Transcript for "Metso’s Financial Statements Review January - December 2023"

00:00:00 - 00:00:57
Juha: Good afternoon, good morning, everyone. This is Juha from Metso's IR. I want to welcome you all to this conference call where we discuss our fourth quarter and full year 2023 results which were published earlier this morning. Results will be published by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipilä. After the presentation, we'll open the lines for your questions. Before we start, a request that you limit your questions to one or two per person for us to accommodate as many questions as possible because the duration of this call is planned to be 60 minutes. As always, we are going to make forward-looking statements during this call, so that's why we have the disclaimer in our presentation package. With these words, we are ready to start. I'll be handing it over to Pekka. Please go ahead.

00:00:57 - 00:02:14
Pekka: Thank you, Juha, and welcome. I will start as usual, say a few words about overall on the quarter, look at the group numbers, and then Eeva will go deeper into numbers and then I'll return with a wrap-up before Q&A. During the quarter we saw really stable market activity as we guided. Basically, no change from Q3 to Q4 in market activity. Services orders and services sales developed positively. We saw growth on those lines and that is, of course, a very positive development as such. Our EBITA margin continued to improve, now the quarterly margin was 16.8. If you recall our revised financial target is to exceed 17 in the long run. Despite of the overall slowness in the market, we are taking steps towards the 17 percent as we speak.

00:02:14 - 00:03:31
Pekka: Cash flow has been an issue, and still is an issue for us and that performance hasn't been satisfactory for us, but this quarter was the strongest quarter when it comes to cash flow from the operations as such and we have started to see the actions already becoming effective and having an impact on our cash flow right now as we speak. When we look at the numbers, orders we saw an overall decline of 14 percent. There is a negative currency impact on that one, so it will moderate a little bit the decline in that one. We also do have a very tough comparison. A year ago, we had lots of orders coming in, particularly in December 2022. That is why the comparison looks a bit more dramatic than what it really is. The sales development was more or less flat, so minus one percent, but there also the negative currency impact means that there was an actual growth with the fixed currencies.

00:03:31 - 00:04:50
Pekka: Adjusted EBITA seven percent more than a year ago and the margin translates to 16.8 and a year before 15.5. Good development on that one and then we go further down operating profit 200 million and that as a percentage 14.9 and EPS during the quarter 16 cents and cash flow from the operations 216 million. When we look at the full year numbers, on top lines we had a stronger performance at the beginning of the year and orders received declined slightly seven percent, and then the sales did grow. We have still a reasonably strong order backlog and we are delivering the order backlog; therefore, we were able to grow the sales throughout the year. The EBITA improved altogether 24 percent from 715 to 887 million euros and the margin for the full year comes to 16.5 percent.

00:04:50 - 00:06:12
Pekka: Operating profit is 14.9 percent, earnings per share 65 cents, and cash flow from the operations 550 million. On the graph, we wanted to show a bit longer-term performance for us, starting really from the merger in 2020 that was the merger year, 11.5 step by step growing year by year to 16 and a half. There have been some major events there affecting the business all along. First of all, the merger as such then pandemics, then the war in Ukraine, and so forth. This development has taken place during all of these things. At least we look at it with satisfaction, this development and are very proud of the achievement as such. Our segments, we have now two segments as we move on the metals are mostly in discontinued operations, and if you recall the smelting business line was moved into Minerals.

00:06:12 - 00:07:38
Pekka: Now in continuing operations, we have Aggregates and Minerals. Aggregates, we saw the top lines coming down, but the overall resilience of Aggregates business really proves it out now that has improved greatly. We delivered a 16.2 percent margin that is exactly the same as was fourth quarter in '22 and there's 100 million reductions in sales. Therefore, the margin resilience is really worth noting in this one. We started to see improvement in market activity in late Q4. This proves that there will be a stronger spring season but what

makes us a bit even more optimistic about the future is that the market recovery or the outlook recovery is geographically broad-based. We see it in North America, we see it in Europe and South America, we see it in India and in China. That gives us a reason to be more optimistic about the future.

00:07:38 - 00:09:02
Pekka: Equipment orders, as I said, 100 million below or is it orders as well orders is, anyway 28 percent below last year and that is because of the market situation where we all together are. Sales coming down 100 million as I said and despite that one good margin development. Services slight decrease in actual number but because of the drop in equipment the mix developed favorably. Adjusted EBITA of 47 million follows, of course, the drop of the volume with a similar margin of 16.2 and many good activities, actions on the cost side, and overall management of the business in Aggregates resulted in very resilient margin despite quite a strong decline in the sales. On mineral side orders, we saw a decline as was expected and that's mainly because of the lack of major orders and very tough comparison.

