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Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

Good afternoon or good morning, ladies and gentlemen. This is Juha from Metso's Investor Relations. And I want to welcome you, all, to this conference call where we discuss our Second Quarter 2017 Results which were released earlier today.

The presentation will be given by our President and CEO, Matti Kähkönen; and CFO, Eeva Sipilä. And after they have gone through the presentation, we are ready for your questions.

And before we start, let me remind you on the disclaimer that can be found on the second page of the presentation and disclaimer discusses, for example, forward-looking statements that we'll be making.

With these remarks, we are ready to start and I'll be handing over to Matti. Please go ahead.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

Okay. Thank you. Thank you, Juha. Welcome on behalf of me as well and as normal, let's have a look on the safety development and we see that it's been sort of little bit flattening, but now going to the right direction again.

And once again that we see this as a sort of the customer issue and license to play from our customer's point of view, our own productivity point of view and then from the person's or people point of view. But just wanted to highlight that before going to the Q2 result.

But, okay, let's have a look on the Q2 results and the Q2 in brief. From the market point of view, not big changes, the only section that we upgraded our outlook for the mining equipment business. But starting from aggregates, we continue to see a good demand and expect that to continue this year as well. And it happened in many different countries and regions, as said. And as always, there are big regional differences. But overall, we can be pleased with our aggregates development demand and we feel that we have been in a very strong position overall to get the orders and might be that we're also getting some market shares in some areas.

Then on the flow control, yes, the same good demand has continued and now even looking at briefly [ph] such (02:29) in a way how things have been now going on in July when normally the demand is a little bit lower. It has continued with the similar fashion. You remember year ago, we had a fairly long and deep drop in Flow Control demand starting in July and then lasting all the way down to November-December. But that impacted also to the sales in the Q2. But we don't expect that to happen this year. There might be – always there's some seasonality that the second half is a little bit lower than the first half. But overall, it looks like the project pipeline has remained good and the day-to-day service type of businesses have continued to do as expected.

Then in the Mining side, Mining services demand continued to be on a good level. And also as we indicated already early part of this year that we started to see a bit more sort of a rebuild or refurbishment type of engineered-to-order type of services, which are driven by the productivity activities and we expect that to continue. And obviously, that backlog is a little bit – lead times are a little bit longer, so that it's a little bit back-ended so that the sales will take place in the Q3, Q4, particularly Q4 with an engineered-to-order type of services, but the demand is good.

Demand also in wears and spares have been staying at about the same level as early part of the year, then we'll come back to the some of the wear parts issues later on otherwise. But then mining equipment, we indicated after Q1 that we will review the market outlook and there was a good reasons enough to upgrade that from weak to the satisfactory based on the orders received. If we split the mining equipment to the two different categories, those plus €100 million plus/minus projects, there are only a few of those. We are still negotiating the one. We indicated after Q1, negotiations are going on. And I hope that we could finalize that somewhere in Q3. But, it's a bit difficult to forecast that timing in a way, but negotiations are still going on.

But the big picture as such in the demand point of view, we don't see that there are very many new ones, typically I said that per year one or two, max three, the big projects. So, that is unchanged. But the change is coming from the smaller orders, replacement type of a demand, and there we started to show already a pickup in the first quarter, but we didn't there to yet declare the victory in that respect. But now at least in the Q2, when looking at the inquiry quotation activity, it has continued to go up and also that part of the mining equipment orders have been growing quite nicely sort of a double-digit numbers on the growth side.

So, otherwise, market very much as is for the first quarter and second quarter on this mining equipment. We upgraded that from weak to the satisfactory.

Then overall, the sales was not yet reflecting the growth in orders. We'll come back to that a little bit on the next slide and also the profitability affected by the low sales. We were expecting a bit higher sales, which obviously had a immediate impact to the profitability, particular in the Flow side and then some of the mix issues, which we see more like a temporary issues. That from order intake point of view; the mix has actually been fairly good. But there were some backlog issue in a way that we had a diverse mix for the second quarter. So, that impact to the profitability.

Then strategic initiatives, they proceeded as we were planning. And we don't see any particular issues on those ones, particularly the growth initiative. But I'll mention that a little bit later on.

Then going to the next slide. As we said that order intake was book-to-bill about 10% second quarter in row and without the loss mining order work that we received a year ago. That was about €90 million and typically the other one what we are now in negotiations, it's around €100 million. So, but if we take that into consideration actually the order intake was quite good and the supported overall backlog. And also the services grew 8% positive book-to-bill.

Some seasonality can sometimes [ph] seen (07:49) – the last year it didn't place in the services orders as we see it, it was fairly flat. Normally, there's some seasonality in the first half. It is a bit higher than the second half. But it doesn't have to necessarily be the case for this year because we see more productivity-driven service demand and that might change the picture for this year, so but a bit too early to say yet.

Sales as many times said already, not yet reflecting – the order growth is not reflecting in sales. As you see from the graph, last five quarters they have been flat and about that usually the order trend and order intake trend is going up, and obviously, those orders will turn into the sales. And this is not that untypical.

We have seen this also some years back in a way, obviously, during the last three to four, five years, the market has been difficult and the orders have been declining. But if you remember, there are times that it has taken place that all in all two quarters when the book-to-bill has been about 10%. And now, we expect that it gradually start to turn into the sales as well this order intake and good backlog. The backlog as such is a good healthy backlog that I don't see any particular issues on them. Then the profitability, obviously, it was slightly disappointing from that point of view. But I don't see any such alarming one – or also structural issues or any such execution issues that I would be particularly concerned about when going forward. But obviously, we were not pleased with the result overall.

Then going to the short-term outlook, already explained this quite a lot so that not really a need to go into that further. And depends on now how this mining equipment market will develop. Obviously we will return and review that after the third quarter as well that this is satisfactory the right level it can be. But of course, if things would develop even further better, then we need to consider to change that again but right now there's no reason for that, satisfactory is a good definition for that business and let's hope that we could be successful with this one large order that we could book that also, that would put us in a very good and strong position when going forward.

