20230720_142705_half_year_review_january_june_2023.mp4

Juha Rouhiainen: Hello, everyone. It's Juha from Metso's IR. I want to welcome you to this conference call where we discuss our Second Quarter 2023 results, which were out earlier this morning. Results will be presented by President and CEO Pekka Vau ramo and CFO Eeva Sipilä. After the short presentation, we'll be having your questions. In the presentation slides, we also have the forward-looking statements that you need to take into account and remind when listening and following this presentation. We intend to limit the length of this call to 60 minute s. Hopefully, you can take that into account as well. With these introductory words, I'll hand over to Pekka to start the presentation. Please go ahead.

Pekka Vauramo: Thank you, Johan. Welcome to this second quarter call. We enjoy still continued healthy market activity and environment around us. Of course there are uncertainties because of macro, but when we drill down to our customers businesses and to the segments, most of the segments are enjoying strong and robust trading environment despite of these concerns. I'll come back to that one a bit later. We delivered a very high sales growth, and that's obviously from our backlog, which has been on high level and still is on high level going forward. We delivered record high profitability on group level, 16.6 percent EBITDA, and that is well in line with our target to deliver 15 percent EBITDA set as our financial target.

Pekka Vauramo: What is very specific for this time is that green transition is really driving our business. Now all metals that have a role in electrification, there's a lot of activity around them, including orders. Then a lot of research activity, a lot of front end work that we do for our customers in lithiums and many other metals, including also battery recycling, which is starting to be visible there in the front end work that we do for our customers. This work is not yet visible so much in the orders even though we have a few lithium programs that we have in our order book at this moment.

Pekka Vauramo: Then when we look at the group numbers, orders received just a couple of million short of 1.4 billion. We have a really tough comparison. A year from year ago, we had bigger orders there, and that contributed to 1.6 billion a year ago. This time we had very few orders that were larger than 20 million. For example, in June, we didn't have a single order that exceeded 10 million in our minerals side. That's very typical for this time. Bigger orders take longer time to decide. They are as they always have been very difficult to forecast. Those bigger orders they are in our funnel as well and of course remains to be seen when they come through. Some of these are already signed contracts that are waiting for down payments to come. In some orders that is a criteria, which need to be fulfilled before we report it into orders received.

Pekka Vauramo: We are not concerned about the sales funnel, what we have ahead of us. Of course we understand that 1.4 is somewhat short of the expectation. The difference to the expectation is either two or three bigger orders. It's not more than that we were not able to move over the line during the quarter. Sales 15 percent increase from last year. That of course is visible then in our profitability and in the margin adjusted EBITDA 246, that's nearly close to 60 percent more than a year ago and 16.6 percent as a margin. Operating profit, good healthy growth in there. Of course, the biggest part of the growth came from comparison since we booked last year, 150 million provision for Russian wind down, which is still ongoing. We haven't consumed all the provision yet but we feel that we will need that provision before the final settlements have been made and reached with our previous customers there in Russia.

Pekka Vauramo: Earnings per share, the same drop through naturally to their now 18 euro cents. Cash flow still on low side. We would like to see somewhat higher. We do have inventory reduction programs ongoing in the company now. We can expect that one to firm up as we move on to the second half of the year. Then looking into segments aggregates. We have said that first of all there is seasonality in aggregates. Seasonality is visible already in the second and even more so in the third quarter of the year. Therefore we have slightly reduced our guidance for aggregates outlook in general. We are seeing a slightly slower second half than what we had a year ago for aggregates.

Pekka Vauramo: All those 330 million about 10 percent below last year's order bookings, mainly because of the European softness and North America continued stable equipment came down eight percent, services down 11 percent. Good execution of the order book nearly 380 million of sales and services share declined because of more rapid decline in services to 28 percent, there we see some destocking of consumables mostly and spares by our dealers at this moment. Adjusted EBITA 66 million for the segment margin of 17 percent, good healthy improvement from a year ago because of the natural volume and strong execution as we have seen from aggregates over the past several months.

Pekka Vauramo: In a mineral site orders 980 million short of what we would like to have seen. Like I said, there are bigger things in the pipeline which we are not able to move over the line. Activity as such is very healthy. What I said earlier about the electrification and related metals, that's where the activity is at this moment. We see somewhat slower activity in iron ore, not in the services but in the equipment side. Then metals like zinc that play a smaller role in electrification. There we see some slowness, but that is then compensated with the very high activity in copper and nickel and the other battery metals.