00:09:02 - 00:10:03
Pekka: Those orders that we did get a year ago were mainly on the Minerals side. Overall, the development was very stable from quarter to quarter. Service orders did grow. Here I also remind of the negative currency impact that is visible on our top lines here. The sales continued to grow and were delivered from the backlog. Equipment four percent, services 12 percent, and services share climbing to 62 percent which is, of course, welcome improvement of the mix. Adjusted EBITA 179 margin translates to 17 percent and overall good performance including also gross margin delivery performance and the volume growth as was seen in minerals. I'll hand it over to Eeva for the financials.

00:10:03 - 00:11:08
Eeva: Good morning, good afternoon, ladies and gentlemen, on my behalf as well. Our CEO already discussed the operative performance. I will maybe add a comment on the group items in adjusted EBITA which we're only 1 million minus in the quarter. Now, this low number means that some of the earlier quarter highs affected partly by timing and valuation-related issues were balanced on the full year level as we were expecting, and hence rather than looking at the quarterly outcome I would advise looking at the annual 52 million figure as being more indicative of the run rate. Still somewhat higher than we expected going into '23 and also higher than what we would expect for '24. Moving forward on the P&L we are indeed pleased of exceeding the 800 million marks for operating profit for the year representing 14.9 percent of sales.

00:11:08 - 00:12:03
Eeva: Net financial expenses at 25 million for the quarter were sequentially a couple of million up due to higher debt following the new bond issue. Again, this is a very good indication of our current run rate level until we then in Q2 of this year will pay back maturities falling due. Our effective tax rate for the year was 26 percent very well in line with what we expected and guided during the year. Our earnings per share for continuing operations amounted to 65 cents for the year. Following the move of the two previous metals businesses into discontinued operations we had a slightly positive result there leading to total earnings per share including discontinued operations being a cent higher for the year which is 66 cents. Moving to our balance sheet. Total assets at year-end were up some 400 million from the beginning of 2023.

00:12:03 - 00:13:02
Eeva: We saw a small decrease in intangibles while the value of plant and equipment increased following several ongoing CapEx projects. Additionally, you see some movement in working capital items as well as then that new assets liabilities held for sale categories related to the discontinued operations. From the graph, you see our net debt at the year-end was 884 million euros. Due to the 300 million bond transaction, our interest-bearing liabilities on the balance sheet were up, but then we still held those monies as liquid funds at year-end as well, balancing that out. The majority of the new funds will be used to pay back our bond maturity coming due in Q2 of this year. Fourth quarter cash flow from operations was the best of the quarters in '23 amounting to 216 million euros.

00:13:02 - 00:14:01
Eeva: On a full-year level, we are not satisfied but at 550 million euros we are at least clearly ahead of the difficult '22. The improvement in the previous year’s comes from better profitability. While the second half was clearly better than first half in terms of cash tied in networking capital, the full-year figure for '23 was still high. This next slide provides a bit more detail on our networking capital. At the end of the year, it was 990 million euros. At the start of the year, it was some 600 million. Despite the eight percent sales growth this represents networking capital of 15 percent of sales up from nine percent a year before. Indeed, it continues on a high level.

I hope the graph on the right-hand side is illustrative on the trends affecting the total and why the percentage hasn't moved down yet.

00:14:01 - 00:14:52
Eeva: You hopefully see well from the graph when we started to see supply chains easing and reduced our purchases, namely the second half of 2022 when you look at the payables, yet it took three quarters before inventories peaked, not least because during this time we saw high inflation and purchases albeit less in volume coming in still with actually higher prices resulting in the inventories in euros going up. Something we have now been consuming in the last couple of quarters. Receivables have continued to turn well while in absolute euros following, of course, the sales growth with some delay. Going forward we are positive that we will see continuation of the movement in this graph as we continue to work on reducing inventories across our businesses.

00:14:52 - 00:15:40
Eeva: This will then support our cash flow generation in '24. Moving to my final slide and main points on our financial position. As mentioned before during the fourth quarter our main financial event was the launch of our first sustainability-linked bond of 300 million euros. Additionally in the quarter, we drew an earlier agreed loan from the European Investment Bank worth 50 million euros directed to fund our research and development activities. Our credit ratings are unchanged, and our committed facilities continue ample. Finally, highlighting from the table, our gearing at the end of December was 33.8 percent, and debt to capital stood at 35 percent. With that, I would hand it back to you, Pekka.