And then the other topics on the second quarter. Growth initiatives have been the main focus all the time as you saw and what we explained to you in the CMD and those are proceeding. On the other hand also step by step there are investments into the capacity while orders are growing and have been growing and of course, we have been having new capacity but in some places we have now invested some of the mobile equipment and some wear parts capacities to sort of debottlenecking, not really huge numbers but normally those are paying off very fast.

And on the other hand, continuing on those distribution development and expanding the market and also in the flow and aggregate side which is supporting our growth when utilizing and taking the full advantage of the good markets in those businesses.

Digital, you heard quite a lot in the CMD. That is going forward as planned and more fully we will elaborate that more in the quarters to come and next CMD as well where we are. But pleased about that how things are moving on in those mining aggregate and flow control initiatives and it might be that there are new ones also, also chosen then to be implemented.

And then last but not least, as you know, Nico Delvaux will start as a President and CEO of Metso in August 1. Very pleased, there will be a good, strong management in the company and going forward and the other one – what happened in the quarter, was that Victor Tapia, started as a President of Minerals Capital in the June 1. Obviously, Victor already joined us in February timeframe, but then he's [ph] been down there (12:27) to get familiar with the businesses. But very pleased about that also that when going forward and the transition is going forward very smoothly.

Okay. That was all I had. So, Eeva, you would go more in detail.

Eeva Sipilä

Chief Financial Officer, Metso Oyj

Thank you, Matti, and good morning, good afternoon to everyone on my behalf as well. Looking at the financial performance more in detail. So, as Matti already indicated, order intake was healthy in both segments. The book-to-bill in minerals was €1.10 billion and €1.14 billion in Flow Control. Within Metso's portfolio, I would highlight aggregates equipment and pumps as businesses with especially good order intake growth.

In minerals, we see customers increasingly focused on productivity improvements which is supporting good order intake in replacement-related equipment, refurbishments, as well as services in general. And this positive development initially starting from services has now widened its reach and supported the raising of our outlook in the mining equipment to the mentioned satisfactory.

Moving on to minerals segment, sales in the quarter were €523 million and adjusted EBITA €55 million. The sales growth of 4% comes from double-digit growth in aggregates while mining and recycling as well as services were pretty flat. So, in the minerals segment, despite the double-digit growth in services order intake year-to-date, we did not yet see it coming through in our deliveries. Consequently, this had an impact on our mix in sales and hence margins. Adjusted EBITA margin at 10.5% was up from the first quarter, but 0.3 percentage points below the year-over-year comparison. We had a positive improvement in Aggregates equipment margins, but mining equipment continues to weigh down the total. Within mining services, margins continued to be impacted by higher raw material prices still being ahead of our pricing catch up. Also, the mix within Services had a slight negative impact in the quarter with more wear parts going out.

Moving to flow, here, clearly, the second quarter was a disappointment for us. Now, Q1 was a very tough comparison being as it was a very strong quarter both in mix and also operational performance. Nevertheless, second quarter sales were down both year-over-year, as well as quarter-over-quarter. The 9% drop in sales year-over-year had a direct impact on profitability.

The drop in sales is reflecting the low order intake during the second half of last year while we were also expecting June deliveries to be clearly higher. Our mix after the delivery miss turned out to be clearly weaker than average. This applied to both within services as well as within equipment. Furthermore, last year's lower order intake caused some under-absorption in our factories that further affected the margin.

So, while the 10.8% adjusted EBITA margin is clearly lower than average for flow control, there are no special one-off surprises. It really was the result of many as such operational issues ending up clearly lower than average. And it is good to note that comparing the first half of 2017 with the first half of last year, we are delivering performance on the same level.

The good order intake year-to-date and good market outlook also support us in concluding that one should not read too much into this one quarter. Having still looked at group margin development, so we saw somewhat differing trends, and gross margin trended down following the previously commented reasons in the two segment mix in both of them, raw material pressure in minerals and some under-absorption in flow control.

Also worth noting is that the gross margin in the quarter included the final tails of the efficiency improvement program of last year. Adjustment items year-to-date total €8.7 million and were €6 million for the second quarter, and they are included in – the €6 million is included in the gross margin number.

As the programs are now closed, we don't expect any further costs in the second half of the year. Hence, the final outcome of the efficiency measures is less than the €10 million to €15 million range we estimated at the beginning of this year. SG&A costs were flat quarter-over-quarter and are, as a percentage of sales trending, trending down. Moving on to the balance sheet, it continues to be strong. Cash flow is positive, but we are clearly with the growing order intake and flat sales building inventory. Overall, the negative impact of the increased net working capital on our free cash flow was €56 million in the six months.

One additional note to make is that when you look at our cash flow statement in the report, you can see there is a big difference in taxes paid between the year-to-date this year compared to last year and this year's about €37 million outflow is more reflective of normal and well in line with the tax cost on our P&L as well. So, you should consider last year's comparison as being artificially low due to some tax refund payments we received.

Finally on this page, I would want to note that during the second quarter, we successfully extended our debt maturities by issuing a new €300-million bond and repurchasing about half of our older 2019 bond from the markets.

And moving on to the final slide on our order backlog, at the end of June, order backlog was €1.411 billion. This is up from a year ago and as such obviously encouraging and following the overall market and order intake improvement. Regarding the second graph with the scheduled delivery dates, the comparison indicates a clear increase in deliveries in the second half compared to a year ago. I would like to remind everyone not to use this graph as exact signs and schedules in big products do tend to move a bit around.

Right now, however, the mix in our orders and also market activities is more in the shorter cycle services, refurbishments and replacements which are more standard and less impacted by any external factors. So, as such that is supportive for the second-half deliveries. And worth noting is that neither are all these short-cycle deliveries yet in this backlog of end of June.

With that, I think it's back to you, Juha.

