

Valmet's IR blog

July 16, 2021

Key points of the contemplated Valmet-Neles merger

On the 2nd of July 2021, Valmet and Neles announced that their respective Boards of Directors had signed a combination agreement and a merger plan to combine the two companies through a merger. The name of the Combined Company will remain as Valmet Oyj and Pasi Laine will continue as the President and CEO of the Combined Company after the completion of the merger.

The Combined Company will be a leading company with a unique offering for process industries globally with illustrative combined net sales for 2020 of approximately EUR 4.3 billion. In addition, it will have a globally balanced expert organization of approximately 17,000 professionals.

Valmet presented its preliminary targets for the Combined Company which are the following ones: services and automation sales to grow over two times market growth, capital business sales to exceed market growth, a Comparable EBITA margin of 12–14%, a comparable ROCE before taxes of at least 15%, and a dividend payout of at least 50% of net profit. The new targets are approved by the Board of Directors of Valmet.

Upon completion of the merger, Neles' shareholders (excluding Valmet as well as Neles with respect to treasury shares held by Neles) will receive as merger consideration 0.3277 new shares in Valmet for each share they hold in Neles at the end of the last trading day preceding the Effective Date. An extra distribution of funds in the amount of up to EUR 2.00 per share will be distributed to Neles shareholders either as dividend or return of equity or a combination of the aforementioned prior to the Effective Date. The Effective Date is the last trading day preceding the date of registration of the execution of the merger.

The combination is subject to, among other items, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings ("EGM") of Valmet and Neles, and the obtaining of merger control and other regulatory approvals. The completion is expected to occur on or about the 1st of January 2022, subject to all conditions for completion being fulfilled.

The path towards the merger announcement started in 2020. Previously on the 17th of June 2020, Valmet had agreed to acquire 22.4 million shares in the future Neles Corporation from Solidium, representing 14.9% of all Neles' shares and votes. The transaction between Valmet and Solidium took place on the 1st of July 2020. The agreed purchase price was EUR 8.00 per share, corresponding to a total transaction value of EUR 179 million at the signing, paid completely in cash. Later on during the year 2020, Valmet gradually increased its ownership further to 29.5%.

Due to the merger, the Chairmen and CEOs of Valmet and Neles hosted a virtual news conference in English for analysts, investors, and media. The webcast can be found via the following link <https://valmet.videosync.fi/2021-07-02-tiedotustilaisuus>. Later, Valmet also organized a roadshow for institutional investors where many good questions were asked considering the merger and the future of the Combined Company. The most typical questions concerned e.g. the estimated

EUR 25 million synergies resulting from the merger, timing of the merger, future M&A potential, dividend policy after the deal and the comparable EBITA margin target of 12–14%. The audience was also interested in the other opportunities resulting from the merger for Valmet and the investors and possible risks considering completion of the transaction. A question, whether Valmet would like to be more a product company than a project company in the future, was also raised. One of the biggest themes discussed was sustainability, Valmet's current strong ESG position and the sustainability potential of the Combined Company.

All the questions above relate to one primary question: What is the strategic rationale of the merger? Firstly, together Valmet and Neles form a leading company with a unique, competitive and balanced total offering for process industries globally. The Combined Company would have strong positions in its respective segments including paper, board, pulp and energy technologies, flow control, automation systems and services. The diversified product platforms, end markets and customers with relevant scale in key markets will be very beneficial for the Combined Company. It will also have an ideal positioning to benefit from the strong sustainability focus in the Combined Company's end markets through megatrends such as energy transition and increasing demand for renewables.

Secondly, large recurring and stable business, meaning automation systems, services and flow control solutions, will provide resilience to business cycles. The proposed combination will create opportunities to exceed market growth, increase profitability and maintain a strong financial profile with end markets diversification across process industries and a large recurring and stable automation and services business. Thirdly, there is a strong industrial logic resulting from the combination of flow control and automation systems which will enhance the positioning and offering of the Combined Company.

Fourthly, the proposed combination will create a solid a platform for further growth in the automation and flow control business. The Combined Company will have a leading position in process-critical valves and valve automation products, pulp and paper analyzers and measurements and potential new applications including green hydrogen technologies. It will also have growth potential in these sectors and through the increased penetration into energy and process industry end-markets.

Fifthly, the resulting revenue, technology development and cost synergy potential will contribute to shareholder value creation. As already mentioned, the combination is expected to generate annual run-rate synergies of approximately EUR 25 million of which approximately 60% are expected to be achieved by 2023 and approximately 90% by 2024. Total one-off implementation costs related to synergies are expected to be approximately EUR 25 million.

Sixthly, the Combined Company will benefit from Valmet's excellent track record and know-how in developing integrated businesses. This is well evidenced from Valmet's successful growth path of automation. Most recently, Valmet has completed the acquisitions of EWK Umwelttechnik and ECP Group to strengthen its environmental systems business.

In summary, we are extremely happy about the possibility to merge the two great companies – Valmet and Neles. Together they will form a leading company with a unique offering for process industries globally. Stay tuned for further development of the merger process at <https://www.valmet.com/campaign/valmet-and-neles-merger/>. Now it is time to head forward and wish you all a very good summer.