Pekka Vauramo: Sales 978 million, equipment growth nine percent, services growth 29 percent. A very healthy services growth and mix absolutely contributed also to the margin of the segment. Services share 63 percent, which is growth of about four percent from a year ago. Adjusted EBITA on record level 178 million. That corresponds to 18.1 and is a clear sign that we do have potential. What we have said that our target is to deliver towards 20 percent EBITDA margin in minerals. I think signs are there that the potential is out there. Good execution all together from good price and cost management. Also from minerals as it was in the aggregate segment as well.

Pekka Vauramo: Metal segment suffered a little bit in orders the same way as minerals. There are bigger things in the funnel but we were not able to report those in the orders yet, they are there to come. Sales more or less on the same level as a year before. Services share very stable just above 10 percent and adjusted EBITDA 14 million translating to 12.2 percent margin. Good execution there as well from the metals team. I'll hand it over to Eeva for more details in financials.

Eeva Sipilä: Good morning. Good afternoon. On my behalf to everyone. Pekka already presented our strong operative figures. I would only add a comment on the group items in adjusted EBITDA. We had 11 million group items related costs in the quarter, which is on the high end of the typical five to 10 million per quarter. Whilst we expect that quarterly range to hold in the second half of the year, our full year estimate is slightly up from previous guidance. Net financial expenses were also slightly up sequentially to 20 million euros as our debt and interest rates are slightly higher. Effective tax rate for the first half was at 25 percent, a level we expect to be a good proxy for the full year rate as well. Our earnings per share for continuing operations were 0.18 cents for the second quarter and year to date we are at 0.35 cents.

Eeva Sipilä: Moving to our balance sheet, total assets are up some 150 million from the beginning of the year. A small decrease in intangibles was matched by a similar increase in plant and equipment following ongoing CapEx projects. Otherwise the changes are in working capital items and liquid funds. A few words on them in the next slides. Before moving on, noting that net debt at the end of June was 840 million euros up from the start of the year. This next slide gives a few figures on the working capital items. Net working capital at the end of June was 874 million euros. At the start of the year it was some 600 million, at the end of March around 700 million. The trend in the second quarter was still up on all items, as you can see from the graph on the right.

Eeva Sipilä: Still, due to our strong sales growth, this results in an okayish working capital percentage over sales of 11 percent, visible on the left hand side. We have continued to see global logistics improving and hence, we have continued to slowly reduce buffer levels. The progress admittedly is a bit slow. Reflecting the strong sales growth we continue to focus on the turn rates of the working capital items rather than the absolute values. Nevertheless, we do want to see progress in reducing working capital going forward to support a better cash generation in the second half of the year.

Eeva Sipilä: Cash flow in the second quarter was an improvement year over year.

Also looking at the six months, we are making progress compared to a year ago, thanks to strong profitability. Net cash flow from operating activities was 62 million euros for the quarter and 173 million year to date. The year to date cash impact from increased net working capital was 344 million. Moving on to my final slide and main points on our financial position, there is not really much change on this from our last quarterly call when it was already public that in April, Standard & Poor's Global upgraded their rating on Metso to triple B with a stable outlook.

Eeva Sipilä: Looking at the table, liquid funds are down from the year end as we paid the first part of the 2022 dividend in May. Net debt being up as mentioned a few slides earlier moves gearing at the end of June to 35.5 percent. However, debt to capital is down to 31.7 percent. With that handing back to you Pekka.

Pekka Vauramo: Thanks, Eeva. I will say a few words about sustainability. Then finally, outlook before going to the Q&A. Like I said earlier on in the beginning that electrification or sustainability is really driving our business as we speak. Planet positive sales, which we have followed up for now for quite some time already. This is a rolling 12 month follow up that we do provide year on year growth with that measure is now at 43 percent, and that translates to nearly 1.5 billion of planet positive sales. We have seen very steady roughly 40 to 50 percent growth throughout the time that we have provided this KPI. It's also guiding our activities. It's a clear sign that our product development efforts for Planet Positive products have been rightly sized and allocated to sustainable products.

