumables, yes, we have introduced. As we have earlier told we have introduced indexes. Of course, we see these indexes going up and down as the inputs do change. We are seeing some of that one happening now, but the indexes are there to protect our margin mostly. Yes, a headwind in terms of pricing, but

should protect our margins at the same time. Other than that, I don't see any pricing pressure or impact in our minerals business at this moment.

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Antti Kansanen: Did the demand for consumables grow on volume terms? Was the negative growth in the pricing?

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Pekka Vauramo: They did not grow. They declined.

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Antti Kansanen: Good. Then the second question was more on the aggregate side and the US business, and I guess this has been a distribute, it's a distributor-driven market. Now that we move into late Q4, or early Q1 for the summer season ordering. How do you see the inventory levels among the dealers? Is it the clean slate after the week's second half, or is there a threat that even if it's an active market, the ordering might be a bit compromised because of inventory levels?

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Pekka Vauramo: The inventories are still high, maybe marginally down if one takes a positive view on that one, but still on a high level that includes also the rental fleet, which is fully in use, I would say, and rental fleet, which is owned by the dealer. We are expecting this rental fleet to convert to own machines and should that happen then it would also initiate more active ordering at the same time. Let's say, it's always difficult to say what's going to happen in today's world.

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Antti Kansanen: Thank you.

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Operator: The next question comes from Christian Hinderaker from Goldman Sachs. Please go ahead.

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Christian Hinderaker: Hello Pekka, Eeva, and Juha, thanks for taking my questions. My first is on aggregates and just coming back on the revised outlook and some of the comments, I guess around inventory levels. I just want to understand because, in the second quarter, you talked about a slower pace of rental fleet conversion purchasing as a result of our cost of capital and financing costs, which I think you've mentioned continue to be high and headwind to growth more broadly in the statements. I just want to understand what gives you that confidence that early next year that can change, as I think you've just commented in terms of fleet conversion and the sale of used equipment.

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Eeva Sipilä: Christian, I think the main thinking for us is the underlying activity, construction activity on the infrastructure side continues to be active, and we haven't seen the end customer activity slow. I think projections for 24 are also reasonably positive. As that then the rental fleet gets older and less efficient there. It tends to be a natural interest then to move that forward and then buy new ones in. Of course, at this point, as Pekka mentioned, is based on assumptions as the season starts swarming up, then ends in November, or early December to be there for the next building season. As I said, that underlying dynamics would support a more positive view.

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Christian Hinderaker: Very clear. Thank you, Eeva. Maybe just my second question. Interested to understand, I think the guidance on central costs was around five to 10 million in the last quarter, and I think we came at it at 15. I just wonder what dynamics were at play there. Thank you.

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Eeva Sipilä: Yes, indeed. We had some fortunate one-offs, the type of things that we weren't able to fully properly predict. That five to 10 million is still a good proxy for the underlying operative level of items that we see repeating from quarter to quarter and then items falling on top of that. Then obviously raise the bar. I would continue to be a bit more positive going forward, but obviously, this year has been a challenging one.

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Christian Hinderaker: Thank you.

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Operator: The next question comes from Andrew Wilson from J.P. Morgan. Please go ahead.

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Andrew Wilson: Hi, guys. Thank you for taking my questions. I think they're on the same subject. I may be asking together just the commentary around I guess slower customer decision-making on the vendor side. Can I ask, is that all types of customers, or is it specifically either the majors or the juniors? Do you think this relates to financing challenges or is it just broad uncertainty appreciating, that might be quite a varied answer. Secondly on the same subject, what if anything you've seen changing in terms of the pricing environment around some of those projects? Are they sufficient, well advanced that there isn't a pricing discussion or there isn't a tender discussion, the state? Also, in terms of where we think about they are sufficiently advanced. Does that lock you on the previously agreed prices or do you see customers come back and try to renegotiate? That'd be helpful. Thank you.

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Pekka Vauramo: Thanks for that question. I would say that, yes, financing is an issue more so for the juniors. Despite the recent discussions on customs and communications with the major ones, they are fairly confident that they will increase their cap expanding in 24. Quite an opposite view from major mining companies compared with the juniors. Then with regards to discussions, quite many feasibility studies are being redone at this moment. That's something that we see and that's also very often these feasibilities are run by EPC/EPCM companies and our communication with them confirms this fact that many projects are being re-scoped. Some people are looking at different execution of the project. Some higher capacity, some lower capacity, or various options are being studied. I think that's the name of the game rather than the pricing discussion.

