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# Outotec Oyj (OUKPY.FI)

Metso Oyj and Outotec Oyj Merger Call

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## MANAGEMENT DISCUSSION SECTION

### Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

Good afternoon Ladies and gentlemen, and welcome to the Analyst and Investor Teleconference. We are excited today to be able to present the joining of the two Finnish players in the minerals and metals and aggregates industry, Metso and Outotec.

After the presentation you will have a chance to ask questions. Today's call will be also recorded and available on websites of the both companies.

I will now hand over to Mr. Pekka Vauramo, President and CEO of Metso.

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### Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Okay. Thank you. Thank you, Rita and welcome to this one. I'm Pekka Vauramo, when you hear this voice then you can blame me on everything that I say, say now and in the future. But really exciting day for all of us here in Helsinki to announce two things, one is Metso Minerals and Outotec will merge. And then secondly, we'll put – spin off Valves as separate independent company, put it in the stock exchange here in Helsinki, so two things will happen in one go.

So here's pictures, who we are? Pekka Vauramo, you can see my face and Markku Teräsvasara, he will be speaking as well. I do have here as well Metso CFO, Eeva Sipilä and Outotec CFO Jari Ålgars, and we all will be available for questions then afterwards. But what we are doing forming these two companies, two leading

companies, Metso Outotec that will have sales based on 2018 numbers €4.2 billion and then the Flow Control, Metso's Flow Control, which will be renamed Neles, having sales of €600 million. So these two things will happen.

We have also announced the board. This is of course will be approved by the shareholder meeting. But the Nomination Committee proposes Mikael Lilius to continue as its Chairman of Metso Outotec, and Matti Alahuhta, the Chairman of Outotec becoming Vice Chairman of Metso Outotec. And you can see the other board members. They are coming from Metso side, Christer Gardell, Nina Kopola, Antti Mäkinen and Kari Stadigh and Arja Talma. And from Outotec side, Klaus Cawén, Hanne de Mora and Ian W. Pearce.

So, we do have a very experienced board, and we'll know, we will get support from the board for the start of the new company, once we get it going in quarter two 2020.

A few facts about the company and how we form it? So, this will be implemented through partial demerger of Metso and Metso Minerals will join Outotec, and Outotec will pay for Metso Minerals by issuing 4.3 new shares against 1 Metso share. And this translate into approximately 78% of ownership to Metso's current shareholders of the new Metso Outotec and 22% of ownership to Outotec's current shareholders of the new combined company.

And day one in the Flow Control side Neles' owners will naturally be current Metso's shareholders, 100%. I went through already the board appointments there and then three other management appointments have been made here. I'll start from Eeva Sipilä, currently CFO at Metso, Eeva will be a Deputy CEO and CFO of Metso Outotec and Markku Teräsvasara, currently CEO of Outotec will become Deputy CEO of Metso Outotec and I will become the CEO of the new company once it starts.

We aim to have a very strong capital structure for the new company, a company we aim to have a such a balance sheet that we can aim for an investment grade credit rating, which is in line with current Metso's credit rating. I think this is important sort of aim and target that we have for the company. We – of course, we both contribute net debt into the company altogether €330 million, €30 million based on end of first quarter results, this year results and balance sheets as of this year.

We have also announced that there will be pre-closing dividends proposed through the shareholder meetings of both currently operating companies and these dividends would be paid then pre-closing in March. Both companies will have AGM during March and in time, so that there is time to pay dividend from the current structures.

We are expecting synergies to be in the cost side, €100 million, which we will reach in three years' time, after closing, and we do have, of course, a cost relating to this one, one-time cost of about €100 million. This is what we have been so far able to identify during the process. What we have had here, together with between the two companies, and then we've also identified at least €150 million of revenue synergies that we also will be able to achieve during the three years. We will later on look a little bit closer to these areas, where they come from both in the cost and revenue side.

We do at this moment have irrevocable undertakings from major shareholders in both companies, 33.6% of Metso and 28.4% from Outotec. And both companies, as of in today's structures, will have to approve this one in Extraordinary General Meetings that will be held in October 2019. So, this is like the fact sheets of what we've done and where we are at this moment.

Then, I'll move on into what this new company will look like? First of all, I mean, this can be characterized with the high complementarity through this combination. I mean, both companies will contribute their strengths into it, their

capabilities into it, their existing operating businesses into it, and companies will together be stronger in many important areas of this type of business. Technology and R&D is DNA of both of the companies, both will contribute to it. Both companies have process knowledge, well-known, well-recognized products and product brands, brands that we will maintain and keep.

Process knowledge, we both companies have that one, Metso probably in the front end part of the Minerals Processing chain [indiscernible] (00:08:35) towards the end of it, Markku will shortly go through more about this one. But we do also have significant scale benefits that we can bring out of this one and we'll come back to those ones also later on there.

Important part of capital goods business is always the service and the service component. The combination with last year's numbers would have 52% of sales coming from services with, I would say, very good potential to grow those sales. And when we consider that we both contribute our service networks into this one and while we become one of the biggest leading companies in this field our service network will have the best coverage in this business by far.