00:15:40 - 00:16:48
Pekka: Thanks, Eeva. A few words about sustainability and then finally outlook before we go into the Q&A. As you recall, we have had the planet-positive label for our most sustainable products for the past three years. We continue to grow Planet Positive sales faster than overall sales growth. Year after year the Planet Positive sales were 18 percent higher and that is, of course, a good result and a very positive result. We are seeing a somewhat slower pick-up rate on Planet Positive, but this is also what we are expecting because now the share of Planet Positive offering is reaching quite high level and to build growth on top of that one starts to be tougher and tougher. We continue to commit to more sustainable offerings and make sure that our sales convert into sustainable products and services.

00:16:48 - 00:17:55
Pekka: That is a path we believe will be also the winning formula into the future. Our net zero target by 2030, is a great improvement. We have done almost three-quarters of the journey at the end of last year. We have seen a reduction of 73 percent and there is an absolute reduction. Reduction is not a relative as such and therefore it's a very good achievement. On the other hand, we also do have an absolute reduction target in logistics but that is clearly more difficult to achieve than on operations. It's partially linked, of course, with the transportation and means of transportation, but even more so it is more of a structural thing to minimize the transportation distances, and then on top of that one choosing the cleanest possible means of transport. There are things that we can do.

00:17:55 - 00:19:29
Pekka: We have reduced our logistics emissions already by seven percent, but we have more to be done in that area. We are, of course, trying to limit the use of air freight, minimize it to only those few cases where there is no other means of reaching out, and then choose the best possible means of transportation. With our suppliers, we continue to do good work. Our target that we set ourselves was to have a supplier base based on spend committing to science-based targets of 30 percent. We are on a 26 percent level now and very close to that target. All others vary nicely with our targets but in logistics, we need to step up our efforts in terms of CO2. We also announced a dividend proposal which we would pay from last year's result. The proposal is 36 cents which represents 55 percent of EPS, and our dividend policy is to pay more than 50 percent of our earnings per share as dividends, so this fulfills those criteria.

00:19:29 - 00:20:50
Pekka: It will be paid in two equal payments and the total dividend payment will be just short of the 300 million that we return to the shareholders. There in a graph, you see the dividend story since 2020 growing from 20 cents to 24, 30, and now proposed 36 cents. Our outlook as I said in the beginning, we see a light in the horizon for Aggregates and in Aggregates markets and we see that the activity will remain on the same level in Minerals. In Aggregates, it's worthwhile noting that the improvement is really broad-based geographically and

it's also across our main product brands, Metso and McCloskey. That's what makes us believe that changing the outlook for Aggregates is really broad-based and unjustified. With these ones, I think we are ready for Q&A.

00:20:50 - 00:21:18
Operator: If you wish to ask a question pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Christian Hinderaker from Goldman Sachs. Please go ahead.

00:21:18 - 00:22:05
Christian: Good morning, Pekka and Eeva. Thanks for the questions. My first is on the Aggregates outlook. I appreciate the color there in terms of product brands. I know this isn't the first time we've discussed the mechanics so forgive me for raising it. I just wonder if this outlook change is incorporating seasonality. If we exclude last year's first half of '23 you'd find an average step-up in Aggregates orders for the first half versus the second of plus 14 percent since 2019 due to that seasonality effect. Just wondering whether your outlook change is reflecting just that seasonal shift or if are there any other factors in the outlook such as inventory adjustments in the supply chain that give you more or less confidence relative to the seasonal pickup.

00:22:05 - 00:22:54
Pekka: There's both that we see currently. There's a slight movement in our dealer stocks, for example, and dealers have started to place new stock orders. There's still plenty of material there in the inventory, though, but we are starting to see movement there. Now it starts to be evident that we do see a spring season this year as well. at the same time, we are below last year's activity level right now in the beginning of the year. Clearly better than what we saw, so the end of the third quarter and during the second quarter of the year.

00:22:54 - 00:23:27
Christian: Thank you, Pekka. That's very clear. Maybe just on Aggregates again on pricing. I think it was in Q2 you talked about higher pricing being harder to implement as customers and Aggregates face broad-based inflation pressures, so the two parts to this really. You just talk us through the mechanics in terms of the pricing model in Aggregates given that the wholesale distribution model with dealers and whether there's a discounting effect. Second, is that view on price sensitivity of customers still in place today as we move into 2024?

