Transcription

Valmet Press Conference

{EV00125732} - {00:43:15}

02 July 2021

PRESENTATION

Pekka Rouhiainen

Good morning, ladies and gentlemen, and welcome to this press conference regarding the news announcement today. So the headline for today is that Valmet and Neles to merge, creating a leading company with the unique offering for process industries globally.

My name is Pekka Rouhiainen. I'm the Head of Investor Relations at Valmet.

So, before we continue, a couple of practical matters. First, a disclaimer. So, I'll read it aloud and then pause for a moment so everybody can have time to read the disclaimer.

Please note that this presentation is not an offer of merger consideration shares to be issued if the merger is approved in the United States. The merger consideration shares have not been and will not be registered under the US Securities Act of 1933. This presentation does not constitute an offer or an invitation by or on behalf of Valmet, Neles or any other person to purchase any securities.

Okay. Then another practical matter [? 00:01:21] to the media. So, the management of Valmet and Neles are available for face-to-face media interviews and photo shooting at 12:15 to 13:15, Finnish time, at Valmet headquarters [? 00:01:33]. After 13:15, Teams or phone interviews are also possible with the management. Media is advised to reserve time slots for interviews by contacting, [? 00:01:48], whose details can be seen here.

So, today's presenters are here. We will have presentations by Mikael Mäkinen, the Chairman of the Board of Valmet, Pasi Laine, President and CEO of Valmet, Jaakko Eskola, Chairman of the Board of Neles, and Olli Isotalo, President and CEO of Neles.

The agenda can be seen here; so we will start with an introduction to the merger briefly, by Mikael Mäkinen and Jaakko Eskola. After that, there will be presentations by Pasi Laine and Olli Isotalo regarding Valmet and Neles today. And after that, Pasi Laine will continue so [? 00:02:33] is that the merger creates a leading company with unique offering for process industries globally. Then he will continue on the rationale for the combination, Valmet's financial targets after the merger, [? 00:02:47] merger structure, and the indicative timeline. And after Pasi's presentation there will be the concluding remarks presented by Mikael Mäkinen. And after that we will then open the telephone lines for a Q&A session.

So, I will now welcome the Chairmen of the Board to the stage. Gentlemen.

Mikael Mäkinen

On my behalf as well, good morning everybody. After frank, open, but fairly tough negotiations, we are very happy to announce today the merger between Valmet and Neles. I think this is a fantastic opportunity, not only for Valmet and Neles shareholders, but also for the employees in both companies.

This will create a big company - 4.3 billion euros - illustrative combined sales with more than 17,000 employees. As I said, we have today early this morning signed the combination agreement and the merger plan to combine the two companies.

How will this happen? It will be a statutory absorption merger where Neles will be merged into Valmet. And I think it's important to say already here now that the name of the new company is Valmet, just to make it clear to everybody. Another important thing is that Pasi Laine will continue as the President and CEO of the combined company following completion of the merger.

So, very exciting news. I think we have created something fantastic here and now I hand over to Jaakko. Please.

Jaakko Eskola

Thank you, Mikael, and good morning everybody. I definitely support Mikael's starting point; this is a great opportunity. And at the completion here now I give you a couple of facts. At the completion, the Neles shareholders will receive as a merger consideration 0.3277 times [ph 00:05:25] new shares in Valmet for each share they hold in Neles on the record date.

And this actually creates a company where Neles shareholders, excluding Valmet, will own around 18.6% and Valmet shareholders 81.2% of the shares going forward. In addition to this merger consideration of new shares, Neles shareholders will receive a 2 euros per share extra dividend. It's a distribution of funds prior to the completion of the merger.

The combination is subject to, of course, both companies' EGM – Extraordinary General Meetings - and the votes, of course, have to be in favour for this this merger. It's a normal control approved - merger controlled approvals. Completion is expected to be 1st of January around 2022, subject of course to all conditions for completion being fulfilled.

