

Transcript for "Metso, Interim Report for January - March 2026"

00:00:00 - 00:01:00

Speaker 1: Good afternoon. Good morning, everyone. This is Juha from Metso Investor Relations, and a warm welcome to our first quarter '26 results conference call, where we have our president and CEO, Sami Takaluoma, and CFO, Pasi Kyckling, briefing you about the results. Sami will start with some of the highlights, and then Pasi will walk you through financials and cash flows in more detail. After that, we will take your questions. Before we start, a couple of reminders. First of all, we will have our forward-looking statements and disclaimer in the presentation deck. Today is our AGM meeting, so it's a busy day, and that's why we are going to limit this call to 50 minutes. Please take that into account and ask as briefly as you can. We would appreciate that. With these words, Sami, over to you.

00:01:00 - 00:02:36 Speaker 2: Thank you, Juha. Good afternoon to everybody on my behalf. Let's go through the Q1 performance. In a nutshell, strong orders delivered a solid margin during the first quarter of this year. Our orders received amounted to 1,555,000,000. This is 6% growth year on year. In organic growth in constant currencies, it's 10%. Sales were 1,252,000,000. This was also growth from last year, 3% or in organic constant currencies 5%. Adjusted EBITA at 203 million, growth of 5% year on year, representing a 16.2% margin. Operating cash flow for the quarter was 78 million, and in the rolling 12 months, it represents 856 million of operating cash flow. As said, the order intake for the quarter was strong, and it kicked off our year very well and nicely. Our book-to-bill for the period is 1.24, an improvement from the last year, when it was 1.21.

00:02:36 - 00:03:42 Speaker 2: Order growth was strongest in the aggregates equipment and minerals aftermarket. Our backlog went up by 6%, and this was heavily driven by the aftermarket in our backlog. The sales growth that we delivered was mainly led by the minerals equipment, where we continued to finish the projects, and the minerals segment was the main contributor to the adjusted EBITA growth that we delivered in Q1. The strategy was launched in Q4 last year, and is now under execution, focusing on the high-value growth elements. We are making an investment in a rubber products plant in China. During the period, we also completed the acquisition of MRA Automation, an Australian-based automation and software company.

00:03:44 - 00:04:50 Speaker 2: I really want to highlight here the partnership with Loesche, and we are introducing the vertical roller mill, dry grinding technology. This is a groundbreaking, energy-efficient way of grinding in the future. We completed our divestments. Both the Ferrous and our loading and hauling businesses were completed as planned during the period and created further strength in our strategy execution, focusing on the right topics. We have also completed the ERP renewal project. The rollout is done. We now have a state-of-the-art software in use for the whole company, in the same way, and the next phase is to get the benefits of this investment in the coming quarters and years ahead of us.

00:04:52 - 00:06:04 Speaker 2: I also want to highlight the record-high engagement score, and also noteworthy that the active co-creation is strengthening the growth culture that we have. We are measuring employee engagement four times a year, and it was a pleasure it was a pleasure to see it at an all-time high score now in the Q1 round. Regarding the outlook, we keep the outlook unchanged. We do see the market as positive, meaning that it stays at a stable, good activity level. Market activity in both minerals and aggregates is expected to remain at the current level. I want to highlight also in this statement as well, that the geopolitical turbulence could potentially affect the global economic growth and therefore also the market activity in our segments. Now, if I give the microphone to Pasi to walk through the financials and the cash flow topics.

00:06:05 - 00:06:52 Speaker 3: Thank you, Sami, and good day, everyone, from my side. Let's start by looking at our orders and revenue development. Order intake at 1,555,000,000, representing 6% year on year growth or 10% growth in constant currencies. The equipment side of the business grew 8% or 12% in constant currencies, and aftermarket orders grew by 4% or 8% in constant currencies. The order performance was especially good in the aggregates capital business, and then the minerals aftermarket business. The aftermarket share of total orders was 66%.

00:06:52 - 00:08:16 Speaker 3: In this quarter, we also won the 100-million-euro greenfield copper project in Peru. In the comparison period, we had 60 million orders from the Almalyk project in Uzbekistan. Order backlog at the end of Q1 totaled 3.6 billion, which is roughly 6% up year on year. All that increase comes from the minerals aftermarket business. Then our revenue at 1,252,000,000 was 3% up, or 5% in constant currencies, and it was driven by equipment revenue, while aftermarket revenue was down 1%. Aftermarket represented 55% of our sales. Let's then look at our EBITA development and earnings per share. Our EBITDA increased to €203 million, and from the margin point of view, the increase was 0.3 margin points from 15.9 to 16.2. The

higher volumes contributed 13 million in a positive way, and the gross margin increased by 25 million or by two margin points.