Juha Rouhiainen

Vice President-Investor Relations, Metso Oyj

Okay. Thank you, Matti and Eeva. This was the presentation and, operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] We take our first question from Klas Bergelind from Citi. Please go ahead. Your line is now open.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Yes. Hi, Matti and Eeva. It's Klas from Citi. Firstly on the slippages, it's a €22 million difference in minerals versus consensus on revenues, and it's €15 million in flow control, and it's a mixture on capital and service revenues where I guess, rebuilds in minerals take a bit longer to invoice. But on the capital side, how big a portion slipped and how should we think about the sales coming through over the third and the fourth quarter.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yeah. Hello, Klas. On the minerals capital, we had some projects where certain milestones need to be reached in order for invoicing to occur, and there were a few cases where we were not ready. So, it was more our internal execution, and then a few were also that the customer was neither ready. So, these are, as such, within sort of bigger projects quite normal, but obviously unfortunate coming into a sort of a quarter that wasn't so good in April, May, but that's really where we are. In flow, I would say obviously there's some projects there as well, but are smaller in scale, but a bit similar.

So, clearly sort of we can improve on our internal execution, but there is always, as I said, when referring to the order backlog that things – of course, there's a lot of things happening in big projects, so, timing sometimes do move some weeks.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Okay. Because, the way I'm looking at it is obviously the demand backdrop has improved since you had the delivery slippages last year in the second half, so this is more the execution. It's not that the customers are pushing deliveries to the right.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

No. I don't see in that sense that there are some – there clearly is – production outputs are quite healthy, there is a need for capacity in many of the cases. So, it really is more maybe operational than anything, sort of strategic moves like that. Those very rarely come as a full surprise either, but that we would have probably seen and that would be a bit exceptional considering the positive and actually improved market outlook.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

And many of the projects also that we have been – they are sort of on final stages in a way so that then it's the most difficult part of the project closing in a way. And many of those are sort of such that we are – just about their closing the project and there might be some questions coming up from the customers also. Those longer-term projects, they are proceeding quite well where you have normal BOC type of things so that they are not that problematic.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Okay. And then on flow control, the €15 million, we all knew what the capital orders were in the second half of 2016, and we knew that they were low, but when I do the numbers, it sort of still doesn't add up. So, is it just slower backlog conversion than we thought or do you have delivery slippages also in flow control?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yes. As I indicated, it's a bit of both. So, there were also slippages in June. So, June, the deliveries were a disappointment, were lower than planned. So, that had a kind of an additional impact. But you're right that in a way, certainly as we indicated that the low order intake had – of last year, obviously, is something that comes through.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

And was it demand-related why they slipped or was it all execution?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Not demand. Not demand-related.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

In flow control as well. Okay.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yeah.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Just a final one on flow control; you're keeping the – if I understand it correctly, the 13% to 15% margin guidance and therefore you, given the operational gearing in this business, you seem confident that revenues can accelerate into the second half or are you intensifying any cost-capping in flow control?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Good question. We have been taking the cost out in flow control all the time in a way and as you saw last year also, the first half and second half, so, there is a difference in a way. So from that point of view, that – what we see some of these sales would have taken place in June time, they will take place in Q3 in a way, and that's supporting.

And then also in a backlog, even right now there was a sort of unfavorable mix impact in the sales orders on the other hand for services and short-cycle North American business and also the valve controls, the instrumentation part of the businesses is more favorable for the rest of the year. So, it's a little bit fast-moving backlog for the rest of the year. So that gives the confidence for the rest of the year what comes to the flow control.

And once again, this 13%, 15% is not really a guidance. We have time-to-time discussed only about where should it be and once I said it to you guys that 12%-13% is not a new normal, but it's more like 14%-15% in a way. Well, in the good old days in 2015, we were 17%-18% and there was a question about where is the sort of new setup with the lower volume and then we discussed about this 13%-15%, which is still a good – 14%-15% is still a good number overall for the flow.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

But do you think you will be at the lower end of the 13%-15% or the higher end of the 13% to 15% this year?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

That I don't want to comment on. I said that the 14%-15% is a good range in a way. It's quite narrow already. So, no further comment on that.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Okay. My very final is on the outlook for mining equipment. You're [ph] raising (27:23) that; is that replacement demand that you now see kicking in? I think you said 6,000 crushers are more than 30 years old at the CMD, or do you think the outlook on the larger orders can move. So, is it small, mid-sized versus large, i.e., replacement versus brownfield; it would be good to hear what you think there.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Exactly; a good point, and it is around the replacement and driven by the productivity improvement activities, and those are the replacement single units and smaller projects that we are seeing the activity pickup. We don't see – when talking about this €80 million to €100 million big projects that we don't see any more of those right now what we have now communicated during the last couple of years that they are basically one or two per year like that size of the project and that's a good outlook for that business. But more replacement, small project single equipment type of things where the bottlenecking from the productivity point of view.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Okay, thank you, and all the best, Matti.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Okay. Thanks, Klas. All the best to you.

Operator: Our next question comes from Manu Rimpelä from Nordea. Please go ahead. Your line is now open.

Manu M. Rimpelä
Analyst, Nordea Bank AB (Finland)

Q

Yeah. Good afternoon. My first question would be concerning a bit on the same topic. So, these deliveries which we are seeing being delayed, I heard this your internal production-related issues; are then customers postponing the acceptance of the orders? So, I think if you remember that we talked about this was 12 or up to 18 months already. So, have you seen that – was it the last year that we saw more of customer-related delays and now with the capacity is starting to be ramped up. So, you are still realizing that there are some production issues. Is that fair to say or is the kind of issue still the same as it was 12 months ago?

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

Well, Manu, I think the sort of reasons behind are somewhat different because I think even if I wasn't here 18 months ago, making those comments is sort of obviously that time the mining industry was in a very different situation. So, they were genuinely sort of – genuine, sort of, reasons related to financing and similar which had an impact. And what we're seeing now is not those issues.