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Andrew Wilson: That's very helpful. Thank you.

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Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

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Mikael Doepel: Thank you. Good afternoon. Firstly, on minerals. When I look at your order intake in Q3 and compare it to Q2 for the new equipment business, I can see it is done sequentially, even though I think you didn't have any big orders booked in Q2, but you did have them in Q3. The underlying business of smaller to mid-size products seems to have become smaller. I'm just wondering, have you seen any change in the market there overall? Has this hesitation become more broad-based and spread to the smaller projects as well, or how do you see that market currently?

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Pekka Vauramo: Of course, there is softness in the market and even though two bigger ones came through during the quarter, I think we were also commenting earlier in the second quarter that the small activity around small orders was on a time-high level, sometimes brought earlier this year. Maybe this is more of a return of those small orders to normal level Then on the other hand we do see increasing activity on our services side in modifications and upgrades and sometimes it's a very fine line whether this is a new equipment order or whether it's a modification as such, and we account it as a modification, if it requires engineering changes in the existing process and related modifications on the standard equipment that we deliver plus of work then relating to overseeing the assembly.

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Mikael Doepel: You wouldn't say that you have seen any increased levels of cancellations or anything like that? The pipeline still looks good overall.

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Pekka Vauramo: We don't see cancellations happening.

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Mikael Doepel: Thank you. Then secondly coming back to the question about cash flow and working capital. Maybe to a question to Eeva, so just wondering in the Q4, what is your base assumption there? You have tied up still quite a lot of cash. Would you expect to be able to release something already in Q4 of this year or shouldn't we expect that to happen yet, rather than into perhaps next year?

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Eeva Sipilä: I would say that and I commented earlier, they were targeting, not to have further capital tied in the business than we did. We were perhaps a bit lower in sales, i.e., deliveries than planned. Then if it doesn't go out it stays in inventory. Then you could, of course, argue it would've moved to AR, but that was a bit of the area where we need to work, and as such actions are in place. I think the focus on our side is on moving the backlog, moving things from inventory through sales out. Certainly, we hope to have somewhat better deliveries because of the order backlog we have in the business. Then that would enable us to further improve the cash flow. That's the focus now for Q4.

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Mikael Doepel: Perfect. Thank you very much.

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Operator: The next question comes from Tomi Railo from DNB. Please go ahead.

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Tomi Railo: Hi, Pekka, Eeva. It's Tomi from DNB. I would appreciate it if you could share some, high-level thoughts into 24. We have seen order intake coming down now for a couple of quarters, including services. Order backlog is down year-on-year. How do you feel going into next year and is there a possible need for capacity adjustments?

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Pekka Vauramo: Of course, there is a lot of uncertainty out there, and very much confirms the recent events. Events in the global scene that the world is going from one crisis to another, and in between there's great uncertainty and this seems to be repeating itself. The same pattern and forecasting are difficult. Of course, internally, we see the high proposal activity. We see high activity in the test work that we do in our labs. We do here majors increasing capital expenditure in next year. Juniors, that activity is currently down. These are the factors that we see right now ahead of us. Of course, when it gets closer to the end of the year, we'll start to see and have some more visibility of how firm these things are and what shape the world is at that moment. Certainly, it'll take into next year before we will see improvement in the situation. I think that's overall fair to say at this moment. How strongly it then happens or if it happens at all, remains to be seen.

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Eeva Sipilä: Hey, Tomi, we are more positive about the order intake based on what we see in the pipeline. Of course, for your modeling, it's good to appreciate that now we've had two-quarters of somewhat lower orders, so that does of course impact next year's sales, and that may be good to take into account and then we'll see how I said "what we come out with in Q4 and how short-lived that is." Of course, orders next year will not help, first-half sales in the same way as you can appreciate that orders that would've come now.

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Tomi Railo: Correct. Thank you.

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Operator: The next question comes from Vlad Sergievskiy from Barclays. Please go ahead.