00:08:16 - 00:09:18 Speaker 3: On the headwind side, we have an increase in our SG&A by 12 million. Then under other items, it's primarily currency where we had some tailwind last year, some headwind. This relates primarily to hedges that we don't hedge-account, and we need to mark to market at the end of each quarter. Overall, in Q1, both equipment businesses in aggregates and in minerals continue to deliver healthy margin levels. EPS is unchanged from a year ago at 14 cents. If we then move to our cash flow, the cash flow from operations was lower than in the comparison period at 78 million. This was mainly due to inventory buildup and the timing of the cash flows in our mineral capital project deliveries.

00:09:18 - 00:10:02 Speaker 3: In inventory, it's primarily a work-in-progress inventory, and it is in both the aggregates capital and minerals aftermarket. In the minerals aftermarket, it is especially upgrades and modernizations where we have had good order intake during the last year and are now in the middle of delivering many of those activities. In aggregates, it is aggregate capital. It's more seasonal. We are preparing for the stronger equipment delivery season during the European or Northern Hemisphere summer period.

00:10:02 - 00:10:48 Speaker 3: Looking at the rolling 12-month cash flow from operations and then the cash conversion, we continue to be at a healthy level, and we expect to deliver a healthy cash flow throughout 2026. If we then move to our balance sheet, which continues to be strong and supports fully our strategy execution. Net debt to EBITDA is unchanged at 1.2 times. We continue to have two long-term credit ratings with a positive outlook from Moody's. This continues to be good support for us while we execute our strategy.

00:10:49 - 00:11:48 Speaker 3: Let's then look at our segments and start with aggregates, where we have an all-time high order intake at 440 million. It's noteworthy that in this order intake, we see a clear pattern that some of the orders are placed not only for the second quarter, but also for the second half of the year, a sort of pre-buying phenomenon is visible in that regard. The equipment orders represent 20% growth, and the aftermarket is down 14%. Regarding the aftermarket development, I just want to highlight that we have made a minor adjustment in our presentation between capital and aftermarket when it comes to screens, and that has a slight negative impact on the reported growth numbers in the aftermarket part, both in orders and revenue, and we have not adjusted the comparison periods.

00:11:50 - 00:12:45 Speaker 3: Then EBITA in aggregates was 1 million down to 48 million with a solid 16% margin and continued healthy margins in the equipment side of the business. If we then look at our minerals there, the orders increased by 5% or 8% in constant currencies to slightly above 1.1 billion. Equipment orders were flat or 3% up in constant currencies. Again, I just want to highlight the major orders that we won from Southern Peru Copper regarding their greenfield copper project in Peru. Small and medium-sized orders were at a good level and, on average, at the same level as we had in 2025.

00:12:45 - 00:14:20 Speaker 3: Then, aftermarket orders increased 7% in reported currencies or reported numbers, and 10% in constant currencies. The upgrade and modernization part of the business, from an order point of view, is up 14% year on year, so we continue to see a very healthy development there. Then, with spares and consumables supported by high utilization in our existing customer mines. The aftermarket share of the total orders was 66%. Then sales increased 5% to 953 million, representing 6% organic growth. We had 3% currency impact and then also 2% positive impact from acquisitions that were concluded after the previous period. Equipment sales up 14% and aftermarket up 1%. Again, we continue to have a very strong order backlog when it comes to aftermarket and expect that to deliver also revenues during the coming quarters. Adjusted EBITA at 168 million with a solid 17.6% margin. This was supported by an overall sales increase and then healthy profitability in our equipment part of the minerals business. With that, I would like to hand back to Sami to summarize our quarter.

00:14:20 - 00:14:48 Speaker 2: Thank you, Pasi. As I mentioned earlier, a very solid start for the year and strong orders creating a very good, healthy backlog. We do see the heightened geopolitical uncertainty remaining as a risk. Our strategy execution is progressing very well at the moment. With that, back to you, Juha.