So, now the, sort of, why – this is more, sort of, more operational slippages, I would say, in – I said in both partly in our execution and then partly with the sort of overall project where, of course, a lot of things need to be in place for – before some of the equipment can be delivered. And hence, these things move quite quickly and one can't make a difference, like unfortunately now in this quarter it did. But I wouldn't draw sort of conclusions to the sort of – to the past which – when the market situation was, I said, very different.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

And while we are having a little bit of context also that we might have plus/minus 100 projects and only a couple of those can sort of – can cause slippage in a way that you might have two or three projects which happen to be either in June or July or August in a way. So, it's not talking about the overall project backlog deliveries. It's only a couple of those or a few of those, so that is good to remember as well.

Manu M. Rimpelä
Analyst, Nordea Bank AB (Finland)
Q

Yeah. Maybe just a follow up on that. So, you're not seeing that these issues are related to the big cost-cutting that you've done over the past years and now that the demand is picking up, you're realizing that you don't have the correct type of capacity or the correct type of engineering capabilities inside the organization.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

No, that's not the topic in a way. From that point of view, we are okay when going forward, and as I said in my presentation that where we have invested in some mobile Lokotracks and some wear parts where we have capacity. So, it is in a way that we have increased the capacity in certain places, but not in a project management or execution resources. Yes we have – we have good resources and we didn't cut that to the bone in such a way we – that was decided already early enough that basically we have a good amount of capacity for that business to go forward. So, it's not about that.

Manu M. Rimpelä
Analyst, Nordea Bank AB (Finland)
Q

Okay. And if you take second question on the cost inflation front; so could you just give us some comments on how did you see the cost inflation impacting you in the second quarter? I think you said it was like 100 basis points of the mineral services margin in Q1. So, do you have a similar type of an amount in the second quarter and also then how do you see your cost, a price increase is starting to come in and when do you expect to be able to fully compensate for the higher raw materials?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Well, we've been most challenged in the wear parts where, as you well know, the rubber price had a very, very rapid peak. It has since come down already sort of during the quarter quite a bit, but basically what our deliveries were with a cost base similar to the first quarter. So – and the kind of the price increase catch up is – has taken place and obviously as now both the sort of pressure from the raw material we will have cheaper raw material coming into the funnel so to say and also the catch up. So, we would expect that to somewhat ease in the second half.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Yeah and most of the cost increases, they will be now over in the Q3 what comes to the rubber compound, and that's the main impact to the – and it's a good ballpark number, this 1 percentage point in a way. That's what we still saw and then the pricing we have been adapting those, and they have been going through quite well. Then in grinding wares, it's, as I said, that it's a mix issue also that we have a little bit more, some of the lower margin product supplied in Q2, while the grinding wares, you will have basically three different product categories, and there are differences in profitability per product lines.

And now, a couple of – two of those were more of that sales, like in a grinding balls or grinding media which is typically a lower-margin business. We had more of that and at the same time, a little bit less rubber mill linings where the profitability is high, and now, we see that it's a better backlog for the, for example, in rubber mill lining. So, the mix issue will help us also when going forward. At the same time, the raw material prices will help in other way around and not totally gone away yet, but we see that now the purchase is what we are buying in a lower-cost level. So, that will help us as well.

Manu M. Rimpelä
Analyst, Nordea Bank AB (Finland)

Q

Okay. And the final question on pricing still is the – are you seeing that you're able to already increase your prices more than cost inflation in any part of the business?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

In some product lines, I guess that we are coming to the point that they are now coming – starting to impact in a way that sort of a cross-road is somewhere; I don't know is it in August or September where we start. But nevertheless, in the near future where the price increases kick in for the full impact in a way. Normally, it takes – depends on the product lines. In some product lines, it might be one quarter, some other longer lead time things in a way like internet to order where we are buying a lot of raw material. It might be three to four quarters, but in average, most probably now in next quarter we are coming to point that the price increases have mitigated the raw material price increases for sure.

Manu M. Rimpelä
Analyst, Nordea Bank AB (Finland)

Q

Okay. Thank you. No further questions.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Thank you, Manu.

Operator: We'll now move to our next question from Antti Suttelin from Danske Bank. Please go ahead. Your line is open.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)

Q

Thank you. I would like to concentrate on minerals services and the profitability there. I think you said the business was affected by raw material increases and then the mix. And did I get it right that raw material impact was about 1 percentage point? Can you confirm that?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Yeah. Roughly. Yeah. You got it right.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)

Q

Okay. What about the mix? How big of an impact was that?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

In the first place, a bit of the background for the mix issue in a way that in mining services, obviously, you have four different categories, the grinding wares crusher and screen wears, spares and then the internet to order type of solution. So, four categories where the internet to order type of things, what we said that was start to develop positively when going forward, and the volumes were good in a way and the margins were developing positively spares. And the crushers wares were sort of orders growing, sales not yet growing, but that will go for. The mix issue was mainly on the grinding wears and then we are talking about mill linings and the grinding media and is it the metallic or rubber mill linings. And there was the mix issue so that this grinding media was, from a mix point of view, impacted.

So, I don't want to give exact number in a way. It's a little bit less, let's put it that way, than the cost issue in a way, if there's 1-plus percentage point from the raw material point of view. So, mix is a little bit less.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)

Q

Okay. And are you confident that you can regain the margins now in the second half? I mean, you don't think this is just reflecting a deterioration of pricing power that we saw in the second quarter.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

What we will see overall in mining service is that we will see clearly a positive development in internet to order type of things where the margins volumes are growing and then there are very neutral ones; the spares will be performing very, very steadily in a way and we will see a good development. In the grinding wears in certain markets, the competition is tough in a way that – and some of that won't be recovered, but some of that will recovered. So, it's a bit easy to – difficult to say that, but overall, the mining services, if we take all these, so there might be some minuses, but they are at the – on the other hand, there are also improvements in the margin. So, overall, I feel that and see that it is – it can be [ph] hold on (39:30) Antti, when going forward, but within the services, there is mix differences in the way that some of the product lines are more completed and will continue to be more completed, and in some areas we are making the bigger inroads and improving the profitability and then there are a couple of product lines which are fairly steady in a way that are very consistent development but the main issues are in the wear parts.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)

Q

You have previously said mineral services EBITA margin has been in the 16% to 19% range if I remember right. What was the situation in Q2, please?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Obviously, yeah, we have said some ranges in a way either for the Metso services or then for the mineral services. The only way how – want to answer on that, we are within the range. So, let's put it that way.