At this moment, shareholders representing around 16.9% of the shares and votes in Valmet, and shareholders representing around 15.4% of the shares and votes in Neles have [ph 00:07:26] accepted normal and certain customary conditions, irrevocably undertaking to vote in favour of the combination. And together with Valmet, the abovementioned shareholders in Neles hold approximately 45% of the outstanding shares and votes in Neles. So, a fantastic opportunity for both companies.

At this stage, I would welcome the CEOs of both companies on stage. So, Pasi and Olli, welcome.

Pasi Laine

Thank you, Jaakko. So, Olli and myself will go through Valmet and Neles today and I'll start first with Valmet.

So, like many of you know, our key figures adjusted in 2020 - order intake was about 3.6 billion, net sales about 3.7 billion, and comparable EBITDA 365 million. We have a long history - industrial history. We are saying that it's over 220 years, so a long heritage of serving industries. We employ currently about 14,000 people and we operate in about 30 countries. Our R&D spend is about 75 million euros, which of course gives a good opportunity to develop the offering further. And then we have been building the business so that we have a triangle which I will cover a little bit more in detail twice today. Still, we have process technologies, we have services and automation, and this merger would of course strengthen that triangle.

And then of course as a very important topic, we have been seven years in Dow Jones Sustainability in the Global index and we have been focusing a lot of in sustainability, and I think in that respect like Ollie will tell later, companies would be very good from sustainability perspective as well.

So, Olli, please.

Olli Isotalo

Thank you, Pasi. It is a great company. And the combination will be even stronger. You see here the figures - close to 600 million on the top lines. In 19 pre-COVID figures it was close to 700 million. We are close to 3,000 people, present in 40 countries - 40 plus countries. On top of that, we have some countries where we have distributors, so we operate in all, I would say, relevant industrial countries.

We are a company that can be from many perspectives said that we are a product company. 400,000 out valves every year. Valve automation components - 160,000 every year. But when we are a product company, it doesn't mean that we would not make systems. Strong brands – Neles, Jamesbury, and the newcomer, Easyflow by Neles - these are important in this industry and, indeed, our brands are globally known and well recognised.

The most important part maybe in today's context is the bottom part of the slides, or the slide, and that is Neles as an investment case. Mission critical products. Predominantly, our products; they are mission critical or process critical, meaning that they play an important role when we talk about safety of the process, activity [ph 00:11:42] of the process, quality of the process.

At the same time, our share of the total investment [ph 00:11:51] from the customer perspective is maybe 1% to 2% depending on the case, meaning these critical components are not the first place where the customer wants to save. This gives our kind of companies and our peer companies certain pricing power, and you can see that our peer companies, being in the same mission-critical corner of the flow control business, have a tendance to be profitable, like we are.

We are a diversified company to various industries, both with pulp and paper and bio products as well as to end customers or transforming them through more and more renewables and bio-based material producers. Important and growing area. We are exposed to oil and gas. There the opportunities are really in energy transition and in other chemicals.

Gases I will highlight here separately. We are the market leader, like in pulp and paper also in industrial gases, hydrogen being one of them. That gives us a good starting point in energy transition hydrogen point of view. Our business model and colleagues in Valmet take all this part of the business, stable business. Our business model is such that 70% of our revenues are customer OpEx driven.

In many ways, from the investment point of view or shareholders' point of view, kind of a comparable part of the business to after sales in many other industrial engineering companies. 30% is then related to customer CapEx driven, meaning customer projects. But even in those cases we are delivering the same valves but bigger quantities.

These resilient business models have made it possible to be profitable year after year, even in the bottom of the cycle, like you can see from our adjusted EBITDA figure last year in the middle of COVID. Pasi, handing back to you.

Pasi Laine

Good. That was a good summary. Neles and I agree on all the points, like maybe you know I have been working in the organisation for eight years so it's very good - very good organisation with excellent products.

So, what kind of company the merger will create? So, a leading company with unique offering for process industries. First, if we go through the offering. So, the offering is process technologies board and paper and tissue where we are clearly number one in supply in the world.