Looking the parts and components that will go Metso Minerals and Outotec, Outotec is fully, of course, public, so as Metso Minerals public, but here the numbers have been regrouped, at least from Metso side a little bit differently than what we normally do. Our Minerals Processing including, equipment and services €1.55 billion will go into new company. The aggregates business, together with the recently announced McCloskey acquisition, €1.2 billion in sales, including also the services for aggregates' customers. So reasonably a big part of the business will continue to be aggregates business. And then €140 million of our recycling business relatively small, small but very interesting business [ph] as results (00:10:28).

Then Outotec's both current segments, Minerals Processing €760 million and Metals, Energy & Water €520 million will go into the company, company where there's two sort of equipment businesses, minerals equipment, aggregates equipment, both at about 19%. Metals, Energy & Water equipment 9%, recycling, about 1% and services, 52%, total head count in a company getting closer to 16,000 altogether.

Then when we look at the size of this company and how it sort of compares with its peers, we are either number one or number two, depending on what exchange rate we use. And this comes from combination, including now the McCloskey acquisition that we have, and this is really the basis why we can say that this is one of the leading companies and truly a leading company in sort of a process part of the business.

And we serve minerals, metals and aggregates industries. Then service side, Metso currently having almost 60% of sales coming from services. Outotec currently standing at about 40%. Of them combined 52%, we see that there is a clearly upside in this one. For example, Outotec is not really in spare parts and consumables business, while that is important part of Metso's business and that is sort of a first synergy area in revenue side that we've been able to identify. And together with our service network, the coverage that we will create and the closeness of customers, we will be able to drive the growth of our other services.

And now, I will hand over this one to Markku, he will sort of run you through that what are we doing in those areas where we both are present in today, and I will return then when we talk about synergies.

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## Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*

Okay, very good. Thank you, Pekka. I think we have already discussed and Pekka presented that this – merging these two companies offers a very unique, actually, way to complement each other. There very seldom, you can

find two companies that have such a good fit, when it comes to complementing each other's businesses. Of course, we come with different bits and pieces. Metso will have the aggregates side, where Outotec is not active. And then from Outotec side, metals, energy and water is something that Outotec will bring into the new company.

But then, we also share minerals processing, which as a segment, including consumables, spare parts and services will be a good half of the company. And in the coming couple of slides I will talk a bit about the synergies, it's not only about product range, we also have – you will find out that we have a good geographical split and actually even that the sales per application complement each other in a very good way.

But looking specifically minerals processing value chain, again having more closer look into it, Metso traditionally strong upstream, when it comes to crushing and grinding, meaning comminution and then of course Outotec being very strong downstream in beneficiation, dewatering and tailings handling. So even we have for many, many years already worked in the same area even here we complement each other in very, very good way. And actually, through this merger we create a portfolio, one portfolio products with a very strong coverage over the whole minerals processing value chain.

And, of course, a lot of that comes through strong R&D and technology portfolio that both companies have been traditionally already over the decades been focusing or developing new technology, new products and new processes and know-how and pairing that with the challenges our customers are having at the moment with resource efficiency, orebodies getting – ore grades getting lower, ore is becoming more and more difficult to process.

In many areas water is already becoming – has become a critical resource. You need to be very efficient and recycle your processed waters, energy, availability of energy and the cost for it, of course. And then productivity improvement through digitalization. And even in this area, just as an example of how would we complement each other is, Metso traditionally strong in equipment automation and remote monitoring, while Outotec has been focusing on the next step, which is automating and optimizing that processes, complete processes.

Climate change [ph] socializes to (00:16:38) operate with reducing the CO2, reducing the use of water, energy, and other emissions very important and, of course, an opportunity, electrification and then battery metals specifically, of course, so high on agenda in the industry at the moment.

In the new platform with combined resources, we will have a sizable R&D organization, with long experience of processes and equipment. But what makes this combination really unique is that we will have two R&D centers on our own, where you can do mathematical modeling. We have laboratories, and we can pilot all the technologies and processes that we are selling. And that is something that of course bringing Metso portfolio into the picture over the new opportunities to include them also in this piloting and R&D platform Outotec has had up until today.

Sustainability will remain at the core of our operations. And when we talk about sustainability, of course, we talk about our own operations, namely reducing the water or reducing the consumption of resources in terms of water, electrification, producing less waste and, of course, offering safe work environment to our employees and to our contractors. But maybe even more specifically, we would like to talk about our environmental handprint, which is actually how much our customers avoid CO2 emissions or avoid consuming more water and other resources.

And as an example, many of you already know that Outotec has been already seven years in a row included in this Global 100 list for the most sustainable companies in the world, latest score was, I think, number 12. And we have been through the years recognized by our technologies that help our customers to reduce the CO2 emissions significantly. So on annual level even from these technologies, where there is standardized way you're

measuring, you talk about 6 million – roughly 6 million tonnes of saved or avoided CO2 emission. If you put that in scale, if you talk about we are now broadcasting from Helsinki and in Helsinki Capital area you have about 1.2 million people living to include all the transportation, traffic, industry and housing, combined the CO2 emissions from this region is about 5 million tonnes. So, with using these specific technologies from our side, we can avoid more than that. I think investing is that actually Metso has also been focusing on exactly the same things. And there's an example of Vertimill product where one product is contributing significantly on the same topic.