And I said that right now, obviously you can see that from the numbers that there were some issues which were in the short term impacting us negatively in a way, and those were not mitigated either by the better margin businesses or by the mix point of view [ph] less (40:44) raw material increases but those – the mix will be helping us by the end of the year. Particularly from the internet to order of services. So, we are in that range and I don't see a big difference from that point of view right now.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)

Q

All right. That's all from me. Oh, no, one more, sorry. Can you just give your expectation about the personnel cost development 2017 versus 2016. Last year your personnel bill was €655 million. How do you expect that cost item to develop this year?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Eeva, can you help in that respect?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yeah.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Most probably somewhat down but not that much from 2015 to 2016. It was a bigger drop than 2016 to 2017.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yeah. If you consider the restructuring programs we just now then finalized. We have some 200-300 people less from those. At the same time we're obviously seeing some salary inflation and also you see also in our head count that we're actually adding people in our services thanks to the sort of good order intake. So, I think that will kind of balance and mean that I wouldn't expect to sort of very big material change in the personnel cost.

So, overall, we sort of as we expect the sales to go up, so obviously as percentage of sales, the SG&A will – is trending already down. But in absolutely terms there are also increasing items to take into consideration.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Year-to-date the personnel [indiscernible] (42:37).

Antti Suttelin
Analyst, Danske Bank A/S (Finland)
Q

Okay. Can you say how much was the number down in the first half of the year versus last year?

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

Obviously, you'll see that in the notes of our Annual Report, then once a year but at this point, I wouldn't comment on that exact number.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

But it's down.

Antti Suttelin
Analyst, Danske Bank A/S (Finland)
Q

Okay. It's down to some extent. Okay. Thank you.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Thank you.

Operator: Our next question is from Peter Murdoch from Morgan Stanley. Please go ahead, your line is open.

Peter Murdoch
Analyst, Morgan Stanley & Co. International Plc
Q

Yeah. Hi, Matti. Hi, Eeva. How are you? Just three if I may. Can I start on just coming back [ph] cost on (43:20) flow control. So, I think this year if you look at 1Q is obviously a very good quarter, 2Q wasn't so good, but year-on-year you're flat in the first half versus first half last year. How should we think about this second half versus second half last year? So, in total for the year, do you think – for the division as a whole, EBIT, do you think flattish is a sensible way to look at it or how should we think about it?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Yeah. Obviously, we haven't guided or given the guidance either on the group level or on a reporting segment level, or on a quarterly level. But it depends on the order intake, short-cycle order intake, how that will develop by the end of three. If we see sort of a normal sales development as we saw last year, so I don't see any bigger changes to make this good and costs are under the controls of flow as such should be performing on a consistent manner for the rest of the year.

Then, as we saw, we don't expect that to happen this year. In the second half of the last year, there was a very deep and steep drop in the demand, obviously, that would impact somewhat to the whole-year performance as well. But right now, if the orders continue as they look, they have continued in July to go forward. So, flow overall, there might be some quarterly deviations and differences. But overall, on a sort of a year-on-year basis and first half, second half is quite stable business in the end because there are no big projects or big things in the way which can cause us a one-off big surprises and we know the backlog and we know the cost structure, so it should be fairly stable, let's put it that way.

Peter Murdoch
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Very good. [ph] Cheers, Matti (45:24). And then just on the large projects in mining. So, we know one is coming in 3Q. Have you talked about – well, and you're saying what – if we were to look out 2018-2019, what's the normal intake? Would you say that one or two now per annum is a sensible way to look at this equipment business?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

At least right now, I wouldn't draw any other conclusion right now for the 2018 or 2019, one or two per year. Of course, the time is getting closer. Is it the 2019 or could it be already in the end of 2018 that we could start to see a little bit more of that? But right now, I would go forward with this one or two bigger projects per year is a good number. And I said that what we are now negotiating in discussion so that obviously still there are open issues. But is it Q3 or Q4, we don't know. But at least right now, we are in a good faith and good mood to negotiate that with the customer.

Peter Murdoch
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Very clear. And then last one, I think for Eeva, just on cash flow, can you just explain why the cash flow was lower year-on-year? I get the cash taxes comment, but I don't know if it explains the majority of it. If you could just comment why was it weaker in the quarter?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Yeah. Sure, Peter. There was two items, really. Net working capital increase and then the tax part. So, really as – and you will see when you look at our report, so there's a significant increase in net working capital in – both in the second quarter, as well as year-to-date, and that's the kind of the other impact eating up on cash flow.

As such, obviously not a big surprise considering that we had earlier discussion on deliveries being delayed. So, obviously, they are in inventory and work in progress so. But I am somewhat cautious on the full year as well. If the market outlook continues, as we now see it, i.e. sort of good and even slightly improving it, it will sort of put pressure on working capital, and we really need to focus on efficiency in that area without at the same time then hurting availability towards our customers.

Peter Murdoch
Analyst, Morgan Stanley & Co. International Plc

Q

Okay, because I would've expected that to reverse in the second half just as you – obviously the delay in deliveries – there's little bit – the deliveries come in 3Q, I would've thought the cash could be better than the second half.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Well, obviously, then they move into AR, and then they improve. But if at the same time if the growth continues, that's maybe good to bear in mind. But, yeah, I think this sort of – the June number wasn't obviously great. So, that will recover. But I'm kind of looking at also the outlook for 2018.

Peter Murdoch
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. All right. Thank you very much, you guys.

Operator: Thank you. Our next question now is from Magnus Kruber from UBS. Please go ahead.