In pulp and energy, we make pulp mills, and we make a power plants as well, and there our market position is number one, number two, or number three, a little bit depending on the product and the year, but strong player in any case.

In services, we have strong market position in those same process technologies. So we are number one or number two depending on the product as well. And then, the third leg: automation. There, Valmet has the assistance [ph 00:15:36] business where the products - I will tell a little bit more later - and then of course Neles has the flow controls [ph 00:15:41], both having good market positions, good products, and both being leader in pulp and paper. But then what is very important is that flow controls have been – and Neles has been showing the way how to develop the business outside of pulp and paper. So, about 70% of revenue comes from outside pulp and paper and our assistance business is about 30%. So, we have a lot to learn from Neles how to expand the business outside pulp and paper as well.

So, a very good offering. And then, of course, we have same heritage, same kind of values. So, the combination would be easy to create on a strong value base.

Then if we look a little bit how historically our combined company would have been developing. So, here you see that orders received would have been somewhere at the 3.5 billion euro level in 14/15, and then steadily going up to 4.5 billion, and LTM would have been about 4.3 billion. Net sales; same kind of development from the 3.5 billion euro level to 3.4 [ph 00:17:03] billion euro level. Comparable EBITDA, of course, starting from low levels combined a little bit over 100 million and LTM would have been about 480 million euros. So, solid development on all those numbers.

And then, of course, the comparable EBITDA margin would have been developing nicely as well, up from 4% to LTM is about 11%. So, we have a good track record as a combined company and then, of course, the presentation later on is emphasising that by combining the companies we can have the good development for the future as well.

So, here are the illustrative key figures of the combined company. So, last year, orders received would have been about 4.2 billion. Net sales 4.3 billion. Comparable EBITDA about 450 million, being 10.4%. And we would have employed about close to 17,000 people.

Geographically, EMEA would have been 40%, Americas about 34%, and Asia 25%. So, very nicely covering all the areas and then, of course, Neles is stronger in Asia and Americas than our automation business or Valmet's automation business then that, of course, would stabilise the geographical presence we have in the business.

If we look by business type, about 48% - so, less than half - would have been coming from the process [ph 00:18:48] business being [? 00:18:53]. About 30% from services and then 21% coming from automation, where the offering is systems and flow controls. So, a nice distribution here as well. So, very balanced geographically and balanced by product type as well.

Total presence would be 1,7000 people. We, of course, covered all places where our customers are acting. Here are some of the dots described, but altogether we would have 140 services and sales centres, then 54 products and units and 23 [? 00:19:34] centres. And then, of course, eight performance centres where from we can remotely serve both processes systems and valves. So, a very good organisation all over the world wherever our customers are active and need sales and services and manufacturing capability.

Like Ollie was also saying, sustainability has been an important factor in Neles, and it has been an important factor also in Valmet. So, Valmet has now been listed in the Dow Jones Sustainability Index for seven years and of course, the work continues, and I think Neles will fit very well into this framework because Neles is the valve supplier who tries to improve energy efficiency, produce no emissions from the valves, and then of course have as sustainable delivery chain as possible, so from that perspective Neles and Valmet did very well together to continue to develop the sustainable offering.

We of course will continue with the ambitious climate programme we have announced and then continue to build the sustainable supply chain together. And both companies have been focusing a lot in improving the health and safety culture. And one important thing is that both companies are very much people-focused. So, to develop our personnel constantly has been the focus in Neles and Valmet and will continue to be the focus in the new company as well. So, very much similarities from a sustainability perspective.

Then if we look at the offering from a growth perspective. So we see that in process technologies, of course, we are active in the markets where we have been, but we see that there are also possibilities to organically and with acquisitions to continue to grow that part of the business. So, currently we are active in expanding our offering to textile recycling and cellulose-based fibre, and we have a programme where we develop a new 3D model of fibre products together with next spring [ph 00:22:01]. So, constantly developing new business avenues; also flow process technologies.