We also have some other interesting topic like Metso truck body concept which actually reducing fuel consumption on a mining truck, and also on top of it decreasing noise level and vibrations significantly almost eliminating them completely. So, these are just few examples of the sustainability agenda that has been a long and strong tradition in both companies. And I was mentioning these dimensions of where synergies or maybe more importantly the complementarity of our businesses looking at segments of course giving more balances that we have aggregates, Minerals Processing, but also we have metals recycling that all go a bit in a different cycle.

When it comes to our geographical split, we are strong in different areas and actually combining our presence, we will have a very balanced geographical split throughout the world. And then of course, the last area looking at our mineral or metal exposure, traditionally, Metso strong in aggregates and iron ore. Outotec having a strong hold in copper and precious metals and battery metals, so again combining the two companies, we'll have a very interesting and attractive coverage when it comes to application and metals exposure.

And with that, I will hand the word back to Pekka to explain little bit more in details, what synergies this new entity will achieve.

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## Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Okay. Thank you. Thank you, Markku. Yeah, like I said, we do see at this moment €100 million cost synergies which we expect to be able to achieve in three years' time after closing of this one, and at one-time cost which we mostly will book during the first two years of the integration process. 60% of those will be sort of what I would call a very traditional administration type headquarters related costs, some footprint issues, there will be, yes, service utilization, we'll see both as a cost and service revenue – service synergy or revenue synergies issue, service utilization with the greater installed base will go up as a consequence and result of this one. And then traditional, I guess, IT related costs, we'll be able to reduce and gain some scale benefits jointly out of them. 40%, we expect to get through procurement, supply chain and utilizing our scale. We are buying, purchasing fairly similar components, steel structures, sub-supplies, and so forth in various parts – partially in the same parts of the world as well, and we'll be able to combine these volumes and gain additional margin out of them.

Then in the revenue side, we have several areas, cross-selling being the typical one. In the capital good side, we've identified several areas where we can increase our sales. We can take for example Metso pumps. Outotec currently supplies lot of pumps as a part of the process system, and currently, Metso pumps are not included in those delivery packets. So, we do see potential jointly in that one. Similarly, like auto-combust analyzers, well-known analyzers that have been developed over the years, well-known in the industry, and we'll be able to include those into packages that Metso is selling in future.

Service side, we already discussed what opportunities we have there. But, having the really good coverage with our service footprint, we will be able to increase our service sales also other than the consumables than what we do. So, we'll have wider product offering, and it gives us additional opportunities in this side. And €100 million is what we at least see at this moment, and I'm sure when once we start to dig into their subsided potential on that figure.

The capital structure of the company will be solid. I think I mentioned some of these things already in the beginning. Funding of the arrangement is fully backed up by €1.55 billion backup that we've agreed with Nordea and that will ensure that we will be able to put through this one in all conditions.

Metso currently does have bonds outstanding and those bonds they would become obligations of Metso Outotec. And if some of the bondholders would like to cast their bonds, we need to be prepared for that one and there is part of that one allocated, the backup facility allocated for that one.

Dividend policy, we expect the board of new company to approve dividend policy which is similar to Metso's current dividend policy, so it should be fairly attractive to shareholders. And part of the deal is also pre-closing dividend payments that we have agreed on proposals. These of course will be approved by both companies' AGMs in March. Both companies will have the AGM in March and Metso's board may propose dividend up to €221 million in aggregate, which would be payable before closing and Outotec's board may propose up to €20 million, similarly payable before closing. This translates into dividends per share of €1.47 maximum for Metso and €0.11 for Outotec.

For shareholders, we feel that this story is very good. It provides scale for the company, breadth for the company, we will be solidly strong throughout the process that we cover jointly. We have – both companies are contributing parts where there's no overlap. Some parts are counter-cyclic like aggregates which we have strengthened recently with the McCloskey acquisition. And then the Metals, Energy & Water part of Outotec which also is probably the last one in the cycle always. So, it is in the same cycle, but different phase as the Minerals Processing located so. So, yes, some more cyclicity, but on the other hand, we are not all in the same phase of a cycle and then one business which is counter-cyclic on the other hand.

Technology and R&D all together the group will have about 2.5% R&D expenditure. And that of course we need to assess that what is the right level going forward and make sure that we have balanced use of R&D resources. But I think to start with, we are a company that can turn innovations into products and processes and deliveries and win orders through that one.

The synergies are significant, like I said I went through them, we'll have a strong balance sheet and attractive dividend profile, so those all should measure well. Well, when the shareholders assess the Metso Outotec share in future. And of course, this type of arrangement will always bring opportunities for people, it will – there will be growth opportunities for many of our people, new challenges will be offered to them, and I'm sure that it will add lot of new energy into new company.

We also feel that there is a good cultural fit in this company. And based on the first news what I have heard during the day and response and feedback from personnel from both companies, there are high expectations of getting this one through and truly starting to work towards – through leading company in this field after this one closes.

Then a few words about Neles as well, which we will put in the stock exchange. It will be using Metso's current listings, so it will be traded day one. After closing of this whole transaction, it will be renamed Neles, and it will be a pure-play Flow Control company. So, lots of discussion and lots of questions we have received all the years that why is Metso – Metso's Minerals and Flow, why they are together? Because there's very few common things between these two. And this is of course a recognition from Metso side that Neles truly has earned its independence. It has been over the years a strong backbone for Metso, less cyclic than rest of the Metso. Metso, it has over the past several years grown steadily as well, and while growing improved the profits as well. So, we feel that it's ready to be independent company.