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Vladimir Sergievskiy: Thank you very much for taking my questions. Can I start with double-checking with you on two numbers? First of all, in the P&L, the other operating expense line was quite negative 29 million presumably putting pressure on your margin, what was behind that line? The second would be on the cash flow statement and another item line, which was negative 47 million. That's probably put quite a bit of pressure on your cash conversion in the quarter, and again, trying to understand what's behind that line as well.

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Eeva Sipilä: Let me just pick the numbers you're looking at. I think the other operating income of course is a combo in a way that what doesn't go and enter a sales and marketing admin or R&D ends up in other. It's by

nature a bit of a lumpy item. We're down on that year-over-year. I don't see it as adding pressure per se. It was a few million up in versus the third quarter last year, but the year to date it's significantly below. I wouldn't perhaps read too much into that. Then your other number was on the cash flow, 47, and it comes to what relates and what we have under adjustments and these are then items when we start from the profit road that we deduct or add back into way to get to the operative result there. I can check if there was anything special lot on that, but again, unfortunately, these others tend to be what doesn't ideally fit in what is outlined specifically, then they end up in other, and it's then a mixed bag.

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Vladimir Sergievskiy: Understood. Thank you very much, Eeva, and a very quick one on your service orders. You're reporting down six percent year over year in minerals versus a very high-level last year. What happened to average prices year-over-year on service? If we can come up with an average price? Was it flat? Was it still up? Trying to understand what happened to service volumes. Again, if we can try to pinpoint that.

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Eeva Sipilä: I think partly, it depends a bit on what part of the service. There were areas of service where volumes continued to grow. Then we had areas where volumes were down and Pekka mentioned earlier in the call that in the consumables area, we did see some destocking activity from customers be it aggregates or minerals. Then of course we had an impact on negative impact on volume, very hard to give an average price for everything we did. Overall, I think pricing has held quite well apart from the areas where again, as mentioned earlier in the call there are clear indexes tied to certain raw materials and as you well know, the prices of steel and steel scrap, for instance, have been coming down, which of course I think is inherently good. It affects the top line, not as such, the margin.

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Vladimir Sergievskiy: That's very clear. Thank you very much.

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Operator: The next question comes from Elliot Robinson from Bank of America. Please go ahead.

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Elliot Robinson: Hey guys. The first question for me is quite quick. With the 150 million charges taken from Russia in Q2 last year, you still got 64 million of that left and you had a similar amount in Q2. How should we think about the utilization of that going forward? Is there a chance that you're going to have to reassess that charge at one point? Thank you, and then I'll come back with the second one.

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Eeva Sipilä: It's certainly something we have evaluated, but due to the uncertainty before we have legally firm settlement agreements in place for all deals, we prefer to keep the provision untouched. As time evolves those things will mature and move forward. In every quarter, we do need to take a look at that and certainly at the year-end also together with our together with our auditors. That will be reassessed, but it's a Fluxx situation and it is somewhat difficult to exactly predict the outcome. Hence we prefer to keep it intact until we have real concrete evidence that things will move forward. There are certain settlements are also tied to activities that will only evolve over time. We have exceeded, we have to wait how the customer operations evolve.

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Elliot Robinson: That makes a bit of sense. Then the other bit would just be on the pipeline of large orders, although I appreciate it's been touched on a little bit. Do you expect to see a catch-up effect on these orders where you've seen slow decision-making or do you think there needs to be a catalyst for there to be this catch-up in large orders? Is it the case where you think this is just going to be all pushed out to the right, or certainly, will, we see a catch-up?

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Pekka Vauramo: The big orders make our order intake always lumpy and these lumps tend to come not evenly. That's why it is lumpy. I think the most difficult thing is to forecast the timing of them. We know that certain things will move ahead at one point but always difficult to say when that happens. I believe the same will happen as before that then everyone wants to go ahead at the same time at one point with these bigger ones. That's all I can say at this moment. They haven't disappeared anywhere.

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Elliot Robinson: Do you expect that catch-up to be around the time when you see interest rates coming down? Do you reckon that's going to be a factor or do you think it would just be the fact that a lot of miners will just decide to get a move on?

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Pekka Vauramo: Of course, I do hope that they will move on. We all know that the world needs more metals and this is the positive driver that we do have. The financial frame and answer on the inner world are so great at this moment that interest rates stabilizing or starting to go down would help in making these decisions. Mining as assets, it's cashflow wise. Starting a new mine, it's a very, very heavy exercise, and interest rates are adding always to the difficulties.