Pekka Vauramo: We are also progressing in with our suppliers. As part of our science based targets we have committed to increase the share of suppliers having a similar programme, either science based target or similar. Now we have 23 percent of the spend with suppliers that are committed to these programmes. There's more than 400 suppliers that have rolled into science based or similar programmes. We continue with our implementation of our top priorities. One of those is our performance culture. We do measure that one on quarterly basis amongst the employees. We have a very high response rate. The latest one just a few weeks ago that ended a few weeks ago. We had 87 percent of all our employees responding to that one. Our employee, eNPS score continues to grow. We are firmly now in top 10 percent of our benchmark.

Pekka Vauramo: Group of companies, international companies in similar businesses where we are, there's nearly 100 companies that we are benchmarking our ratings. It's clearly a sign and a good tool to see what shape and form the organization is and how well they perceive the efforts that companies is doing in all areas of business. The market outlook, we retain the same outlook for minerals. Strong activity and healthy activity in that market. Then in the aggregates market, we see a slight decline comparing with the second half of year before. With this guidance we can move now on to the Q&A side and start that one. Thanks.

20230720_142705_half_year_review_january_june_2023.mp4

Juha Rouhiainen: Thank you. Operator, we can now open the conference call lines.

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 Christian Hinderaker from Goldman Sachs. Please go ahead.

Christian Hinderaker: Thank you Pekka, Eeva, Juha. I'd like to start with the aggregates business, please. I recall from your CMG regional splits here for the top markets, around 37 percent for North America, 34 percent Europe, seven percent India and six percent China. Just wonder how we should think about your revised outlook statement as it relates to those regions, given Europe's been weak for some time and we might view China as potentially approaching some form of recovery? Then you mentioned destocking here. Is that region specific or global? How should we view the sell in versus sell out dynamic?

Pekka Vauramo: Yes, the destocking was mainly referring to the aftermarket that we see. To some extent, there's some new dynamics that we saw specifically in North America. Our dealers, they also run their rental fleets and the rental fleets are very busy at this moment. The machines are not moving or changing ownership very often. Often the rental agreements, they lead to the sale of the machine. When dealers they sell a rental machine, then they normally place an order for a new piece of equipment. These rental fleets are not typically moving at this moment. This is what we see in North America. Market has been stable there. We are a little bit cautious about the next quarter or so.

Pekka Vauramo: Then it remains to be seen how the seasonality kicks in. The high season kicks in. Normally it does. It is visible in our December orders, but for that we need to wait until the end of the year before we know that one. European market has really been the slow and particularly northern Europe. Central Europe has been in few countries on quite normal level. Then again Southern Europe has been very slow in Europe. Some signs in China, but well known from the macro China seems to be returning slower than expected from the pandemics.

Christian Hinderaker: That's very helpful. Thank you. Then I think you mentioned last quarter that European customers in aggregate is becoming a bit more price sensitive. I wonder if that's still the case and if so, whether you would intend to hold price and forfeit volume or look to be more competitive, maybe put some discounts in to be commercial. Then also just given the subassembly model for this business, how should we think about fixed cost absorption as volumes decline and the potential impact on margins?

Pekka Vauramo: We are following the developments and we have taken already actions, in order to balance with the current level of order bookings and expected near-term order bookings. That's the way how we balance with our both fixed and variable costs especially in places where we can have temporary layoffs as, for example, in Finland, we can do it rather flexibly. Then when it comes to pricing, of course, we were very active in managing our prices both ways. Of course, we do see cost reductions in supply side at this moment as well. It's not only that there is a price pressure. There are clear cost reductions as well, specifically in logistics and some other parts and components. It gives us a little bit of headroom to protect our margins.

Christian Hinderaker: Understood. Then maybe on the minerals side, I think if we adjust for large orders, more than 50 million a go and midsize orders of 20 million euros plus, it looks like order intake down more like 23 percent year on year. Book to bill for the division overall closer to one. Just wondering if that's reflecting a more slow pace of equipment demand given effectively a brownfield focused market. Can you comment on the trends in minerals as it relates to underlying activity?

Pekka Vauramo: Yes, I would say that it's particularly true with bigger orders and it has obviously something to do with the discussion on interest rates and thing like that. Uncertainty relating to that one, that's how I would rather see it than being anything more macro related thing. We really talk about one or two orders in minerals that would have made a big difference here in this debate. Then individual orders like I said so many times. Before we know what we're going to win, but we don't know when the day is.