Neles is strong in two different fields. It's in oil & gas downstream, primarily in petrochemical industry. We are not in upstream at all and very little exposure in the midstream which means that we are in less cyclic part of the oil & gas. And another segment that is important and strong for Metso is pulp & paper. Paper and these two segments oil & gas, pulp & paper form more than 50% of Metso's Valve business today. And it will be, it will be and there is more potential in that field for Neles to grow.

There's other industries processes that we cover as well, but these two segments are by far the most important ones. It will be company having about 3,000 employees, Olli Isotalo will be the CEO as announced a few weeks ago. Olli continues in Metso management team until this transaction closes and after that he will become the CEO of the new Neles company. Headquarters will be in Helsinki or in Vantaa, in fact neighboring city to Helsinki based in Hakkila where one of the main major factories of Valves is based.

We have another major factory in Shrewsbury, USA, and then additional factories both in India and in China. Last year, we made a small acquisition in India, which brought along two factories in India. And then we do have one operating factory and another factory being built in China. So, this footprint – supply footprint is very flexible, and we'll keep our Valves, very competitive valve supplier during the years to come. When we look at what Valves, how the financial performance has been over the years, I mentioned already that it has grown primarily organically over the past few years. It has grown faster than the market growth. And if you look at Metso's quarter one, Flow Control numbers, the growth continues even at higher rate than what we've seen between 2016 and 2018 here. And while we've been able to grow the business in that side, we've been able to improve the profitability with EBITDA being currently or last year at 15% level.

So, we feel that Valves is well-positioned for future growth, it does have both organic and inorganic growth potential. But then depends on strategy of the new company as the – Olli, together with his management and the new board, we'll then set for the company. But it's in good position to be that one.

On the next slide, some numbers from the segments markets that we cover oil & gas, pulp & paper, two big segments. Just momentarily at this moment, pulp & paper happens to be probably for the first time bigger than oil & gas in this business. So, that part is really active right now as we speak. Then chemicals very many of them are in fact petrochemical and oil related and some other industries. But one of the strengths of Neles business truly is that it has concentrated on fewer areas, it doesn't try to do valves for every industry and every purpose in that field. Every new area brings along lots of new standards that are both sort of industry specific, but they are also regional and that easily adds complexity and difficult to gain scale benefits in such case.

A good global presence as well, well spread out sales, no high exposure on any particular or single geographical market and good strong part of sales in services. And of course the equipment sales, we also need to understand that that's somewhat differently than capital goods side. That's part of Valves go to projects and part of the Valves sales is also so-called day-to-day business and profile of these businesses is very, very different. So, it's a healthy mix also in that regard.

And of course, this is the Valves, lot speculated fact behind that what is the value of the Valve business. And if we look at the trading multiples of competitors that are public, we can see that if we use Metso's current multiple for Valves, we'll see how it relates to some of the valve peers and clearly, of course markets will then decide that how much value creation with the independents there is, but truly the potential is there.



Lastly, we feel that the investment opportunity and profile is very attractive for Valves, good position in those industries that we are good profitability, stronger growth than market growth primarily organic growth while improving profitability, really a strong point. Good diversification by mix, by geography.

And now, with the independence, it will have fully dedicated management team, board, supporting the future growth of the company, and we feel by all measures that this is the right time, and it's the right decision to move in that direction. It will also start with a strong balance sheet and financial position and the multiples I showed just before this one. This one of the peers and with the high quality Valve business, we expect those multiples of course to be somewhere there, but markets will of course define then what they will be.

To finish off this one, a few words about the process. Right after this one, we'll start the antitrust filings and we'll need to – both companies will have to have their extraordinary general meetings. They will be held in October. Prior to that, we'll publish the prospectus. And based on that one, then the EGMs will take decisions on this transaction, and that is the final internal decision that we need to take and then we'll have to wait the regulatory review to come through. Then the EGMs of both companies will have it in March and the dividends that we discussed will be also paid from the current companies also during March. And we expect this transaction to close in quarter two 2020. And just to remind you this is what we are doing two things, establishing Metso Outotec a new company – company listing or putting in the stock exchange of Neles new Valves company, sales about €600 million. Both will use existing listings so no IPO activity which is a good opportunity for both of them to have a market rating and market value. Thank you.

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## Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

Thank you, Pekka and Markku for details and thorough presentation. And now we are ready to take some questions. And since there's also been the lines opened on the website, so we will start with a couple of questions that came through the website.

## QUESTION AND ANSWER SECTION

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

A

So the first question is, are there plans to close down parts of the business, which are not as profitable, especially on the Outotec, Metals, Energy & Water business side?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

When it relates to do this transaction, that we have announced, we have not had such discussions at this moment, but as every company needs to look at their portfolio what's in there and the portfolio needs to consist of businesses that do have the future potential to be profitable and to have the profitable growth. But that is the normal activity that every company should do and that's what we do as well. I don't know Markku if you want to comment.

Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*

A

I think that is exactly where we are today.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Good.