00:23:27 - 00:24:27
Pekka: We, of course, need to remember that inflation is still in place. The recent one comes from the logistics side and the situation in the Suez Canal and things like that. Inflation still though it's a single digit and so forth, and therefore we need to take all measures that we can to protect our margin pricing. As such I do not want to comment at all. The performance of Aggregates shows that with a 100 million reduction in sales, the margin has been kept on the same level year on year and we haven't stopped to work on our productivity, on our efficiency, and that part of it. That's still high on the agenda in our Aggregates team as it is in the rest of the organization as well.

00:24:27 - 00:24:46
Christian: Thank you. Maybe just on Minerals then, progressing well despite the lack of green field activity, you're a full flow sheet provider. Can you just talk a little bit about the different product families or areas of the single pieces of equipment that are particularly in demand at present or is the demand you see fairly broad-based? Thank you.

00:24:46 - 00:25:34
Pekka: I would say that it is broad-based. There are no product lines that I would like to raise up out of or higher than anyone else. Our offerings and orders consist very often of equipment packages. Equipment packages mean that several product lines are included. Sometimes they include full offering, sometimes they include front-end, sometimes the wet end of the process in mineral sites. I wouldn't pinpoint anything in particular.

00:25:34 - 00:25:40
Christian: Very clear. Thank you.

00:25:40 - 00:25:49
Operator: The next question comes from Max Yates from Morgan Stanley. Please go ahead.

00:25:49 - 00:26:45
Max: Thank you. My first question is about your services business. If I look at where Minerals services are

today in terms of order intake and compare that to where we were at the start of the year, we're obviously exiting the year at much lower levels than where we are. I'm just keen to understand what's happening in your service business through the year as demand has seemingly normalized on a sequential basis. Is that underlying activity? Is that some early ordering that is now normalizing? Is that some de-stocking? When I look at the level of orders where we are in Q4 and extrapolate that out, it looks like your service business will be down next year at Minerals. I'm just trying to understand what the moving pieces are of where we were at the start of the year on orders and where we're exiting.

00:26:45 - 00:28:17
Eeva: All right, Max. The underlying driver for our aftermarket, obviously, is how our customers are running and they are running their operations basically full. I think the fact that we showed also order intake growth in Minerals services in the fourth quarter is a demonstration that there is demand for the offering. As we then enter '24, typically we would see some seasonal improvement or pick up in orders in the sense that there are still certain activities that customers plan from a calendar year perspective. With the activity levels, I don't think we see a reason really to agree with your view on things going down on the contrary. I think based on the healthy Q4 we think there is further opportunity to grow in Minerals services entering into '24.

00:28:17 - 00:29:01
Max: I don't want to lay to this point just because it's obviously limits of questions. If you're at 570 million of service orders at the moment and if I look at this time last year in Q1 2023 you were doing 736, so obviously much, much further above where we are today. What I'm trying to understand is when you were doing 630 to 730 million orders was that the normal level or is this a more normal level? Do you think normal seasonality is going back up to 650, 700 from where we are today? I'm just trying to understand what's full and what's not.

00:29:01 - 00:30:49
Eeva: Well, Indeed. As I mentioned, there is that seasonal impact on the first half typically picking up on the second half. Hence whilst I would label the activity level as certainly healthy and normal on or both in the recent months as well as what we expect going forward that seasonality. Seasonality support is very likely to continue. What's the up and down effect? Obviously, we have the project type of business refurbishments which tend to be a bit lumpier there. We've seen that market improving in the past months. I think that's partially also compensating some of the hesitance on the new equipment investments that customers are more focused on retrofits and rebuilds. That would logically support our view as well. Indeed maybe something else that you're aiming at is that due to the decrease in raw material prices during last year, obviously, that has an impact on sales, not volumes but on sales in euros. I think that the bulk of that is behind us. From our point of view, there are not really that many other moving pieces to comment on.

00:30:49 - 00:30:58
Max: Thank you very much.

00:30:58 - 00:31:05
Operator: The next question comes from William Mackie from Kepler Cheuvreux. Please go ahead.