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Elliot Robinson: Thank you for that. That's great. Cheers.

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Operator: The next question comes from Tom Skogman from Carnegie. Please go ahead.

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Tom Skogman: Good afternoon. I would like to zoom in on your consumables business, as I remember that it has historically been quite cyclical, especially at times when input costs like steel prices come down. What do you see at the moment? Have you already seen a down cycle in consumables or should we factor in a sharp decline in consumables orders in the next two quarters?

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Pekka Vauramo: I think consumables, customers will continue to buy consumables as long as they continue producing and there are very few mind shutdowns. Only one major one that I'm aware of at this moment. The consumption will be there and I'm quite sure that we continue to be competitive and serve customers well in future as well. I don't see a decline coming unless there is a dramatic drop in metal prices. Some of the metal prices have come down recently, but it's not yet a dramatic drop as I think operating mines mostly continue still very profitable at this level.

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Tom Skogman: Thank you. My second question is on your new margin target you are climbing the quality ladder and profitability has improved a lot, but given that you have come up from a level of an 11, 12 percent EBITA margin in 2020, I think there are still investors and analysts that are scared in a really weak scenario, the margin level could come down a lot. In your view, given the big changes to the company and the divestment, what could be a negative scenario, like a margin level that you would feel comfortable that you would always reach?

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Pekka Vauramo: That is a good question, but if I don't give you a definite answer to that one, if you think about the past with a lot of EPC projects being executed, and when a downturn hits what companies with projects and project profiles at the downturn, what do they report on their actuals on running rate basis. It's projects that are delayed or projects that do have difficulties. Then of course the financial numbers during that period when everything else is down, they are very sad to read and sad history as such. By de-risking our business model, what we have now done, some legacies left, but we'll deal with them very soon now. Now the last piece is, we don't foresee that situation at all for us right now with the current two segments that we understand well what's in the order books now. I would leave it there. We are different now. Also, the future should be different for us in that regard

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Tom Skogman: Thank you.

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

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Antti Kansanen: Thanks for the follow-up. It's regarding how you see the aggregate's profitability and the financial targets because if we take a more normalized day group costs, something about 20 percent would be reachable on the mineral side, it doesn't leave much upside to aggregates if any. Now if you look at your Q3

numbers, you defended your margins quite well, but sales dropping. How should we think about where we are now in the cycle regarding aggregate margins? What's realistic in a more muted market development than let's say a weaker US market? Could you talk a little bit more about that one?

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Pekka Vauramo: Of course, we are executing currently the order book which we still have the new order intake. You have seen the numbers, but what we are expecting is the seasonality on a minimum level, the seasonality to boost the order intake. Of course, we need to see the European market come back to continue improving the margin. That should not happen, I mean then of course we see some erosion of the margin, but there as well, we are quite a different structurally in our aggregates business, what we used to be. We used to serve more of one segment of customers more of the high-end customers. Now we have to offer more widely spread to different segments of the market. We have different types of offerings in place. Our coverage of the market with multiple distribution channels is different. We've been able to do it without too heavy additional costs on the aggregate side. I think we should see much better performance in aggregates as well even during this downturn going forward. We are more recession-proof there as well.

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Antti Kansanen: Then the second more short-term question, on the mineral seasonality, we've seen a couple of Q4s, when you have got the nail suddenly a lot of these equipment deals booked and there's been a peak in order intakes. Are these one-offs or do you think that there's a certain seasonality that clients get a bit more active in the last weeks of the year? Then on the other hand, on the services side, we saw an extremely active Q1 this year. Is there some type of early seasonality if you could remind us?

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Pekka Vauramo: I don't believe in year-end seasonality on bigger orders as such. Of course, year-end can be a deadline for executing something. I think it's more random than anything else. The services side is the same way. Maybe some of the lifecycle contracts may have their anniversary at the beginning of the year. That might be a reason why we could see some boost in the first quarter. Also, that one shouldn't be so strong that it would make it stand out too much.

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Antti Kansanen: Very clear. Thanks.

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Juha Rouhiainen: Thanks, everybody for your questions, and thanks for being efficient today. This concludes our third quarter results conference call. The next results announcement will only be in February next year, but before that, we are looking forward to meeting many of you in person and in particular. Have a good weekend when you get there. Thanks, and goodbye.