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

A

Thank you. The next question from the lines is that, given the significant risk related to some litigations at Outotec, how can you ensure Metso shareholders receive a fair amount of Outotec shares?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Okay. That is, of course, I mean, we've announced today what the fair amount in our and our advisors' view is 78/22. You need to also consider the significant synergies at the same time that we have announced and we are fully dedicated to deliver those synergies, both in the cost side and in the revenue side. Then, of course, the assessment you can draw out of it. Both are public companies and you can draw out whether that is fair or not.

From Metso's viewpoint, we have spent a lot of time going through the projects, so have Outotec gone through Metso and spent lot of time with them. And have engaged external experts, both technical and legal experts, we have reviewed, analyzed the situation. We have digested it. We have made further deep dives into – and we are fully comfortable with what Outotec has communicated about the projects publicly before.

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

A

Thank you, Pekka. The next question is about increased volatility in earnings after the merger of two companies, especially risk taken on the project side, how comfortable you are with the backlog contracts for potential cost overruns?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

As a part of due diligence, we have done that both sides to the extent that we have been able to do it. At this moment, we need to remember that we are also competitors and there is a lot of sensitive information. We have used third-parties to review these things and we are very confident that with the current practices that we have seen from Metso side in Outotec the housekeeping relating to the projects, the project management is in very good shape and very good form. And I would say that we have a lot to learn in Metso side of that level of housekeeping that we have seen during the process.

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

A

Thank you. The next question is related to the synergies. So, how are these derived from and by any standards, they seem to be high? So the question about how you derive to these synergies?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Eeva, would you like to take that one?

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

A

Yeah. I think the sort of synergy levels represent quite well how complementary the two businesses are. And as you heard Pekka saying earlier, we even have a significant amount of confidence on the levels based on the work we've done so far. And I think we introduced areas, I think the cost synergies are maybe more obvious, but I think what's also exciting for us is really the opportunity on the revenue synergy side, where we really can both from cross-selling and as well as a sort of better utilization and exposure of the Metso service network to the Outotec installed base will create significant new value for customers and shareholders.

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

A

Thank you, Eeva for that. And now it is time to go to the telephone lines. But if I could request just one question at a time and then you can join the queue, but there are quite a lot of questions coming through. So one question at a time. Please, Operator, go ahead.

**Operator:** Thank you. [Operator Instructions] Our first question is from Klas Bergelind from Citi. Please go ahead. Your line is open.

Klas H. Bergelind

*Analyst, Citigroup Global Markets Ltd.*

Q

Yes. Good afternoon. It's Klas from Citi. So, I have a couple of questions, please. The first one, I want to come back to the more project-related business within Outotec MEW. So when we look at the deal structure with the pro forma profit and cash contribution, it indeed matches the deal structure, but when we compare this with the performance of Metso's and Outotec's share price at today we see obviously a stark difference. Of course, Metso

[ph] had re-rated (00:46:23) hard versus Outotec last 12 months, but investors seemingly concerned that we're adding back more project-related business to Metso.

So, here's my question, Flow Control was easy to divest, no real dis-synergies, could you please comment, how independent cost structure wise, R&D wise MEW is from Minerals Processing? I'll stop there.

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**Pekka Juhani Vauramo**

*President & Chief Executive Officer, Metso Oyj*

A

Markku, would you like to?

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**Markku Teräsvasara**

*President & Chief Executive Officer, Outotec Oyj*

A

Hey, yeah, of course, I think the question we already or Pekka actually touched upon that that already briefly when we talk about project management and project control in general, a lot of emphasis has been put in place to make sure that we have a rigorous and robust control and governance procedures in place for the project. So generally speaking, I think the project portfolio in MEW is in a good shape.

Of course, the other dimension is that, also as Pekka said, over time, we need to make sure that all the businesses are profitable and that this is, of course, something that we will continue to work on to make sure that the resources and the workloads are in balance and also that there is a profit – a clear path to the profitability for the areas, which are not there today.

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**Klas H. Bergelind**

*Analyst, Citigroup Global Markets Ltd.*

Q

But my – sorry, but my question was more on the dis-synergies, i.e., how if it would happen, I'm not saying that you should comment on it directly, but how clear cut can the divestment of the project related business be have any significant dis-synergies between project and equipment?

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**Pekka Juhani Vauramo**

*President & Chief Executive Officer, Metso Oyj*

A

I think maybe there's a bit of a generalization to talk about projects as such, because they are always contesting of certain technologies and you need to look into different technologies and in a way what is the exit readiness or independence autonomy of those entities, that varies from product area to product area. And as at the moment, of course, this is a new thing and we start the process of looking them jointly going forward.

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**Klas H. Bergelind**

*Analyst, Citigroup Global Markets Ltd.*

Q

My very final one is on anti-trust, you will be become very dominant in grinding mills, I think, what market share will you get there and could you help us with rough market shares in the other categories as well across crushing, screening and then on the smelters, just to understand the likely outcome from a regulatory perspective?

---

**Markku Teräsvasara**

*President & Chief Executive Officer, Outotec Oyj*

A

We really cannot help you with that one, that one too much. We are entering into anti-trust, trust will do the filing during the coming weeks, we'll need to go through about 20 filings, depending on which route we choose to do.

Yes, we need to deal with some of the overlaps. We feel that those areas where we may have such issues this transaction still has its merits regardless of outcome of those filings.

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

And maybe...