00:14:48 - 00:14:53 Speaker 1: Thank you, gentlemen, and operator. Now it's time to open the Q&A lines.

00:14:54 - 00:15:14 Speaker 4: If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Chitrita Sinha from J.P. Morgan. Please go ahead.

00:15:15 - 00:15:39 Speaker 5: Hi. Good morning, Sami, Pasi. Thank you for taking my questions. I have three, please. Firstly, I'd like to ask about the phasing of the aftermarket deliveries this year. If I look at the average orders of the last few quarters, it's been above 650, but then Q1 deliveries were weaker. It was below 600. Can we expect this to pick up from Q2? How are you thinking about it?

00:15:40 - 00:16:00 Speaker 2: Thank you. Good question. Your logic is correct. We do see that we have this good backlog that has been built up, and the deliveries are starting from Q2 onwards. That is something that you can expect to see from the Q2 sales point of view.

00:16:02 - 00:16:17 Speaker 5: Great. Thank you. My second question is just if you could provide a bit more color on the demand backdrop in minerals. We've clearly seen a significant amount of volatility in commodity prices this year, maybe by commodity would be really helpful.

00:16:18 - 00:17:13 Speaker 2: Yes. We have highlighted this also in the report that we do see this as a risk. We all remember what the year '25 was and how tariffs partly impacted that demand. However, the indications of any major delays or postponing or even cancelling new capital project decisions of the new capital projects are not really, really here. We don't hear that from those customers that we discuss at the moment. It's very clear that the energy price is high, and uncertainty about the future is having an impact, and it needs to be calculated for those projects. That's why we keep that as a potential risk at the moment.

00:17:15 - 00:17:34 Speaker 3: Just adding a little bit of color from a commodity point of view. As we have seen during the course of last year and early this year, we still continue to see a high amount of activity in copper and gold-driven projects. We don't see that those demand drivers have changed by any means. It's the same market where we continue to operate.

00:17:35 - 00:18:06 Speaker 5: Okay. Thank you. Then the final question is on the inventory buildup this quarter. I know you've provided a bit more color in terms of why that happened, but maybe if you could give a bit more detail in terms of what kind of range we should be thinking about? Previously, we've spoken about maybe going towards the 1800 level, and now, if I look at the Q1 inventory level, it's gone up back towards the 2 billion. Is there maybe a range that we should be thinking about when looking at inventories? Thank you.

00:18:06 - 00:19:04 Speaker 3: Yes, thank you for that. A fair question. At the same time, we will not provide you with a range, but rather think that, over time, the inventory efficiency and, as a matter of fact, working capital efficiency overall should not deteriorate. While we don't have a formal financial target for working capital and inventory to be more specific, we see opportunities to improve the efficiency. Obviously, the first quarter was not the proof point of that, but it's only one balance sheet point. We are working with the underlying drivers to improve the overall efficiency and then provide solid cash conversion. When I talk about the efficiencies, I'm referring to working capital over sales, or the DIO, DSO, or DPO-type relative indicators.

00:19:06 - 00:19:07 Speaker 5: Thank you very much.

00:19:10 - 00:19:14 Speaker 4: The next question comes from Klas Bergelind from Citi. Please go ahead.

00:19:17 - 00:19:52 Speaker 6: Thank you. I'm Klas Bergelind from Citi. My first one is on section 232, and the changes to steel, aluminum, and copper from April 6th. I'm trying to understand the extent of your impact that will increase your effective tariff rate and by how much. Can you remind us of the import share to the US for the group and for the two divisions, and how much today of COGS is steel, aluminium, and copper? I have a 50% import share for the group and about a high single-digit share of COGS being raw materials, but any other color here would be very, very helpful. Thank you.

00:19:52 - 00:21:01 Speaker 3: Yes, thanks. Thanks, Klas, and good and current one. I'm not sure if I can provide all that detail to you, but if we start from a high-level perspective. Aggregate business continues to be excluded from 232. We indeed recently saw the change in 232 when it comes to the calculation basis. Earlier, it was the steel and aluminium content. Now it seems to be the total tariff value of the equipment in question. Then obviously that's driving the tariff base up. From our point of view, we continue to work with the same approach as we have done during the course of last year. We work with our customers with surcharges, and the new surcharges based on this initial period seem to be higher, which makes sense from a calculation logic point of view. That is what we are charging our customers. Again, we are not making money out of those, but we are not suffering from those either. That's the approach we have taken and will continue to take on this.