00:31:05 - 00:31:47
William: Good morning. Thank you for taking the questions. Kepler Cheuvreux. My questions would firstly come back to pricing. Can you share at least a sense of the split between the volume and the price dynamics within the service businesses for Aggregates and Minerals, just to get an idea of what the level of contribution was achieved through your spares and service re-pricing last year in the results? I'll start with that.

00:31:47 - 00:33:03
Pekka: First of all, we don't disclose that information. We don't even carry that detailed data with us as we are here. In general, structurally, Minerals and Aggregates services are very different. Aggregates, where we go to the market through distributors, we do sell spare parts and ware parts to our distributors and that's almost all that we do in services. Whilst in Minerals, we provide, of course, spare parts, and ware parts, we sell mostly almost 100 percent directly to our customers. We have other activities; we do have labor services or professional services. In our Minerals site, we have our engineer order the type of modifications and upgrades that we do. They are structurally very different. Margin-wise, if we look at the spare parts and ware parts, they carry the highest margin always.

00:33:03 - 00:33:41
Pekka: Despite the fact that Aggregates' spares and wares, which is almost 100 percent of the service content,

despite the fact that we naturally have a discount to our distributors on spares and wares prices, the margins are high on Aggregates services altogether and, therefore, the contribution, I would say, is very equal of the services margin to the Aggregates as it is to the Minerals. Of course, service volume is much greater in Minerals sites.

00:33:41 - 00:34:12
William: Thank you for the color. If I may move the question towards Aggregates. You called out the success in maintaining profitability despite the 100 million lower sales. Can you attribute any specifics within the bridge which has enabled you to retain the profitability and to what extent we should consider that to be sustainable?

00:34:12 - 00:35:24
Eeva: I think there's maybe two factors. Again, these will not be new items for you or the audience but two factors that have been important in the structural improvement. First, is the work we've done on the supply footprint and really focusing on what we produce, where. Obviously, we have, as you know, been investing quite heavily in India to further grow our footprint there, and that, obviously, has then enabled us to work with our global footprint and really optimize based on cost and how to utilize it. I think that's work where you first need to do some investment and that optimizing actually is heavy work then that continues for quite some time. I think we're now really being able to demonstrate the benefits of the work that started already a few years back.

00:35:24 - 00:36:27
Eeva: The other item in addition to the footprint per se is modularity and where we've also worked very heavily on how we make our supply chain more efficient from design to how and where we source and, again, in tight times as we had last year, these things are very, very instrumental in protecting the margin. Overall, I think also that the Aggregates team has focused well on the sales mix. It is finding those pockets of growth, pockets of opportunity, be it then from volume or pricing point of view, and there I think really good cooperation with our dealers and direct sales is an area where we've clearly improved recently and that's showing benefits.

00:36:27 - 00:36:34
William: Great. Thank you. I'll get back in the line.

00:36:34 - 00:36:45
Operator: The next question comes from Andreas Koski from BNP Paribas Exane. Please go ahead.

00:36:45 - 00:37:23
Andreas: Thank you. Good afternoon. I wanted to ask about sales projection for 2024. Your backlog is down by approximately 350 million or more than 10 percent compared to a year ago. I don't know how large part of the backlog that is supposed to be delivered over the next 12 months. Is it the same decline as we've seen for the full backlog? Do you think you will be able to breach that through stronger orders in 2024 or is it fair to expect a meaningful sales decline?

00:37:23 - 00:38:51
Eeva: Sorry. Some noise on the line. Certainly, our base case is not a meaningful decline as we're actually indicating a slightly more positive outlook in Aggregates. I think it is a valid point that indeed the slower order intake in Minerals equipment that we've seen in the past couple of quarters will have some impact on '24 because the lead times in this business are more than 12 months. Even if we would get improved orders later in the year, the full effect doesn't come in '24, whereas in Aggregates being a more short-cycle business, the improvement in order intake will indeed benefit sales in '24 as well. I think that based on what we have, clearly we are working and our basic assumption is that we're not going to see a dramatic sales growth. Again, that's clearly more positive than what I read between the lines of your comment.

00:38:51 - 00:38:56
Andreas: It sounds like you do not really expect the sales to decline at all in 2024.

00:38:56 - 00:39:21
Eeva: It's only January gone, so we have 11 months to fight it back. Of course, we'll see how far we get. We're very motivated now in pushing on the order side and especially in Aggregates and on the Minerals services, I think those areas we have all but given up on.

00:39:21 - 00:39:33
Andreas: Great. Secondly, I'm sorry if I didn't get this from your presentation, but what do you expect from working capital in 2024? Should we expect a significant release?