A

Klas H. Bergelind

*Analyst, Citigroup Global Markets Ltd.*

Thank you.

Q

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

...Klas, if I may do add on that point, so, of course, the sort of looking back to the sort of [ph] spread element, so (00:50:04) that's a long time ago and the industry has changed quite a bit. So, I think we're sort of looking at competition from emerging markets, the dynamics may not be the sort of ones that you're used to looking at. So that's obviously one dimension that it will play a part in the sort of – in the assessment.

A

Klas H. Bergelind

*Analyst, Citigroup Global Markets Ltd.*

Okay. Got it. Thank you.

Q

**Operator:** And our next question is from Guillermo Peigneux from UBS. Please go ahead. Your line is open.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

So, good afternoon, it's Guillermo Peigneux from UBS. I guess a question on the revenue synergies. And I wanted to understand a little bit, if possible, whether you can disclose how much of the Outotec doing the engineering process, the engineering operations would be Metso product related and how much is just third-party offering? And what's the strategy into the future? I sort of think this is a different group of suppliers, is that meaning that Outotec now becomes exclusively Metso? Thank you. That's the first question.

Q

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Yeah, when – of course, given the time we have not investigated that in details, but already looking at product offering from both sides, we see that there are areas where cross-selling is possible. Take an example from Metso side the pump portfolio they have – at the moment Outotec is selling quite a lot of pumps in a concentrator plant environment and of course in the future that's a good opportunity.

A

Likewise, the other direction Outotec's analyzers are well-known and offers Metso an opportunity to cross-sell Outotec products. And then maybe a third thing to mention is, of course, the consumables and the ware parts for grinding area just out – on top of my head. These are clear cross-selling opportunities and positive sales synergies that we have. And maybe to add on the list even if that in, there are cases where Outotec has been delivering a complete concentrator plant, including crushing equipment and again an opportunity to have a good cross-sales.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

Q

Okay. But, are you able to share like a number of suppliers or products, consumables, ware parts that Outotec currently uses versus how much of that will be Metso. If not possible, it's okay, but just I want to try to understand how meaningful this means basically or this is actually for Metso selling through Outotec channels in a way?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

They're of course included in this sales revenue synergy of €150 million, but more accurate number I cannot give you.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

Q

And Outotec is now exclusively Metso products for the existing portfolio of products that obviously Metso provides. And obviously for the ones that don't – Metso doesn't provide, there will be other parties, but it's now exclusive to Metso?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

I think that is a real premature question, because we are still just talking how anti-trust process working as an independent company, complying with the competition regulations. So in a way, I think it's a bit premature to discuss that.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

Q

And then last question from my side. What – obviously now you've become one of the first players with some modest – with a similar footprint, but you're obviously now into the physical separation, plus basically refining process part of your business. And I wonder, that's basically what's left is just extraction and production. Would you basically in the future look consolidate into further to be a one shop for the miners or just basically you're done now with consolidation within the industry and you think you're positioned at where you want to be?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

I think if I look at today's situation, I think the plate is pretty full, pretty full for the next few months, maybe next couple of years. But, of course, we are putting up a new company with a strong financial position. And we live always uncertain times, don't know whether the certain times ever come back. But there might opportunities – there might come opportunities in future, and we never say never, but near-term, of course, our plate is very full right now.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

Q

Thank you very much.

**Operator:** [Operator Instructions] Our next question is from Alexander Virgo from Bank of America Merrill Lynch. Please go ahead. Your line is open.

Alexander Virgo

*Analyst, Bank of America Merrill Lynch*

Q

Thanks very much. Good afternoon, everyone. I wondered, can you talk a little bit about Neles, it is a solid business, but relatively small and will be relatively small on listing. I wonder, could you talk a little bit about how you see it positioned competitively in terms of scale and whether or not you are considering running some sort of dual process or are we just aiming for listing through spinning through the existing Metso shareholder base? Thank you.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah, of course, so I mean, we are putting kind of a spinning off Neles, we feel that it does have the scale for its independence and so forth. It truly depends on what strategy Neles wants to have into the future. And yet it depends on the management and board to agree on steps how to develop the business further. There is no plan, no further plan what to do after this one for Neles after listing that is truly the aim and the way how we do it now with this partial demerger, there's no IPO required at all in that one. So it's other than internally carving it out from Metso, from rest of the Metso, I think it's a fairly simple process how we do put that one in the stock exchange.

In the competitive area that was the question, we are amongst the top three when it comes to margins and profitability. Size wise we are somewhere between 8 and 10 in size of our businesses. So that's where we stand and where we rank and if you look at to be somewhere between 8 and 10 in size. There's, of course, fairly similar size companies around us and lot of sort of medium size even smaller businesses. And there's of course opportunities, but it yet again depends on strategy that they choose for. Eeva do you want to add something on?

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

A

Yeah, maybe just to add that, there, of course, as you well remember the valve business is a very fragmented business. So if you look at the niches where Neles is, it actually is a much bigger than the sort of the impression you would get just looking on the top line. But then of course there's many niches in that business. So I think in the sort of – in the relevant niches you can say that it is – it has the real relevance scale really to build on like Pekka said.