00:21:04 - 00:21:18 Speaker 6: You are basically seeing the reciprocal tariff. You don't see anything on steel, aluminium, and copper from section 232 impacting the aggregates business. Just to confirm.

00:21:19 - 00:21:36 Speaker 3: That's correct. To be more specific in aggregates, and maybe I said it already, but screens and crushers are excluded from this tariff. There was a speculation late last year that the exclusion would come to an end, but we haven't seen that happening, which is obviously positive.

00:21:38 - 00:22:23 Speaker 6: Okay. That's good to hear. My second question, very quick one. I know we're only allowed to ask one question, but it's a super quick one. Just on aggregate, you're talking about pull-forward of orders. Can we talk a little bit about the reasons why there's some pull forward, and because people were thinking that this could be a change for tariffs? Was this North America-led? Also in Europe, are you seeing some hesitation? Obviously, aggregates in construction are quite sensitive to inflation rates and so forth. It's early days, but are we seeing any customer discussions showing some hesitations in Europe, just to get some more color on this pull forward, and also European commentary? Thank you.

00:22:24 - 00:23:41 Speaker 2: Yes. Thanks, Klas. What we saw were these orders in the US for the aggregates, with the requested delivery date not immediately, but later in the year. We took that as a positive signal that the customers and our distributors do see the market as a very, very good and looking good also going forward. These have been reflecting these orders, the situation in the market. When it comes to Europe, there is still no single rule to apply for the whole continent, but it's more like a country-based approach. We see activity in the Southern and Eastern Europe side, and then remain still quite slow from the perspective of so-called, maybe even more traditional aggregate countries. From that point of view, do we see an elevated level of hesitation in discussions? Not maybe really close. It's not unchanged from the end of the year when it comes to the European side.

00:23:43 - 00:23:54 Speaker 3: Klas, still from the book-to-bill point of view, both Europe and North America had a healthy order growth. This growth is coming from both of our main markets.

00:23:56 - 00:23:57 Speaker 6: Thank you.

00:24:00 - 00:24:04 Speaker 4: The next question comes from Christian Hinderaker from Goldman Sachs. Please go ahead.

00:24:04 - 00:24:28 Speaker 7: Morning, Sami, Pasi, Juha. I want to start on the Middle East, if I may. Can you just confirm your percentage of sales exposure to the region, and maybe highlight any single country context worth discussing? Then you mentioned in the release the targeted measures to manage supply chain and operational risks. I appreciate its fluidity, but what's your current base case for the direct and indirect cost effects?

00:24:30 - 00:25:38 Speaker 2: To start from the region. It represents something like 3% of the whole company's sales. That's the exposure. Of course, the situation has created certain activities on our side; logistics is one clear one. We have been in a quite good situation because many of our supply routes have already been going around Africa before the incident started. From that perspective, the countries in question, obviously, Saudi Arabia is a big one for us. We got at the end of last year the gold plant order as an example. Then, Oman has also been a country where we have a lot of activity at the moment. As it is today, operations continue, our work continues, but we, of course, need to very carefully all the time observe the situation and how it develops. This is how we see the Middle East situation at the moment.

00:25:38 - 00:26:15 Speaker 3: Maybe just to add color. Obviously, logistics costs are up. We see some fossil fuel-related inflation. The way we are approaching this is similar to what we did during the COVID time. Playing the inflation game on both ends of the supply chain, on one hand with our suppliers and then on the other hand with customers, we manage it well. Just to confirm that we also see some of those inflationary pressures that have surfaced after the crisis.

00:26:18 - 00:26:39 Speaker 7: Thank you. Can I just come back to sections 232 and also your comments on aggregates pre-buy? If a customer is ordering now, are they affected by the tariff if it changes later? Do you think the pre-buyers are concerned about that tariff, or do you think it's more about hopes for a demand improvement?

00:26:39 - 00:27:14 Speaker 3: Christian, it's a very good question. When it comes to tariff speculations, obviously, if there are tariffs, we don't know how they are implemented. Whether they are implemented on some new deliveries or everything that crosses the border at a certain point, and so forth. That's difficult to say. What is more important is that it is a sign of confidence for longer-term market development in the US and our partners, distributors, and customers, preparing for that not only in the imminent short term, but also looking towards the second half of the year.