In services, we of course continue to develop the services as we have been and there are also acquisition and organic growth opportunities to make sure that the track record we have had in [? 00:22:24] services will continue. And then of course, in in automation, once one has a flow control and automation system, then there a lot of growth opportunities welcome a little later on and then also acquisition opportunities. So, the main message being here that the combined company has a growth opportunity, both organically and then acquisition wise in all these three corners: process technology, services, and automation.

Then, the rationale for the companies. I think both the Chairman and Ollie were a little bit saying also part of the strategic rationale, and I'll try to summarise here the message.

So, we have unique competitive and balanced total offering for process industries. We have large recurring stable business providing resilient business cycles. We have strong industrial logic from the combination of [? 00:23:24] and automation systems. Automation would be a solid platform for further growth. We have synergies - revenues synergies, technology and development synergies and cost synergies.

And then of course, Valmet's track record in developing the combined businesses has been good, so we believe that the track record continues or even improves with Neles as well. So, first offering, like I said, we have a very good and balanced offering. We have board mills, paper mills, tissue mills, pulp mills, recovery islands, and then energy boilers, fire boilers, and air emission controls. So, a good offering of process technologies.

In services, we serve the industries where we have process technologies with full offering, spare parts, components, maintenance, outsourcing services, consumables, and then of course process optimisation. So, a full service here as well. And then in automation, having flow controlled automation would be a very good offering in automation.

Then, there's a recurring and stable business. So, since Valmet has been born or when we were started our order intake in services was roughly 1 billion. And we saw then already strategically that that it's very important to grow services and that kind of stable business further, so we have been growing by small acquisitions and organic services business so that in 2019 the order intake was about 1.45 billion. Last year, it was a little bit under 1.4 billion, or actually, 1.35 billion.

Then we made automation acquisition which has been contributing to the growth. And now if we have also flow controls there, then actually the same numbers, for example like 2015, would have been about 2.5 billion. So, the new Valmet will have 2.5 billion, or would have had in 2019, 2.5 billion stable recurring business with good profitability levels as well. And this is, of course, a very change big to Valmet. And that's why we are happy now that we are now able to announce the merger.

Then, from the stable business side, about with more than 50% would have been coming from services and then the rest from flow [? 00:26:10]. This is an important point in the path to develop Valmet further together with Neles.

And like I've been saying, the offering for our customers would be very good, so Valmet can then solve the issues with f valves having offering automation, valve controls like Olli was saying. And then there's all the challenges also with system products having [? 00:26:42] management systems and analyses.

Of course, this whole product portfolio fits the best to pulp and paper, but like I said, Neles has been developing the non-pulp and paper business a lot better - 70% is coming from that and we still have a long way in our systems business to get to the same level and I'm sure that the cooperation between Neles and between our systems people will enhance our growth also outside pulp and paper systems. So, a good combination.

Then, like said, then we can continue organic growth in flow control systems, but then also acquisition-wise, where the combination is such that we can think about expanding our product offering also to do different kind of automation products, analyses, and transmit those as well [? 00:27:41]. So, the combination gives also an opportunity to grow automation further with acquisitions.

Then synergies. Like I said, we have sales synergies so we – Neles has very good position in pulp. I'm not sure that we cannot improve that position a lot. But we believe that by combining Neles' offering and also with Valmet's paper and board offering, we can improve the market share in paper, board, and tissue.

There is also cross sales opportunities in mill [ph 00:28:26] improvement type of services project and cross sales opportunities together with automation.

And of course, one important topic is the services offering. So, Neles has a very good services offering, and we are the same and we can of course combine the services offering to customers where we both operate.

In technology, we can develop further the predictive maintenance and Valmet industrial Internet [ph 00:28:54] topics. In cost side, we can find locations where we can put two people together, and then of course we have an opportunity to have only the cost of one listed company. So, we have cost synergies as well.