Alexander Virgo

*Analyst, Bank of America Merrill Lynch*

Q

Okay. But – and I guess the question really is, you told you're going to get more value out of listing it on the stock exchange than you would out of exploring a sale process?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah, of course, and not saying too much anything about the future, but the listing doesn't exclude the sale sometime in future. But that's going to be then a separate decision by separate board as well.

Alexander Virgo

*Analyst, Bank of America Merrill Lynch*

Q

Okay. Lovely. Thank you.

**Operator:** And our next question is from Omid Vaziri from Jefferies. Please go ahead. Your line is open.

Omid Vaziri

*Analyst, Jefferies International Ltd.*

Q

Yeah. Thanks for taking my questions. Clearly, recognizing there's not a whole lot of overlap in terms of technology portfolio of the two businesses. But clearly there's got to be some overlap with some of the technologies, would you be so kind enough to help us understand where these might be and hence the potential for perhaps streamlining offering in these areas? Thank you.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Of course, obvious area that people have pinpointed already during the day several times is the grinding part of it. But here, like in many other businesses, the sort of markets have changed over the years, and I would say those days when Metso Svedala acquisition was first discussed and reviewed against these ones. We have seen in many businesses like a second market emerging in developing countries over the years in India and China, and those markets in many businesses are surprisingly big markets. And we are participating in some of those markets, some of those markets we are not really participating. So, I think the market definition has changed and evolved since those days. So, I think a fresh look into those things need to be taken.

Omid Vaziri

*Analyst, Jefferies International Ltd.*

Q

Yes. Thank you. That's very helpful. And so, just please help us understand on what you just said now. So, any kind of businesses where especially on the grinding – grinders and crushers were might be market share concerns or you having to sell some businesses to complete this deal?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

It's too early to say anything. We're starting the filing right now. And as you know in this kind of situation, the filing process will be done through third parties. We only will know once they conclude and summarize the situation, the outcome, Eeva.

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

A

[indiscernible] (01:00:44) just to clarify, so there is no – nothing sort of doubling in crushing. I mean, Metso is clearly the crushing company, and the strengths of Outotec are much further in the beneficiation part of the process. So, they do not have any crushers.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

On the crushing, there is feeders, there's screens, a lot of interesting business opportunities in areas where there's absolutely no overlaps at all.

Omid Vaziri

*Analyst, Jefferies International Ltd.*

Q

Yes. Thank you. And can I just also ask a quick follow on in that, when would we be most likely hear from you on new financial target for this business – the long-term financial targets?



Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

This of course will take now some time. I mean this will only close like beginning of second quarter next year. And of course we have to look when we have our first Capital Markets Day. I would assume that it cannot be too far from that point in time. But, meanwhile, I mean we concentrate on first of all antitrust filings, filings we need to go through the EGMs prepare the prospectuses, we are allowed by regulation plan for integration and of course this integration plan will truly give us more in-depth detail on what the future profile of this company and what those financial targets might then be.

Omid Vaziri

*Analyst, Jefferies International Ltd.*

Q

Yes. Okay. Thank you.

**Operator:** [Operator Instructions] Our next question is from Lars Brorson from Barclays. Please go ahead. Your line is open.

Lars Brorson

*Analyst, Barclays Capital Securities Ltd.*

Q

Hi. I had a couple, if I could. Maybe just starting with Neles, I was little bit late on the call. So, I apologize if you've mentioned it. But could you talk a little bit about the cost structure on a standalone basis? We've got I think a base point from last year on a pro forma basis of EBITA of €90 million, what might that look like? Presumably you're going to be adding some corporate cost on a standalone basis.

Eeva Sipilä

*Chief Financial Officer & Deputy CEO, Metso Oyj*

A

Yeah Lars, that's correct. I mean operationally, the number you have is of course very representative. It's purely sort of analyst specific. What you would be missing is really then group cost. Now, bearing in mind that obviously, we do allocate part of the group cost already today to the two segments. So it's not as if there is nothing of that, but clearly, sort of independent listed company will have certain requirements that are not met today. We haven't had enough time really to look into what the exact number will be. I guess you could look at similar size companies and make a sort of pretty good estimate on that sort of SG&A need.

Lars Brorson

*Analyst, Barclays Capital Securities Ltd.*

Q

That's clear. Thanks, Eeva. And secondly, if I can, just on cost synergies and specifically on R&D, I don't think that was mentioned in your slide deck. Is there perhaps, if anything, a need to step up further in terms of R&D spending beyond what the two separate businesses are already doing now on their own or could be catching up, at least in Metso's case, from past years' under spend? Or can you talk briefly about how you see the R&D profile of the combined business over the short-term?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Of course. Over the short-term, we continue to work as two independent companies competing with each other, and Metso does have own – its own plan and I have seen – I don't see no reason to stop that plan. So, we will strengthen our resources and step up our activities in R&D based on our previous plan at this moment. And of course we need to recognize that we contribute our strengths into the new company. Mostly the strengths they

are in certain product areas or certain parts of the process, and I don't think there is too much sort of a cross utilization opportunities of people, maybe some – to some extent, but at this moment, I think there will be independent plans that at least Metso is pushing forward, and I'm sure there's one plan in Outotec. And then it's another story when we are together – when we are together and when we start to look at things together and jointly.