00:27:17 - 00:27:18 Speaker 7: Thank you.

00:27:21 - 00:27:25 Speaker 4: The next question comes from Antti Kansanen from Seb. Please go ahead.

00:27:28 - 00:27:57 Speaker 8: Hi guys, a few questions from me as well. I'll start with the demand on the minerals aftermarket side. Good growth, and you have now had four quarters of decent growth in the business. Could you maybe remind us a little bit of the growth potential going forward, the comparison, and the timing of when you started to see the modernization and retrofit business increasing? Is it reasonable to now assume a bit of a normalization of the growth, or do you think you can still accelerate on that one?

00:27:57 - 00:28:52 Speaker 2: Yes. Thanks. On the minerals aftermarket side, it's one of those centerpieces of this growth strategy. We do see potential to continue to deliver growth, and actually, the target as well is what we see. We see the aftermarket products demand is very, very good at the moment in the market as well. That makes us see that single-digit growth numbers will also be delivered in the future. You know very well, and a reminder that we have the widest portfolio of technologies in the downstream of minerals processing, and that gives us a very good potential for growth going forward as well.

00:28:52 - 00:29:30 Speaker 2: Modernization and upgrades. They are the ones that have certain cycles. From that perspective, as Pasi was stating, we have seen a good amount of these orders coming in the past few quarters already. How that looks going forward is that the funnel, the pipeline, for new orders is looking good. Then it's about the timing issue of the customers to make the actual decision to move forward with these opportunities.

00:29:34 - 00:30:11 Speaker 8: Okay, great. Then maybe a follow-up on the things that you said about what you expect from the decision-making and the geopolitical uncertainties. I just wanted to make sure, because you've been quite optimistic on certain large orders and investment decisions. Have you seen any concrete evidence in March or early April that some of your clients have been maybe slowing down some of the processes or are asking to recalculate some of the project items because of inflation? Or is this just a cautionary statement if the war lingers on and will have an additional impact?

00:30:11 - 00:31:06 Speaker 2: Yes, as I mentioned earlier, many of the customers that we have discussions in a certain phase have not indicated any change to the timetables. Then on the other hand, yes, we do see also recalculation needs also coming to our direction to check certain project elements and the timing of them, and also the price from our side to them. It's an indication that the recalculation is happening, and for me, it also makes sense to do that, of course. This is why we remain a little bit cautious about what the true impact of this will be for these greenfield and large brownfield projects going forward during this year.

00:31:08 - 00:31:22 Speaker 8: Okay. The very last for me is your exposure to LNG availability and prices through your foundry setup. Could you comment if there is any substantial risk that you see because of the war?

00:31:22 - 00:32:15 Speaker 2: Yes, thank you. That's coming mainly from the Indian side, where the LNG was and is the main energy source. Yes, we did see the risks, especially at the beginning of the escalation of the situation and the incident in Qatar. What we have seen is that the prices have increased, which is natural, but the biggest risk that we had in our hands was whether we had enough LNG to run the operations. That has not materialized, so we have been able to operate normally, but the cost level has increased. Also, our suppliers have been seeing the same and adjusting the prices as much as possible, saying that this is what we see logistic side, and also the component and supplier side.

00:32:17 - 00:32:21 Speaker 8: This will lead to price increases from your end?

00:32:21 - 00:32:33 Speaker 2: This is the normal way to handle this. As I said, we have taken this into account in our price increases that have been introduced in April, and on the 1st of May, the next batch.

00:32:35 - 00:32:37 Speaker 8: All right. Thank you very much.

00:32:39 - 00:32:44 Speaker 4: The next question comes from Tore Fangmann from Bank of America. Please go ahead.

00:32:46 - 00:33:18 Speaker 9: Thank you. Good afternoon. Thank you so much, Pasi, for taking the time. Just two questions for me, both on the aggregate side of the business. First one would be, we do see now and for a while, a pickup in the equipment demand in aggregates. On the other side, the service part, the aftermarket side of things, remains fairly low and weak. Could you just help me square this together so that we know what we need from customers for new equipment? But on the other side, the utilization still remains low. Thank you.