Then, a very important point. What I said already earlier, is the integration that we have the same heritage, similar management models, people know each other already, so we believe that the integration will be very effective. Integration is never easy, but I'm sure that it's effective in this case [ph 00:29:34]. And we are saying that the estimates for the run rate synergies is 25 million, out of which roughly 60% will be achieved by 23 and 90% by 24.

And then, track record. Well, we have been developing, for example, system businesses that when we acquired it in 2016, order intake was 337 million and in 2019, 416 million, and that has been coming partly by direct sales and partly by package sales. And now, for example, package sales last year together with our systems - the process [? 00:30:20] was about 80 million and the beginning was under 40 million. So, we have been able to double that, and I'm sure that we can do the same also with our software.

So, that was the rationale. Then some words about financial targets. So, like you know, Valmet has set all the time targets so that we have targets for growth, profitability, [? 00:30:50]. And our Board of Directors have now approved the target setting for the combined company and, of course, in close cooperation discussing with Neles as well.

So, we target to grow the net sales in services and automation twice [ph 00:31:11] the market growth and that is exactly the same definition what Neles had for growth as well, and we will continue with the same. Net sales for capital business should exceed market growth that has been earlier targeted as well. Profitability, like you remember, first target for Valmet was to raise EBITDA to be between 6% to 9%. Once we reach that, we change the target setting to be between 8% to 10%. And once we reach that, we change that the target setting to be between 10% to 12%. And now, with this combination, we see that a good target setting for the coming years is to improve the comparable EBITDA of the combined company to be between 12% to 14%.

And how will we do it? With the same tools that we have been doing now. Of course, the Neles combination will help a little bit. The synergies will help a little bit. And then thereafter, continuous improvement in all the topics we have been improving earlier and we see that the new target setting is reachable as the earlier target settings have been as well.

ROCI [ph 00:32:28] target; we are saying that will drop [ph 00:32:42] such that it should be at least 15% and nowadays the target is 20%, and the change is because of the increased goodwill imbalance. And dividend policy would continue to be the same as earlier. So dividend payout - at least 50% of the net.

Then, as a summary from a management and governance point of view, I have the following information. And now, the text is so small that for my eyes, it's a challenge to read. But if I make reading mistakes, then please correct me in the question and answer session. Like the Chairman said, the combination will be implemented as a statutory merger. Neles shareholders will get 0.3277 new shares based on their shares and then at least another 2 euros pre-dividend, and then Neles shareholders will own 18.8% of the new company.

The decisions we need are, of course, the EGM decision where two thirds majority has to vote in both company EGMs in favour of the of the merger. Then, the covenants is such that the Board of Directors are proposing that Mikael Mäkinen [ph

00:34:11] will continue as the Chair, Jaakko Eskola will become the Vice Chairman, Anu Hämäläinen will continue or come from the Neles side, and then the other members who would continue from Valmet's side are [? 00:34:29].

Like Mikael said, I will continue as the CEO and Olli will work in close relationship with me to integrate Neles and then, of course, continues to run Neles with full speed to the direction where he has been running it now as well.

We need the approval of EGMs, of course, and then then the competition approvals and authority approvals. Like Jaakko was saying, we have got the support for the deal from the largest shareholders in Neles, being [? 00:35:21]. And then, of course, ourselves. And like Jaakko was saying that altogether it's about 45% of the shares of the company. And in Valmet, we have to get the support for the merger from [? 00:35:35], and if I remember correctly, that's about 16% of the shares.

We are saying that we start the preparation of the prospectus as soon as we can, and it should be available in September. And prospectus is based on the second quarter finals. And so, first we have to have second quarter finals and then we can make prospectus. And then the plan is that the EGMs are organised at the end of September, and then we currently plan that the merger is completed on January 1st.

So, now it's time for Mikael to continue with the concluding remarks.