Magnus Kruber
Analyst, UBS AG (Sweden)

Q

Hi there, Matti, Eeva, Juha. Just a follow-up from my side here on flow control. Could you help us understand a little bit within equipment and services, respectively, what sort of mix impact you saw in there? I mean, both equipment and service was largely flat nominally on quarter-on-quarter basis, but still the margins dropped to almost 500 basis points. And any extra detail on that would be very helpful.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Good point. Overall, the mix issue, what was impacting that three different categories. There was a little bit less North America short-cycle business, a little bit less our field services business. And then a bit less also – we are calling the [ph] valve control piece, VAC (49:19) with those instruments or the components we are selling directly, when putting those together, there was a quite a big impact in a way that it impacted a couple of millions anyhow in the bottom line that less of that sales was in Q2. But as I said that, when looking at the order intake for those three different categories, the short cycle and service and the [ph] VAC (49:50) for the rest of the year. That is a promising thing in a way.

And then obviously when the last year, you remember this drop in orders. And when the demand went down 20% 25% overall in the industry that all of us were struggling with the volumes so that of course, the price competition was really brutal in those projects that we received even though there were not very many of those. So, anyhow a couple of those were there and obviously the prices were lower in that respect and now that is partly in the capital side or equipment side that we deliver it in Q2 that obviously that those margins were somewhat lower because of the last year low demand situation.

So, all of these impacted quite a lot and then as Eeva was saying that there's no drama in a way that if you take the last year Q2 and now this year Q2, €50 million difference in the sales. If you take that with a normal drop through in margins in Flow, you end up quite easily from €60 million to €22 million. So that the sales and the mix is explaining the difference quite clearly.

Magnus Kruber
Analyst, UBS AG (Sweden)

Q

Okay. Got it. And this lower margin projects, have they all [ph] exited the back half (51:16) now or can we see something more in Q3?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Almost they are there. There might be some of those still for the Q3 in a way. But most probably not that big material. They are there but then at the same time, we see that there should be higher margin businesses, those three categories what I mentioned that they are mitigating part of that. But obviously, something received third quarter last year or third quarter last year, then you take the six to nine months delivery time so you are there in a way. That backlog is more less have gone out or will go out now Q3. But at the same time there are other higher margin businesses mitigating that project business.

Magnus Kruber
Analyst, UBS AG (Sweden)

Q

Brilliant. Thank you. And also, could you develop a little bit more on the adverse mix in the mining aftermarket?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Sorry, in which way? Sorry, I didn't get it.

Magnus Kruber
Analyst, UBS AG (Sweden)

Q

In the mining aftermarket, I think you mentioned something about adverse mix effect on margins there?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Yeah. In the mix – okay, sorry. I didn't hear. So, yes, in the mining services that what I said that there are – if we split this into the four different categories or three, there are wear parts, spare parts and then internet to order type of things. So, internet to order spares, okay but in wear parts, in particular in the grinding wears, we saw the mix issue in a way that we had more grinding media and metallic mill lining sales than rubber mill lining sales and there's a fairly big margin difference in those product lines and it was a little bit to more unfavorable in Q2 from that point of view. So, that was the mining service mix issue.

Magnus Kruber
Analyst, UBS AG (Sweden)

Q

Okay. Excellent. That's okay. Thank you so much. And thanks a lot for your [ph] good work (53:10), Matti. Good luck in the future.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Okay. Thanks.

Operator: Our next question is from Michael Kaloghiros from Bank of America. Please go ahead.

Michael Kaloghiros
Analyst, Bank of America Merrill Lynch

Q

Yeah. Hi. Afternoon, everyone. My first question is a follow up on the issues in your equipment and the backlog delays of deliveries. Just want to make sure that will not impact the results financially going forward as you [indiscernible] (53:44) delays and you might have some [indiscernible] (53:46) clients, [ph] just a thought (53:46) on whether this is related on the [indiscernible] (53:50).

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Okay. The line is very bad, but if I try to answer what I think I heard was your question, so as we were answering to the previous question – so, these were really more sort of operational delays and nothing sort of – nothing very strategic, just happened to sort of happen now quite a few, unfortunately, in this quarter. So we don't really see a reason why we should be confident on being able to deliver those now in the coming months and then catching up as you see from our order intake numbers. So, clearly, the orders continue to come in at healthy levels, so as such the sort of market environment and the customers are clearly sort of doing quite well. And this really applies to both minerals and flow.

Michael Kaloghiros
Analyst, Bank of America Merrill Lynch

Q

Got it. Second one, maybe on the comments regarding the slippage in flow control in June, I'm just a bit surprised on this given, minerals is more of a product business, and usually, you – I mean, the deliveries are pretty straightforward. Just to better understand which type of product and maybe whether this was really coming to an end in June or whether this has continued in July.

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

Well, I think you're right that it is obviously more product type of business. But as you clearly can have a weaker month in product business as well, and that's basically what happened in June. So, as I said in my introduction, so there were really no sort of – no specific, it was just a sort of multitude of things why we ended up being lower partly, reflecting last year's lower order intake and partly then having a low performance in June. But it's really sort of nothing really much to add on that. Obviously, we can only improve on the execution going forward.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

I guess, as I was saying, that it is a product business, but there are differences as in any businesses per product line also. And while if you look at certain product lines, what I mentioned and certain reasons so that there are differences. So, it is a mix issue from that point. But you are right that there aren't any €20 million or €30 million or €50 million projects that which might have an impact to the flow of businesses as such.

Michael Kaloghiros
Analyst, Bank of America Merrill Lynch

Q

Got it. Last one is maybe referring back to what you said at the Capital Markets Day. I think you were talking back then of higher investments in 2017 and 2018. I think for 2017, it was still fairly small I think you mentioned €3 million to €5 million incremental in 2017 versus 2016. If I look at – at least R&D in the first half of this year, I mean, it was down year-on-year, but like €4 million, €5 million in the first half. Should we expect a big increase in R&D in the second half of this year to cover the lower R&D and investments in the first half?