Eeva Sipilä: Maybe I can add Christian on that, obviously this brown brownfield focus cycle is nothing new. We've had that for the past couple of years and we really see a very good healthy activity on the smaller end of deals coming from geographically all areas from all metals. Actually in very, many ways, very strong and broad health of the market activity in Q2. As said, you obviously need very many small ones to compensate for not having any bigger ones and hence the discrepancy.

Christian Hinderaker: Very good. Thanks, Pekka. Thanks, Eeva.

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

Max Yates: Good afternoon or good morning. Could I just pick up on the large order point? I think we've seen this across a couple of other companies as well where maybe customers have become a little bit more hesitant on large orders. When you speak to your customers and you look at the pipeline and the discussions that you're having, and acknowledging that commodity prices in some areas are 20 to 25 percent lower than where they were this time last year, is anything changing or do you really put this down to just these are lumpy orders? Is there anything in customer conversations where you're seeing a slightly different approach to maybe the way they were thinking in terms of timing of these orders?

Pekka Vauramo: Your comment on metals prices that might be true for iron ore, but we haven't seen too much iron ore activity for quite some time in the new equipment or bigger orders. Zinc is another metal but everything else that we see metal prices are still on such a high level. It's not a question of metal prices being high enough. Copper went in the beginning of second quarter down very close to 8000. I think it was 8100 or something like that at the lowest, but it recovered to current 8400 quite rapidly. Nickel is holding about 20,000. It has come down from 28,000 where it was right after the pandemic. There is some drop. Then the nickel volume for us is quite low and most nickel activity is in fact in battery grade. Grade nickel which on the other hand is very active business for us.

Pekka Vauramo: I wouldn't say that it's a concern on metal prices other than in these two areas. They haven't been really the main drivers for us before either. Permitting once again is an issue there. Even in battery metals and electrification that seems to be an issue. I would say that the rest is of course uncertainty. Funding is an issue for everyone who needs financing in these days and especially interest rates. Maybe people are waiting for interest rates to come down or at least waiting for message that they will not anymore go higher. Those are the kind of environment and sentiment that we work with in.

Max Yates: That's helpful. Maybe just a quick follow up on Minerals Services. The growth slowed to it looks like three percent organically. In absolute order levels above 600 million is an incredibly good level. When you think about how that business has performed coming out of COVID. Do you see that division having benefited from any pent up demand around rebuilds, any restock? That means maybe that number is not sustainable or there's anything artificial in that level? Or do you just see that as a reflection of a very strong underlying environment?

Pekka Vauramo: I think it's this emphasis to sweat all the assets that customers have today is visible in services. We saw some lumpiness after the pandemic. The lumpiness was particularly in an area which is currently in order bookings is somewhat slow and that's modifications and upgrades. People didn't want to do that during the pandemic. There was a backlog of work that needed to be done. We booked those orders. We are currently delivering those and relatively low activity currently in that area. All the other areas of services and consumables are going strong.

Max Yates: Very quick, final one for Eeva. Just on the working capital, where you show that chart of how it's evolved since 2021. When would you expect to see a normalization back to historic levels of working capital sales? Would you expect that to ever happen or do you think you will run the business structurally with more safety stock? Should we be thinking actually about some pretty considerable working capital inflows over the next 12 to 18 months?

Eeva Sipilä: Yes, I think Max, they're strong growth combined with the situation we've had in logistics and supply chain, has been a multiple of events that clearly is taking quite long to unwind out of, especially when the growth continues high. When we look at the turns, we're very happy on both the receivables and payables side that it's good, healthy progress. Obviously, like Pekka mentioned earlier, customers are doing well. It's in that sense a good environment. It is really this inventory buffering that we're gradually working to reduce. I absolutely think that we have to gain back some of the efficiency to the levels where were. This is not something where we're happy with. At the same time, one doesn't want to take drastic actions when we really have a full backlog. Obviously, as you see from the results, customers are willing to pay for the availability. It's a fine line.

Eeva Sipilä: Then and obviously one can then answer in a very long way your question. When have less of a global environment, unfortunately we are seeing more politically driven regional environment around us. I think that obviously does require certain regional strategies. I do think over time that does imply also a higher working capital. The whole point of globalization was that it was a very efficient, just on time type of a world. We haven't seen that for now for a few years already. What exactly is that impact? I think that's really early to comment on and something we're obviously working in our strategy work as well. Right now I think the focus is on that. We absolutely need to improve. That's something we're focused on and also incentivizing our teams to deliver a better cash flow.