00:39:33 - 00:40:02
Eeva: We are working to improve the reduced inventories. Again, AR and AP will somewhat be related to our previous discussion on the sales volume, but in inventories clearly, we see additional potential even with the improved market activity that we can improve our efficiency on what we stock and wear.

00:40:02 - 00:40:03
Andreas: Thank you very much.

00:40:12 - 00:40:20
Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:40:20 - 00:40:42
Panu: Thank you. I have two questions on Minerals. Firstly, on the outlook, can you talk a bit more about what you are seeing and expecting this year in terms of the equipment orders? Are you more optimistic that you would get more of these big projects during 2024 and the equipment orders could be higher than in '23?

00:40:42 - 00:41:59
Pekka: How we look at the market currently is that there are, of course, several factors why the orders are not converting the way they converted earlier. One factor there is, obviously, the electric car market as such, which has not developed according to previous forecasts, but we believe that it's only question of time when that market returns to a normal trajectory. The second part is the interest rates which have made funding everything, all investments more expensive. As we know mining is a long-cycle investment where returns can be very high but the investment period, as such, is very long and this has hit the industry to some extent now already. Nobody knows when the interest rates really turn down. There's a lot of discussion on that one, very little movement at this moment but these two factors I would say how nickel prices, how lithium prices do develop, and what's going to happen with the interest rates.

00:42:00 - 00:42:33
Pekka: The copper market, as such, is relatively active. We have booked some orders on that front. There's something happening in the iron ore space as well which is quite positive for us at this moment. Our pipeline is healthy, it's in good shape. There are plenty of small things and there are plenty of bigger things as well, but the conversion from the pipeline, that is an issue at this moment most likely for those reasons that I mentioned.

00:42:33 - 00:42:51
Panu: Thank you. Secondly, on the margin in Minerals, if you look into '24, are there any other things that we should keep in mind in addition to volume and then the mix between services and equipment? Are there any positive or negative drivers on top of those?

00:42:51 - 00:43:05
Pekka: We are getting, I would say, rid of the last legacy things in this year in Minerals. That is a positive contributor. What else, Eeva, you could say?

00:43:05 - 00:43:24
Eeva: I think what Panu already mentioned around the mix, obviously, relates to that is something that we see bringing some tailwind and, of course, overall reduced inflationary pressure and at the same time as we improve our execution, as you said.

00:43:24 - 00:44:15
Pekka: Of course, we need to remember that we continuously make improvement, we have our annual productivity plan which we already have in place. We said that we will take all the actions by the end of the first quarter. We normally dimension it to 50 million which corresponds to salary inflation that we have in a company. We are in the middle of taking these actions and that's on a run-rate basis. We should be pretty close to that one by the end of first quarter this year. This is one of those actions. Of course, now on a day like this, we have also some temporary measures in place and they will naturally support the margin development.

00:44:15 - 00:44:28
Panu: Thank you. Can I just ask as a follow-up, the legacy projects, how meaningful the driver is that? Were they a big part of revenue last year and how much is this changing it?

00:44:28 - 00:44:47
Pekka: We haven't disclosed that one but there is a meaningful part of revenue where the margin is very low. We have less and less of that one going forward.

00:44:47 - 00:44:48
Panu: Thank you.

00:44:53 - 00:45:03
Operator: The next question comes from Antti Kansanen from SEB. Please go ahead.

00:45:03 - 00:45:43
Antti: Hi. Thanks. I'm Antti Kansanen from SEB. A couple of topics were already discussed, and the line was a bit breaking, so perhaps I'm repeating some of the things, but both related to sales growth, and if we start from Minerals services. Your sales have been running behind your order development but now end of Q4, you seemingly have caught up. I know that Q1 of last year will still lay a very tough comparison figure. Maybe a repeating. Is it reasonable to expect Minerals services sales to grow into '24 considering quite the challenging comparables and the dynamics between orders and sales?

00:45:43 - 00:46:26
Pekka: Our expectation we are definitely not planning. I think Eeva already mentioned that earlier that's not our view. I think if we look at and especially Minerals services, there are structurally so different items in there, things like modifications and upgrades. Once we book the order, they have quite some delivery times. Delivery times for everything were much, much longer last year than they are at this moment. Now we have the delivery capability. We can turn our order book faster today in our services than we were able a year ago and maybe this explains a little bit the dynamics as well that we are seeing here.