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

I believe you're referring to the digitalization in investments we discussed in the CMD. And there is – the majority of those are booked not actually in the R&D segment, so as costs. Just to be prudent in the sense that when it's still obviously somewhat risky investments where the outcome is unclear. So, we're taking a more sort of cost approach to them whereas the sort of in the R&D – they may be moving there at some point, obviously, when we get a bit further on that program. But right now, they're not included. So, you would see them affecting the group costs.

And what then comes to the R&D, so, yes, it is a low number for the six months. I think going forward, we need to make sure that we make the right investments, but those really don't tend to change very quickly. So, in that sense, I don't expect a big change in the second half.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

There must be some more to come in a way. One thing that we have to realize also we have done during the last couple of years a lot of in the technology development, we have done different type of standardization, harmonization type of activities, and those have been consuming a certain amount of the RTD money. And now, quite a few of that work has been now finalized. So, that obviously we don't need to spend that. But then overall, in the longer-term, I think that you will start to see a little bit more investment into the technology and RTD. But they don't change the big picture as such in a way that there would be a big swing in the profitability. But some of that, you will see more.

Michael Kaloghiros
Analyst, Bank of America Merrill Lynch
Q

Got it. Very clear. Thanks very much, both. And all the best, Matti.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Okay. Thank you, Mike.

Operator: Our next question is from Tomi Railo from SEB. Please go ahead.

Tomi Markus Railo
Analyst, Skandinaviska Enskilda Banken AB (Finland)
Q

Yes. Good afternoon. Coming back a little bit on the profitability. If the service made the profitability within the range you have been talking about, my question would be that, was mining equipment loss-making or breakeven in the quarter?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Mining equipment with that volume what we are still having, it is loss-making.

Tomi Markus Railo
Analyst, Skandinaviska Enskilda Banken AB (Finland)
Q

And what is your target or guidance in a way or communication to – aim to be profitable for the full year or breakeven?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

I would not like to give any particular, of course, number, but we are marching towards, first, in a breakeven – and it's very much the volume came in a way. But still, the volumes are on a low level, as said, improving step-by-step when it comes to the small project and much small equipment, so going to the right direction. And there is, no, – we have now almost done the cost-cutting activities in that business now, as said, finalizing the last things in the U.S., now consolidating those.

So, the structural changes are done, of course, then there are always cost-cutting things going forward. But now, it's more like a volume gain and I don't believe yet in a way that with these volumes, what we see this year, bearing in mind that the early part of the year has been fairly slow and low level in the sales that we would get to the – yet to the breakeven, but it's going to the right direction and the development. Even though, it's a loss-making, it's a fairly good development actually in that business.

Tomi Markus Railo
Analyst, Skandinaviska Enskilda Banken AB (Finland)
Q

Okay. Thank you. And then just on the flow control demand picture for the third quarter. You are saying that July has continued on a level sort of reflecting the second quarter. But that's all seems to be always seasonality. Last year, of course, was a big decline. But, are you suggesting that this current second quarter level could be indicative for the third quarter as well or should there be sort of a normal kind of seasonality?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Good question, and as said that the last year, last year, it was an exceptional year in that respect. So, I don't believe that that won't happen this year. But then, normally, there is a certain seasonality in H2 compared to the H1. So, we might see some decline in the second half of this year compared to the first half of this year, but not to that level what we saw last year. That is what we see right now in a way.

But then, as said, the mix has been sort of two-folded that the first quarter was basically no big project, and then the second one a little bit more projects. So that – but at least, so far, it looks quite stable for the rest of the year. But also, you are right that there's a certain seasonality H1, H2 always.

Tomi Markus Railo
Analyst, Skandinaviska Enskilda Banken AB (Finland)
Q

Very good. Thank you.

Operator: Our next question now is from Max Yates from Credit Suisse. Please go ahead. Your line is open.

Max Yates
Analyst, Credit Suisse
Q

Hi. Just my first question would be on the mining aftermarket. And just you talked about this mix and within metallic and rubber wear parts, is that anything to do with customers trading down or is that just simply different kinds of equipment using different kinds of aftermarket? And is there any visibility on or is there any reason as to why this happens in certain quarters and how we can have any visibility on when they should reverse?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

No, I don't see any – it's not really a market issue itself in a way that somehow the market would have changed in that respect and the customer behavior. As said, in some market areas in South America, the competition is tough because there are quite a few of those local players as well and that's something. But the market structure itself, obviously what we have been doing and it impacted a little bit in the second quarter mix that we have been very strong.

And we are very strong in the rubber mill linings and it's half of the business and the market and the other half metallic mill linings and we haven't been so strong there. And we have been developing this metallic mill linings during the last years and we have made inroads into that. And obviously that is one change in our mix, but the market itself is not really – has not changed from that point of view that we have been developing our grinding mill business and metallic mill lining business more aggressively than earlier in a way, and obviously, the other guys have been attacking us in the rubber side.

Max Yates
Analyst, Credit Suisse

Q

Okay. Thank you. And just the second question was around cash flow, and obviously, you mentioned tax was having an – cash tax was having an impact on your cash flow. If I look back at the last couple of years, your interest payments, your cash interest payments have also been running kind of below the P&L level. So, could you give any visibility on whether this is a sort of risk over the comings years as the cash net interest charges reverting back to the kind of level that you see in the P&L, or are you confident that we'll continue to run at the cash interest charge below the P&L?

Eeva Sipilä
Chief Financial Officer, Metso Oyj

A

I don't necessarily see a reason why the sort of past would impact the future in a sense, so we obviously are – we're renewing our debt structure maturity. Some of these older things are going out. And so it is, in that sense, I think the current setup more to look at sort of as it is. I think it's maybe sort of the more prudent approach as usually to have them pretty much aligned, the cash and P&L. But as you very well know it, certainly on a quarterly basis, even on a sort of 12 months, is – can be somewhat different. There are some non-cash items typically included in the P&L due to various accounting rules. But they shouldn't kind of last year. I think I just wanted to highlight the tax because you saw a pretty – it was very dramatic difference between P&L and cash flow and those situation usually are not sustainable.