Max Yates: Okay. Thank you very much.

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

Antti: Hi, it's Antti from SEB. Thanks for taking my questions. A bit of follow up on the mineral services side and I mean from absolute levels and from year over year growth perspective, it's been a bit of lumpy ride the past three quarter. Is this only a reflection of the lumpiness of the modernization and project business, has the progress on the spare parts and consumables being more steady? Perhaps, Pekka, you mentioned that the mods demand is a bit slow right now, or are you just referring to the similar timing issues as on the ore side?

Pekka Vauramo: More of a timing issue, but there is an impact of the pent up demand that we saw in modern mods and upgrades area right after the pandemic. There is a comparison within that one. We haven't opened it and we don't go to that breakdowns. Internally, when I look at those things, yes, we did enjoy very strong order bookings in that area after the pandemic. Now it's normalizing that one. There's some seasonality in that one because it's always linked with shutdowns and shutdowns are normally timed with the vacation period and so forth. Delivery takes place during the vacations or right after the vacations and order bookings between the vacation. We are of course in northern and southern hemisphere and there is a timing difference. There's like two seasonalities in that area.

Antti: Okay. I wanted to clarify a bit on the timing issues on the ore side. You talked a little bit about more a slower decision making, but were you also pointing out that there were some specific deals that actually slipped from quarter to another? It's typical in the business or how should we think about that?

Pekka Vauramo: Maybe it is a reflection of slowness in decision making since they slipped. There are some things that we expected to come through, but they didn't come through in this time frame.

Antti: The last one is on the aggregate margin. If I understand correctly, the weaker outlook on second half mainly relates to the US coming off from a very high level. How should we think about the impact on margins? We've been discussing that the US business has been a mixed positive for you and has been supporting the strong margin profile in aggregates in the past couple of quarters. Is this a notable change that we should factor in?

Eeva Sipilä: I don't think we see any big changes, but we clearly wanted to highlight it with the outlook that the market will-- We don't expect the market to grow. Just also referring to the relatively high order intake assumptions that the market had also for this quarter and so that people don't just assume that it's seasonality. That is a sequential issue only. Really was looking at year over year we expect Q3 orders and activity to be slower and guiding on that. Pekka mentioned, the activity also in North America is super high. Customers and rental fleets are super busy. It's a question more on the willingness then to make equipment orders and that what we wanted to highlight. I think overall still the backlog is on a good level, where we're quite comfortable that we can manage the fixed cost portion in a way that will still be generating solid margins in aggregates. Even if obviously not necessarily on the level that we saw in Q1. You already saw now in Q2 that we're slightly down, but still on a very good level.

Antti: Okay. Last housekeeping question regarding the group costs. Did I understand correctly that we should think about the five to ten million quarterly for the second half?

Eeva Sipilä: Correct. If also look at the past, that's where we typically have been. Obviously then influenced by many valuation and currency type of issues that are really hard to predict. Hence, now clearly we were a bit on higher than we originally expected in Q2. I don't really see a reason now to expect that we wouldn't be in that range, in the third and fourth quarter.

Antti: All right. Thanks so much.

Operator: The next question comes from Andreas Koski from BNP Paribas Exane. Please go ahead.

Andreas Koski : Thank you and good day. I have two questions. First, on input cost and pricing, I think we've seen raw material prices coming down over the past six to 12 months. I would guess that have given you some support on your input cost. Do you think there is a risk that you will have to lower your selling prices in the coming quarters as a consequence of that?

Pekka Vauramo: It's a long answer, which I would repeat from previous calls. We have so many different pricing models. We have three basic pricing models. One is in our projects where we work mostly with the cost plus model. That is protecting the margins input costs fluctuations both ways. That's automatic that we do. Then we have products where we have price lists and these are typically products that are pre engineered and we know well the product structure and so forth. We also know the cost structure. We then use, of course, the market information. We try to price our products into the market depending on the competitiveness of our product.

Pekka Vauramo: Then one reference point is the cost base that is sometimes going up, sometimes going down and depending on then the market conditions, we either increase prices or lower the prices. Then we have our contracts. That's the third model, where we have introduced the index clauses for raw materials. Of course, if input costs are coming down, then over time also the prices are coming down, but they should protect margins quite effectively.