00:33:19 - 00:34:22 Speaker 2: Yes. For the aftermarket question, it is exactly as you said. When the utilization of the machines is low, then the demand and need for the aftermarket product is also low. That's the reason our aftermarket is not yet in a growth mode on the aggregate side. Then our capital equipment business in aggregate is going through the distribution, especially in the US. Then the equipment is ordered and delivered, and they don't always go directly for the end customers to use to generate the aftermarket either, because during the '25, the distributor stock levels normalized, meaning that every month they were at a lower and lower level. Now there is a need for restocking and having the machines available for the work for the end customers in the coming months and quarters.

00:34:24 - 00:34:46 Speaker 9: Okay, I understand that. Maybe just to follow up on this one. To me, when utilization is still as low, it feels like the overall end market demand has still not really picked up. The current growth in equipment, and you also mentioned some pre-buying already for the second half of the year. It's all just distributor-driven, or is this actually a market demand-driven to pick up the queue that you see?

00:34:46 - 00:35:19 Speaker 2: I think the pickup is the end market-driven, but you need to remember that this is a very regional, or let's say even local business. As an example from Europe, there might be good activity both in the new equipment orders and also utilization of the existing equipment in the country, and then the neighboring country might be on the quite opposite way. This is what highlights the dynamics of the aggregate industry in general.

00:35:21 - 00:35:41 Speaker 9: Okay. Understood. Then just one last, very brief. I understand the strength in Europe is largely driven by the Eastern European countries. Any sense around Germany or other Western European countries picking up any impact from the infrastructure package from Germany? Just something you can share. Thank you.

00:35:41 - 00:36:08 Speaker 2: Yeah, there's a so-called traditional good market for us, like Germany, France, and so on. They are not zero, but on a low level, and for the Germany-specific question. Our customers have not yet seen any impact of that stimulus package that was announced. That's why they have not been activating themselves either when it comes to their orders.

00:36:11 - 00:36:12 Speaker 9: Perfect. Thank you so much.

00:36:16 - 00:36:20 Speaker 4: The next question comes from William Mackie from Kepler Cheuvreux. Please go ahead.

00:36:23 - 00:37:11 Speaker 10: Good afternoon, and thank you for fitting me in here with you all. My first question was to go back to the question about the minerals aftermarket and just dive into the discussion about the disconnect between the order intake and the revenue booking. Can you maybe provide a bit more color on what it is that has caused the lumpiness of orders and the disconnect for the revenue booking in aftermarket minerals? When we look into the Q2 to Q4 acceleration of revenue bookings, can you give a little flavor as to either the regions or the product segments, which you expect to lead to that upturn in the aftermarket, please?

00:37:13 - 00:38:04 Speaker 3: Yes. Thank you very much. A good question. If we start from a lumpiness point of view, especially the orders we believe we have seen, a solid, healthy, high single-digit growth from period to period, as we have seen. If you refer to lumpiness on the revenue side, indeed, the growth has not yet picked up in revenue, and that is simply a timing question for us. The backlog is healthy. We discussed the upgrades, modernizations, retrofits, and delivery times. They are longer than in the transactional part of the business.

00:38:08 - 00:38:54 Speaker 3: You were also asking about regions. I don't know if we can point out a specific region. It's generally the mining regions that one area to highlight when it comes to upgrades and modernizations is Australia, and the iron ore-related modernization cycle that needs to happen, and it's happening there. It's not only that, but it's also in the other mining regions. Again, we believe we are in a very good position with the order book. As I said, the full backlog growth is from the minerals aftermarket order of magnitude, €200 million year-on-year growth there. That will realize the revenues during the coming quarters.

00:38:57 - 00:39:37 Speaker 10: Thank you very much. Maybe the second question or follow-up was that, I wanted to go back to your medium-term goal of 20% margins in minerals. If we look, you've made a great step forward to the 17.6, but it's still 240 bps below your target, and equipment seems to be rising as a share of mix, which is normally something of a headwind. Perhaps you could walk through again the levers to get to the 20% with regard to pricing, aftermarket efficiencies, and what timeframe to get there.

00:39:38 - 00:41:29 Speaker 3: If we start from the time frame. Our target is to deliver those margins both in minerals aggregates and as Metso by 2028. That's the timing we are looking for. When it comes to levers, it's about growth and specifically in the aftermarket, we recognize that on the capital side, it may be larger, especially orders, to some extent also revenue recognition, but even the big projects the revenue spans over six, eight, in some cases even then ten quarters. The point you are raising regarding the business mix between capital and aftermarket is not at all a major concern for us. The reason is simply that the margins are good to start with. We have a healthy capital business in minerals. If we see volumes going up, which we, by the way, don't currently see because the order book has been built, the aftermarket focus that will give us volume leverage. We are also working with the portfolio optimization to grow the higher margin solutions or businesses that we have within minerals, and then improve profitability in the areas where we lag behind our targets. Finally, self-help is also something we are doing. Again, none of us will make miracles overnight, but the time horizon we have in mind is to deliver in line with these targets by 2028.