Lars Brorson

*Analyst, Barclays Capital Securities Ltd.*

Q

And that was my point, sorry, when you are together, what do you think the R&D profile looks like?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah. We currently, I mean it's 2%, 2.5%. We do have needs to strengthen and make sure that we have the resources in right place. I can see somewhat increasing of that one, but not a massive.

Lars Brorson

*Analyst, Barclays Capital Securities Ltd.*

Q

Finally, if I can just squeeze a third one in, just on the timeline, and specifically antitrust, can you help me a little bit with how you see the antitrust process from here? And what are the areas where there would be potentially some issues around that?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah, I think we've already sort of highlighted maybe one area and also discussed how the market has changed. And we need to put quite a lot of work right now to make sure that we understand the market fully and where the market has evolved over the years. We expect that antitrust handlings would be sometime through maybe year-end, maybe sometime early in early next years, but remains to be seen.

Lars Brorson

*Analyst, Barclays Capital Securities Ltd.*

Q

Thank you.

**Operator:** And our next question is from the Antti Kansanen from SEB. Please go ahead. Your line is open.

Antti Kansanen

*Analyst, SEB*

Q

Hi, it's Antti from SEB. Thanks for taking my question. The first one would be on the role of aggregates which is, I guess now roughly 30% of the combined company when taking into account the recent acquisition. Do you see the aggregates, as say something that you want to grow further to kind of offset the increased volatility related to having a higher share of mining in the business or are you more counting in on growing the service part of the mining exposure to fight the volatility that's still related to the mining CapEx cycle or how should we look at the – your view on how volatile Metso Outotec combination will be going forward? Thanks.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah, I think it's important that we keep the aggregates as a part of our portfolio and it does have lots of synergies. I mean there's not even a question that we would consider anything else in that regard. And therefore, I feel very strongly that there are further opportunities in the aggregates business. Currently, the aggregates market is growing very rapidly in developing markets. We are participating in that market as we speak. We are in process of acquiring outstanding shares of a joint venture. The minority shareholding in it and to have a full control of one of the companies that we have there in China and that will be the platform where we then continue to grow this emerging market there in the aggregate sector. There of course – there can be opportunities in that area as well and we see that very much a way how we could use our world class crushing units to be installed either into fixed, into a process or into mobile equipment. Mobile equipment which we either produce by ourselves or [ph] where we supply it (01:09:00) across our units on OEM basis. So, important part the aggregate business and truly the point is to counter cyclicity.

Antti Kansanen

*Analyst, SEB*

Q

Okay. Thanks. And the second question will be coming back to the grinding in mills. Could you maybe give a little bit color on how much head-to-head competition does Metso and Outotec historically had in grinding mills, are your representative in the same parts of the market, I mean are the technologies very similar beside these potential customers similar or are they kind of a little bit complimentary when comparing each other?

Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*

A

Yeah, of course when talking about conventional grinding, mill and grinding market, we do of course both companies have their own loyal customers, but we are active in most part of the regions of both companies. Then there are – without knowing exactly what is the – what the extent of the Metso grinding portfolio. There are products that each company or the other company doesn't have in the portfolio, and there's differences in that respect. But, if you talk generally where we are of course active on the same global market. So, what was the second...

Antti Kansanen

*Analyst, SEB*

Q

All right. And then the last... Yeah.

Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*

A

Pekka already mentioned earlier...

Antti Kansanen

*Analyst, SEB*

Q

Yeah, please.

Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*

A

...what was that, that in a way the market even in grinding and crushing has changed quite a lot and since this Svedala acquisition and the last antitrust exposures, it is a new situation which simply needs to be evaluated.

Antti Kansanen

*Analyst, SEB*



All right. Thank you. The last question would be on maybe to – pointed to Markku, and you've been growing your service businesses quite nicely in Outotec as an independent company, but now adding kind of the Metso's network into it. What do you see the clear benefits that you wouldn't be able to achieve as standalone Outotec with this new combination? A little bit more color on that please.

Markku Teräsvasara

*President & Chief Executive Officer, Outotec Oyj*



Yeah, I think well, both companies has developed services in a good way, but likewise we still see that there is more opportunity. And I think what we get by combining the two units is even stronger presence in different market areas, and also there are some specific areas already identified like grinding, consumables, ware parts where Outotec doesn't have their own portfolio. Of course then in the new set up, those will be easier – more easy to access by our joint service organization. So, I still see there is upside opportunities and opportunities to increase penetration on both sides and the good work needs to continue.

Antti Kansanen

*Analyst, SEB*



Okay, thanks. That's all for me. Congrats on the deal.

**Operator:** And as there are no further questions, I will hand over back to the speakers for any final comments.

Rita Uotila

*Vice President-Investor Relations & Media Contact, Outotec Oyj*

Thank you, operator. Thank you for all the participants for good question and dialogue. And this concludes the Q&A session for today. For those who joined late, I would like to remind you that the call was recorded and is available on both companies' website as a link. And now back to you, Pekka, for any closing remarks.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

All right. Very much thank you for everyone joining us and showing interest on what we have announced today. Well, we've announced establishment of two leading companies, Metso Outotec and a new Valve company, independent Valve company, Neles. We feel that it is the right time. We feel also that this is the right way of creating independence for the Valves and also having a focused pure-play aggregates, minerals and metals company, Metso Outotec. Look forward to talking to you in future many times. Thank you.

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