Andreas Koski : It sounds like there is some risk to price decreases in the coming quarters. Then my second question is on the free cash flow and also on the working capital side. Do I read you correctly that we should expect a working capital release in H2 2023 and also in 2024? If that's the case, what do you consider a normalized working capital to sales ratio going forward?

Eeva Sipilä: Well I'd may be a bit cautious on guiding what's normal in a less normal world as said this needs a bit more reflection. Yes, I do expect that obviously our AR will go up as long as sales go up, sales grow, in that sense. Then again it turns. It's less of a concern. I expect AP to slow because we are reducing on the inventory buffers so that should impact AP. Of course it is also partly linked to the sales growth. Then on the inventory side, we would expect that we don't need to see that grow apart from the project work in progress, which of course again, is a reflection of the sales growth. If we're able to and the target really impact the other areas where it's more on what we have on stock for instance and through that then at least see the working capital is not a drag on the cash flow if not necessarily a positive.

Andreas Koski : If you look at your different businesses, is this mainly related to any specific business? Is it metals, minerals or aggregates mainly driving this working capital tie up?

Eeva Sipilä: The supply challenges have been in all businesses and hence it is really throughout the group. In the aftermarket side, the aggregate side we're more operating on a standard offering, which then is where we sell availability. Whereas on the metals and minerals side, part of the business is project work. The working capital side is very much based on the backlog and hence turns quite naturally as those projects evolve. The challenges that we've seen in the past three years obviously have been both. Now it's a question of slowly unwinding the unnecessary safety buffers going forward.

Andreas Koski : Understood. Then what should we expect in terms of CapEx in 2023 and in 2024? Because I was surprised about the CapEx level that we saw in this quarter.

Eeva Sipilä: Were you surprised up or down? I think it's quite reflective of the fact that we have quite a bit of growth CapEx ongoing. Not necessarily a single big ones, but we've mentioned our growth and we're building a new factory in Mexico. We're setting up a new service center in Australia, adding to capacity in India. In that sense, we have had quite a lot of growth related CapEx ongoing. I would say that the first half is a pretty good proxy for the second half as well. Some of those projects obviously are closer to completion, but some are more still in a very active phase. It's a relatively a good number with the sales growth. To support better availability for our customers we do want to continue with those regional investments.

Andreas Koski : Really have completed those investments this year or should we expect 140, 150 million euros also in 2024?

Eeva Sipilä: I think there's some tales going into early next year, but they're not very long term massive projects. They will be then completed and then we have some further ideas. Of course they will be then balanced in 2024 decisions yet to come. Also as how we see the market environment moving forward. I wouldn't yet want to really comment on that. We haven't done the homework. As I said, this is a rather good balance of clearly various smaller growth investments on top. Certainly much higher than just the maintenance CapEx. That's absolutely true. Something that we've seen also in 2022.

Andreas Koski : Understood. Thank you very much.

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

Elliott Robinson: Hi. Thanks for taking my question. My first question is actually on the minerals adjusted EBITDA. Obviously there are a few currency reversals last year, but still after taking that out, it still looks like the drop through is very good. I was just wondering if you could quantify any operational improvement or anything on the pricing cost impact that might also have pushed that up. Or should we just be looking at this at pure drop through?

Pekka Vauramo: I think it is a drop through. We've taken a much more thorough view on our projects since the merger. Now we are delivering mostly those ones that have been booked during Metso, although we still may have some tailings of the older ones in the pipeline. These are healthy projects that we are delivering and there was nothing extraordinary that would have boosted the margins. Comparison was weak because we had a huge negative currency impact a year ago. To my understanding, there wasn't anything major positive on this one. Or Eeva, do you have anything on minerals or any other business?

Eeva Sipilä: No, maybe just to add what you already said earlier, just to make sure Elliott took note that the mix was very positive in this quarter. We had a high share of services and that was something just to add there.

Elliott Robinson: Great. Thank you for that. One other question is to do with lithium. I was wondering if you could quantify how much of the battery metals is lithium and what vague growth rates are you seeing here? Just trying to work out how material this will be in the longer term for the group?