Mikael Mäkinen

Okay. I think you have heard a very, very good story about this, but I would like to go back a bit further back, not in history, but it's a number of years ago when we started to look at the strategy of Valmet. And that's where we started to focus on certain areas and that's where Neles came up so please remember this is not something that – yes, now we look into. This is a long-term plan from the management to go into this area, and then the opportunity came to acquire Neles.

So, listening to Ollie, and there are fantastic Neles brands, and we should not forget those. Even if the name of the company is Valmet, there will be fantastic strong brands that we will develop further. We can see here solid business fundamentals that you have heard already from the previous presentations.

I would like to bring up one thing - one success factor is the sustainability. It was mentioned by Ollie, it was mentioned by Pasi. And I think it's very important in the modern world that that's something that we focus on.

Leading market position is very good to have. The strong financial position profile that that that we have. I mean, these are illustrative figures, but 4.3 billion, EBITDA margin of 10.4. It's a strong company. And please remember what Pasi said about the new EBIT margin target. That's also very, very interesting. We really believe in the future of this company and our plan is not just park Neles somewhere, but to develop it together with the development of Valmet.

Growth potential. In today's world, yes, the growth drivers are there. I don't see any - I mean, it will be challenging, but of course they will reach the targets that they would have to reach. Competence. We will have a fantastic platform of people. 17,000 people with a lot of competence.

How about the shareholders then? I think that you have heard from Pasi, and you have heard from him over the years that he has a very, very convincing financial track record. And we will, of course, push him to continue there. And we also know that Ollie is a very seasoned CEO. So, we expect there to be good development, good value for the shareholders. And of course, we're talking about integration and so on, but I mean, those are the main points in my opinion.

Fantastic story, good company, good opportunities for the employees, good for the market, good for the shareholders. What else could I say? Thank you and I hand over to you. It’s Q&A now.

Pekka Rouhiainen

Yes, that's correct. So we will now call the Q&A session for the teleconference lines, and I will welcome all the speakers now to stay here. So, Operator, I now hand over to you.

Q&A

Operator

Thank you. If you would like to ask a question for the speakers, please press 01 on your telephone keypad. You can withdraw your question at any time by pressing 02. Please hold while the first question is being registered.

The first question comes from the line of Lee Dunlop from JP Morgan. Please go ahead, your line is open.

Lee Dunlop

Good morning, and thank you for taking the question. Just the first one. You just mentioned there's some regulatory approvals that are likely to be required before closing the deal. I just wanted to clarify. I understand you already had - Valmet already had regulatory approvals when you were acquiring just under 30%. So, I just want to understand; do you have to just repeat the process and is it effectively procedural since I understand you already received regulatory approvals?

And I just wanted to know if you have any comments in regards to the other large shareholder, Alfa Laval? Of course, any interactions and any response in regard to that. Thank you.

Pasi Laine

Sure, if I take the first one and if Jaakko takes the second one. Good. So, when acquiring Neles shares up to 29.5, we needed the approval in couple new restrictions and we got them. But then, when we are talking about merging the companies, we need approval in several new restrictions [ph 00:41:36] and that's one of the processes we will start now immediately. And we don't see any challenge, but of course we have to work hard and quick to get the approvals from the competition authorities.

Jaakko Eskola

So, thank you for that question. And really, Alfa Laval is the third-biggest shareholder today at Neles; they know about the deal, but I'm not the right person to comment how they feel about it. I think you should probably ask their own opinion about the transaction at the moment.

Lee Dunlop

Thank you very much.

Operator

Thank you. Just a reminder that if you would like to ask a question, please press 01 on your telephone keypad. There will now be a brief pause while any further questions are being registered.

We have no further questions, so I will pass back for any closing comments.

Pekka Rouhiainen

[? 00:42:42] but that was a very quick Q&A. We would have had a lot of answers, but maybe we can read it so that our presentations were of good quality. [inaudible 00:43:00]. This was a quick Q&A, but thank you all the speakers and thank you for the questions that we received, and everybody have a nice rest of today and a good weekend. Thank you.

Operator

Thank you for attending. You may now disconnect your lines.