00:46:26 - 00:46:50
Antti: That makes sense. The second comment was on Aggregates' side and here the line was quite bad. If I understood correctly, you are seeing demand improving sequentially but below last year's levels, so here, again, a sales growth would be a bit of an optimistic assumption for '24 or am I wrong here?

00:46:50 - 00:46:53
Pekka: I think you are on the right track, I would say, with that one.

00:46:53 - 00:47:16
Eeva: Of course, in Aggregates we have the visibility now for the first quarter, second quarter, and indeed picking up but in the first part of the year will be a challenge to reach last year's levels but then let's see what happens in the market in the second half that's obviously still prediction.

00:47:16 - 00:47:47
Antti: Maybe talking about the Aggregates' profitability. You're defending your margins extremely well in a quite difficult market. Should this change our views on the profitability upside of Aggregates? You've been talking about roughly 15 percent over the cycle levels, but clearly, the performance is better. How should we think about this if and when the volume starts to recover in Europe and China and India become a bigger market for you guys?

00:47:47 - 00:48:20
Pekka: We have improved the overall gross margin levels in our Aggregates business and naturally when climbing up depending, of course, on execution, but our Aggregates team and supply are in very good shape at this moment. There is, of course, further potential for that one and we always and continuously work towards improving our results.

00:48:20 - 00:48:28
Antti: There aren't any specific tailwinds on the '23 numbers that we should be wary of when we make our estimates going forward.

00:48:28 - 00:48:32
Pekka: There's no such thing.

00:48:32 - 00:48:33
Antti: Thank you.

00:48:39 - 00:48:47
Operator: The next question comes from Vlad Sergievskiy from Barclays. Please go ahead.

00:48:47 - 00:49:19
Vlad: Good morning. Thank you for taking my questions. I would like to follow up on a few things. The first one is working capital. I just looked at the cash flow and working capital was a headwind to cash flow for nine consecutive quarters. Over these nine quarters, you invested about 900 million euros in working capital. I'm just wondering what proportion of this 900 million do you think you can get back over what time frame? Any idea of what's the sustainable level of working capital would be very helpful.

00:49:19 - 00:50:02
Eeva: I think the best way to look at it is that, and this is something I think we tried to indicate already earlier that this networking capital as a percentage of sales is a better reflector than absolute figures because, of course, during the nine quarters we also had quite a bit of growth. Putting it relative to the sales then balances a bit that effect and indeed we would want to be closer to 10 percent than the current 15.

00:50:02 - 00:50:24
Vlad: Understood. Thank you. That's helpful. If I can follow up on the revenue mix in the '24 as well, it sounds like you think Aggregates will not grow, it sounds like you think services and Minerals will grow. Would that mean that mix could help the margin in 2024 in that sense?

00:50:24 - 00:50:29
Eeva: With those assumptions that would be a correct conclusion.

00:50:29 - 00:50:47
Vlad: Understood. Very quick last one if I may. The corporate cost line was very favorable, you saw in particular. I think it was even positive a little bit. Were there any one-offs in this corporate line? What corporate line would you suggest we should model for '24?

00:50:47 - 00:51:43
Eeva: Indeed the quarterly volatility was a bit higher than we would ideally like. It was actually minus one in the quarter. My advice would be to look at the annual roughly 50 million level. We previously said that anything between five and 10 million is very normal, and then you have to assume that there will be some fluctuation in currencies and pensions, something that impacts the total a bit plus and minus. Ideally, we would be somewhat below what we achieved as a full-year level in 2023, but really rather look at the full because that balances a bit this fluctuation in valuations that unfortunately a bit of collection items gathers.

00:51:43 - 00:51:49
Vlad: Super. Very clear. Thank you very much.

00:51:49 - 00:51:59
Speaker 4: The next question comes from Erkki Vesola from Inderes. Please go ahead.

00:51:59 - 00:52:21
Erkki: Hi, Pekka and Eeva. Good afternoon. Erkki from Inderes. Judging by your current order book and the funnel that you see; do you see prerequisites for group gross margin improvement in the '24 freedom structure or operational or will the potential group EBITDA margin improvement mainly come from operational leverage? That's my first question.

00:52:21 - 00:53:06
Eeva: I think based on what Pekka touched on earlier on execution and some of the legacies and these types of things they all impact gross margin. I think that is something that we certainly are addressing also with the various supply footprints. Announcements made not even that long ago, are the latest ones on that. Gross margin is an important focus area for us to focus on as an enabler and then for the bottom line to improve.