Pekka Vauramo: Of course, lithium plays a very small role at this moment on our sales, somewhat higher in order bookings. The whole lithium capacity needs to be built and we talk about depending on what year we take as a comparison. Let's say from 2020 to 2030, ten times more lithium is needed. From 2022 to 2050, 50 times more lithium is needed for e-mobility. That's electric vehicles. Normal passenger cars. That includes then also heavier vehicles like trucks and buses and so forth. It will have to play relatively bigger role. Also copper play important role because drivers are exactly the same. One won't happen without the other one here. Nickel as well we'll have to grow. Then when we go into other metals it starts to depend a little bit how the battery composition evolves over time. Then of course at one point the hydrogen will start to play a role, which will then reduce at one point the usage of batteries in EVs in particular. It's a very much a moving field at this moment.

Elliott Robinson: Perfect. Well, thank you for that. That's all from me.

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

William Mackie: Hello. Good morning, Pekka, Eeva. Thank you for taking the time. My first question is general, but we continue to see a lot of political effort towards focusing on the localization of critical minerals supply chains. Given the permitting timeframes, normally that would be a long time before realization. In general, my question would be to that subject. Do you see any shorter term pickup of investments to support the localization of critical supply chains in your mineral customer base? Then specifically when we look at South America, what would you say are the prospects in South America? I'm thinking that perhaps some of these orders are delayed currently. As the political or commercial environment stabilizes, your booking potential could improve.

Pekka Vauramo: Of course, permitting is an issue. Then the politics. The more local we talk about, the more power there is with the local politicians always in this one. Somehow we need to solve the problem of getting these critical minerals and more of these critical minerals. Otherwise, we will fail in delivering the electrification, which starts to be so critical for us, everyone on earth. Yes, Latin America will play important role, at least in lithium. I think 60 percent of lithium reserves are in South America all together. You asked about if there's anything short term. Yes, some governments are pushing more forcefully, their own projects, mostly for lithium. At this moment we see things happening or activities taking place in Argentina. For example, Chile is a well known source for lithium and some other countries also in southern part of South America.

William Mackie: Thank you. That's helpful. You mentioned in your statements that there were a number of large orders which you signed, but which came without prepayments and hence not recorded in backlog. Could you give at least a size or scope of the large orders which are over the line and awaiting the PDPs?

Pekka Vauramo: Well, we normally don't disclose those orders because we don't count them as firm orders before the payments are in place. Let's say that we have orders like that in minerals and in metals.

William Mackie: Thank you. My next question would be more generally within minerals, the operating performance driven, as you've highlighted by drop through, has been exceptionally strong. Your trajectory towards the 20 percent goal is coming up fast. What factors need to happen to drive you towards the 20 percent goal and what time frame do you think that, that goal is now a realistic target?

Pekka Vauramo: When we talk about Target, we don't necessarily mean one single quarter. It needs to be a sustained performance over several quarters. I think this proves, like you said, the trajectory towards that we have the potential. We have a solid execution currently in our minerals, both in equipment side and in services side. We still have improvement potential in our consumables as we speak, several actions there. Like earlier discussed here, we need to go through the regionalization from a global supply to more regional supply. That might take some time before we are there.

Pekka Vauramo: It will make our consumables more efficient, if we do so and reduce then our CO_2 footprint quite a bit from the logistics once we're fully in that operating model over there. We do continuous improvement in all our businesses that will contribute to that fact. About a year ago I said that I wish a little bit more normality to show what can we achieve with Metso or Metso Outotec at that time. We have seen a little bit of that normality now in this year. This in my opinion is a good reflection where we are as a company right at this moment.

William Mackie: Thank you. Last question would be an updated. Can you please provide an update on where you are with the sale process of the remaining metals businesses and when you should be able to book them into discontinued operations?

Eeva Sipilä: We're moving forward during this quarter, hopefully to a more formal process. Ideally we would still have something to report on before the year end. I don't think we're going to close anything, the processes with the deeds and such will go into 2024. Then it's really an evaluation that we need to do quarterly as per IFRS on whether we are well enough in the process to realistically argue that we will be in conclusion. Hopefully we will move forward faster or fast in a sense that it's better for the business and the people involved as well as the clarity of the Metso portfolio. We will need to see how the M&A market develops and our activities on that. We'll definitely be updating you and the market on our progress then at unreasonable intervals as we have something to report on.