Max Yates
Analyst, Credit Suisse

Q

Okay. And just the final question, Matti, was just maybe a sort of longer-term question. And when you look at your, sort of, mining business where it is today doing somewhere between €250 million and €300 million of revenues. When you look back sort of relative previous peaks, where do you envisage this business getting back to, sort of, by 2019-2020 with sort of a few large orders coming back? What do you think is the right sort of level of this business in the next two to three years?

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

That's a good question. And as we remember that it used to be on a €1.3 billion, €1.4 billion level and then went down to €250 million, €300 million. Obviously, it won't go back to the €1 billion plus levels in a way. But I don't know, is it going to be 2020 or 2021 or 2019, but I could imagine that it could go up to the €500 million, €600 million. If the market is really good, so a little bit even higher because it would mean that this sort of small project activity would continue, which I believe it continues from the productive improvement point of view that we're able to see the growth.

And then, instead of one or two, you might have a two or three of those or three or four of those bigger ones. So then, you end up to the €400 million, €500 million level. So, something like that in a way, but I wouldn't start to dream about that it would go easily to €600 million, €700 million level. So, obviously, can happen, but they're not in this foreseeable future when talking about next three to four years.

Max Yates
Analyst, Credit Suisse
Q

Okay. Sorry, actually just one more very quick one. Just on the level of the CapEx that you're currently spending, at the moment last year was sort of 0.4% of sales. I think you talked about it rising. Could you just remind us sort of at what rate and what the kind of right percentage of sales is for CapEx for this business? Because I would imagine it's 1% or 0.5%. Last year is too low. Could you just remind us what the right level you think is for the business on a normalized basis? Thank you.

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

Yeah. I think what we have also in the report is maybe more on the absolute level. So, we're referring to the fact that last year the absolute number was some €30 million, and we say in our report that we would expect CapEx this year to slightly increase from that, but we remain below depreciation which runs at sort of €60-plus-million.

As you see from the first six months, CapEx increases are a bit slow to come. I think that statement is still very valid, and Matti also mentioned a few press releases we've given out on CapEx investment specifically. So, obviously, as those then start to move ahead, there would be sort of costs coming, and the CapEx cost will be up. But as said, when the six month figure is pretty much flat on last year, it will be a sort of rather modest increase this year.

Max Yates
Analyst, Credit Suisse
Q

Okay. Perfect. Thank you.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Thank you.

Operator: And our next question now comes from Andy Wilson from JPMorgan.

Andrew J. Wilson
Analyst, JPMorgan Securities Plc
Q

Hi. Good afternoon, everyone. And just a couple of hopefully quick ones for me. The comments on the order backlog in flow control and just obviously having taken some or is this sounds like lower margins in the second half of last year when the market is difficult. Is there anywhere else in the business where we need to be thinking about kind of the order backlog whether better or worse? Is it sort of a different margin to what we're currently seeing? Just help us think about that in terms of the second half, please.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj
A

Good question. And the answer would be that I can't see any other area because this was clearly demand related and it was so strong drop in a demand, which impacted. And the businesses is the aggregates or services or flow, after the last year drop is, it's been sort of a [indiscernible] (01:11:17) normal or growing, so that I don't see such a question in the backlog. It was a couple of those things in a way that happened last year what we had to or what we took in a way when protecting our market shares. And the competition was, it was brutal in Q3, Q4 last year, so that – but I don't see any other businesses or areas that should be worried about there.

Andrew J. Wilson
Analyst, JPMorgan Securities Plc
Q

Okay. That's very clear. And just on the comments on the cost actions. And the costs are now going to be lower or the costs associated with that, I should say, are going to be lower than expected. Is that just it's been able to be achieved at a lower cost or is it that the change of the scope in terms of actually what was being done? Can you just kind of give us a bit more detail and just sort of how we should think about that, please?

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

Yes. So, we've been – two things maybe affecting. Yes, that we were able to sort of do save in the way we done, and then also there were some replacement thoughts initially that went in. We decided to not take – not do which then helped a bit. But the scope was not certainly smaller in a way that there is a more permanent reduction on the cost because of not replacing on some of the areas where that need was originally thought that could be there.

Andrew J. Wilson
Analyst, JPMorgan Securities Plc
Q

Okay. So, it's not any change in scope in reaction to any, I guess, change in demand that wasn't expected?

Eeva Sipilä
Chief Financial Officer, Metso Oyj
A

No, no. Not in that sense. I think they were sort of well-thought through and necessary considering also as we see mining despite the improvement in outlook, whereas we see mining developing. As you may remember, there was a U.S. Pacific and that those premises didn't change. Of course, one also wants to be a bit cautious in the beginning when things are still under negotiation and discussion, but clear sort of improvement in the outcome so that team has done good work in that sense.

Andrew J. Wilson
Analyst, JPMorgan Securities Plc
Q

Thank you. That's all from me. And best of luck, Matti.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

A

Okay. Thanks, Andy.

Operator: And just to advise, there are no further questions. So, that will conclude today's question-and-answer session. I will now turn the call back to our host for any additional remarks. Thank you.

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

All right. Thanks, everybody, for your questions this time. Our next result publication will be third quarter results scheduled to be out the October 20th. But before we conclude, I think, Matti, you had couple words to say.

Matti Kähkönen
President & Chief Executive Officer, Metso Oyj

Yeah. Thank you, Juha. It's been almost seven years we have been meeting each other and you have been putting a pressure on us many times and a good discussions and enjoy to work with you and very good memories from the very many road shows and the tough discussions. And it's been really a pleasure from that point of view. And so, I just want to thank you for that good cooperation, and I fully trust and believe that it will continue with Nico also for years to come. So, thank you for these years and all the best to you and your businesses. And looking forward to see the Metso developing well also in the future. So, thanks, guys.

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

All right. Thanks, Matti. See you all soon. Goodbye.