00:53:06 - 00:53:07

Erkki: Thanks. Just a follow-up. Do you see that there's still room to squeeze your SG&A? Your admin costs, for instance, they grew quite notably in '23. What's the outlook and where are your plans there?

00:53:07 - 00:54:08
Eeva: What we now have in place I think as obviously most companies with the market uncertainty have some cost savings actions in place and, obviously, that then gives a certain temporary relief. This is also partly a structural thing where, again, we can improve then again on being close to our customers, and investing in sales at the front line has been well rewarded in the past couple of years. It's a balance of what you're looking at in SG&A, what you want to cut on, and where you actually want to perhaps even invest.

00:54:08 - 00:54:09
Erkki: Thank you so much.

00:54:17 - 00:54:25
Operator: The next question comes from Elliott Robinson from Bank of America. Please go ahead.

00:54:25 - 00:54:58
Elliott: Hi, team. I've just got one question if that's okay. When we look at the mines which you're exposed to, how much of that is to Chinese-controlled mines? Maybe if you could run us through the market dynamics here relative to a European-controlled mine it would be really handy. The reason I ask is just trying to assess the impact of any flooding of lithium or flooding of I suppose of rare battery metals into the market by Chinese firms and trying to work out what the impact of that would be on you guys. Thank you.

00:54:58 - 00:55:59
Pekka: Of course, the very detailed question already. I would say that we are exposed to Chinese companies both in China market and then outside China, the so-called Silk Road business, as we call it internally. These two, on the mining side, are almost equally sized. Of course, it varies quite a bit. We saw a slight decline in Chinese investments outside China towards the end of last year and so forth. Over time they are roughly of the same size and they are percentage-wise, out of Metso's total sales somewhere between five to 10 percent.

00:55:59 - 00:56:06
Elliott: Perfect. Thank you very much. That's all from me.

00:56:06 - 00:56:15
Operator: The next question comes from William Mackie from Kepler Cheuvreux. Please go ahead.

00:56:15 - 00:56:51
Mackie: Hello. Thank you very much for the follow-up, Pekka and Eeva. A couple of housekeeping questions. You called out the development of new products around the battery metal technologies and the R&D budget went up, a guide to where your spending is being directed and thinking for '24 and a similar question to CapEx which stepped up last year and seemed to have been undertaken in a variety of locations what you're thinking is for the year ahead. Lastly, an update on the disposal program for some of the remaining assets linked to metals. Thank you.

00:56:51 - 00:58:20
Pekka: Thanks for a good question. R&D remains a focus. Obviously, we are allocating our R&D monies to everything that advances green transition and sustainability as it's clear from messaging around the planet positive. Battery metals certainly rank high on our R&D activities altogether. If we take also the work that we do with customer samples currently, about half of them are linked with lithium, and yet also, I would say, most of the other half is linked with other electrification metals as well, i.e., copper and nickel most likely today is more of a battery metal than anything else. We have developed some new technologies, and new processes that will simplify the lithium process. We are expanding that to cover different lithium minerals now and our coverage starts to be very good. Now, of course, commercialization of that one is slowing down momentarily because of the lithium market, but we will be better prepared for the market when it wakes up again sometime, hopefully, later already in this year.

00:58:20 - 00:59:55
Eeva: Maybe I answer the capital expenditure one. Indeed last year was busy. We didn't have any one single big investment but a multitude of smaller ones all really across the world, be it service centers, be it product manufacturing capabilities closer to our customers in various parts of the world. Some of these were concluded,

and some of these continue into '24. Now, obviously, we are looking at the demand and market activity levels also to time some of our ideas, I think. As a starting point, we have what we think are good capital return projects for something similar to last year's capital expenditure levels, but whether we really move forward with them all is something we'll be closely monitoring depending on the activity levels. On the divestment side, indeed discussion is ongoing with potential buyers. We're not quite there yet but moving forward with the target of coming back with more news on them later in the year.

00:59:55 - 00:59:56
Mackie: Thank you very much.

00:59:58 - 01:00:25
Juha: Thank you, everyone, for your questions and discussions. We are punctually at the hour, so it's time to conclude this conference call. Our first quarter results will be out on April 25th and we'll have our AGM on the same day, but I'm sure we'll see and speak to all of you before that. Thanks for this call. Have a good weekend and goodbye.