William Mackie: Super. Thank you very much.

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

Christian Hinderaker: Yes. Thank you for squeezing in my follow up. I just wanted to come back on Max's question on the discussions of the pipeline with the customers. We've seen Shirley confirm their tax royalty rates now and obviously cost of capital and permitting still headwinds, as you mentioned, but that's a bit of an improvement in terms of the certainty for CapEx decisions. I wonder if you've seen any movement in decision making in Chile specifically. Also you said that you know what orders you're going to win, but not when? I just wonder how you rate your competitive chances to win in Chile versus your competitors and how that stacks up to other regions? Thank you.

Pekka Vauramo: It's never safe and secure before signed and sealed. In most cases, also before the advance payments have come in. Our sales in South America, that's the biggest region for us of our eight regions. We are, I would say, the leading supplier by size at least. If that is the biggest region that we have and Chile is the most important mining country in that region. It tells how competitive we are there. On individual orders, I will not comment anything on them.

Christian Hinderaker: Thank you.

Operator: The next question comes from Tommy Reillo from DNB. Please go ahead.

Tommy Reillo : Hi, Pekka, Eeva, and Juha. Tommy here from DNB. Can you give an update on the temporary layoffs in Danbury aggregates. Then maybe whether you see or plan for any capacity adjustments or cost cutting exercises?

Pekka Vauramo: We have this annual, what we call productivity improvement plan that we do regardless of the market conditions. The temporary layoffs in Danbury are ongoing. Most of the personalities involved in that one and we will continue that one until the order intake level remains on this level and the inventory levels remain on too high level. We have negotiated them. I cannot remember when would they end, but I think was it the end of September or something like that at this moment? If need be, then we prepare to negotiate an extension into it.

Tommy Reillo : Just as a follow up, but you don't see any other needs or preparations for the capacity adjustment?

Pekka Vauramo: Not at this moment. Of course, we use extensively suppliers and the adjustments are not 100 percent visible. We are not taking full impact in Metso's books on those capacity adjustments.

Tommy Reillo : Thank you.

Operator: The next question comes from Klas Bergelind from Citi. Please go ahead.

Klas Bergelind: Thank you. Hi, Pekka, Eeva. Klas from Citi. Sorry I was late here on the call. Maybe you touched on this, but I just wanted to ask briefly on services and minerals, Pekka. Growth here slowed sharply, but it seems spares and wires still grew nicely, some 10 percent. I guess that's the majority of the business, which suggests the big decline in modernization orders. Is this also slower decision making on modernization, as you see in equipment or just lumpiness?

Pekka Vauramo: Not really slower decision making as such, unless we take the fact that customers are sweating their assets right now. There was lumpiness earlier on that was pent up demand from the pandemic days. Those orders have come in and we are delivering some ends of that one now in the services. Then there's like we discussed earlier in the call, there is some seasonality in this activity always. Two seasons or maybe four seasons as we see in this activity. There's the vacation time of southern hemisphere and vacation time of the northern hemisphere, because customers tend to time these shutdowns, where that normally require the delivery and assembly of these things.

Pekka Vauramo: Some seasonality in there but I think we are seeing normalizing level of that activity. We have not discussed earlier today in the call, we have also taken a critical view on some of the service activities that we do. We have discontinued services that are not fulfilling our profitability criteria. That activity is there but I don't think it's visible so much in the top line numbers, maybe in the bottom line margin more so.

Klas Bergelind: Perfect. My quick very final one is on the US aggregate outlook. Everything we hear out of the US on the construction infra side, not commercial and purify is still quite solid. Are you taking into account seasonality here or are you actually seeing weakness on infra US?

Pekka Vauramo: Not really weakness on infra. This is more about how fleets are being deployed at this moment. Our dealers don't have rental units currently available, they are all busy working. These rental units, they end up very often being bought by customers. Now this activity is not happening for some reason and therefore the dealers are not replenishing their new equipment because the rental fleet is not moving to customers ownership.

Klas Bergelind: Okay, perfect. Thank you.

Juha Rouhiainen: All right, there ladies and gentlemen, we are a couple of minutes past the hour and we need to stop here discussion about our second quarter results. We thank you for listening and we thank you for participating and asking questions. Q3 will be reported on October 27th, and we look forward to seeing you all soon and enjoy your summer. Thank you. Bye, bye.