00:41:30 - 00:41:31 Speaker 10: Thank you very much.

00:41:34 - 00:41:39 Speaker 4: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

00:41:41 - 00:41:59 Speaker 11: Hi. I wanted to ask about SG&A, and it costs what was behind the increase we saw in Q1, and how we should think about ERP costs? Are the ERP implementation costs over, and should you actually get the benefit from the ERP system going forward?

00:41:59 - 00:43:33 Speaker 3: Thank you, Panu. The costs are up. Order of magnitude 3% in line with the inflation. Obviously, it is something we are not happy with. Our ambition is to offset the inflation. Inflation is the main driver of the cost increases that we saw in Q1 year over year. ERP, specifically, as Sami said, as part of his summary, the implementation is over. We have closed the implementation project. The specific costs related to implementation, we had some still in Q1. Second quarter, we will not have those anymore. Going forward, we have a clean ride from that point of view. Now is the time to start harvesting benefits from the investment. It has been a massive project. It's a big change to our teams, but we see those efficiencies coming through, but again, it will not happen overnight. Requires dedicated work, provides opportunities to apply, and involves more new technologies. Everybody is talking about AI. We are also thinking and working with AI, it relates to ERP, but it relates to other things as well. A big investment, and indeed, you are right, we need payback for that.

00:43:35 - 00:43:41 Speaker 11: Thank you. Can you quantify what the ERP implementation cost was in Q1?

00:43:42 - 00:44:09 Speaker 3: In Q1, we talked about single-digit millions, as we have had throughout the implementation phase. The second quarter last year, you may remember, we had a bit of an accelerated or increased cost because that was the biggest go-live that we had. Other than that, single-digit millions that we have had in P&L from that per quarter.

00:44:11 - 00:44:12 Speaker 11: Okay. Thank you.

00:44:15 - 00:44:19 Speaker 4: The next question comes from David Farrell from Jefferies. Please go ahead.

00:44:21 - 00:44:48 Speaker 12: Hi. Morning. Thanks very much for taking my question. I just wanted to circle back to one of the highlights of the period, which was the partnership with Loesche and the VRM product that

you are pursuing there. Just give us a bit of extra detail around that, what it is looking to replace, what market share do you think that gives you? Any extra color around that would be great. Please.

00:44:48 - 00:46:14 Speaker 2: Thank you for that question. It's a very new technology for the mining circuit, but we chose to partner with the market leader in another industry, mainly in the cement industry. What is this technology doing? First of all, it is dry grinding. We all know that the new greenfield locations are quite challenging, not only with the infrastructure but also when it comes to the supply of water. In that sense, this is going to help a lot for those future flow sheets in terms of not needing to have that amount of water in the mining minerals processing processes. The second clear benefit is that this is an energy-efficient way of doing the grinding. We talk about 40% less compared to the conventional grinding operations. As a cherry on the cake, you can also optimize the flow sheet. Actually, less equipment is going to be needed when the dry grinding is fully implemented in the flow sheet. We see a lot of positive elements here for making a difference in the mining operations.

00:46:16 - 00:46:25 Speaker 12: Thank you, and just as a follow-up. When do you think we could perhaps see the first one of these orders be received by Metso?

00:46:26 - 00:47:13 Speaker 2: An excellent question. This is typically a slow process from this perspective. Of course, we are more than happy to take the orders immediately. We are ready for that. It's a slow process because it first needs to get into the flow sheet, and then the process starts from the customer side to develop the project, get the financing, get the cost base, and so forth. Typically, it is some time from this kind of launch that we start to see the first orders. Teams are very engaged, and there is a good interest in this technology. We are eagerly waiting to see when we start to get the benefit of orders.

00:47:14 - 00:47:19 Speaker 12: Okay. Thanks. I'll turn it over and let someone else have a go before the end of our 50 minutes.

00:47:21 - 00:47:25 Speaker 4: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:47:27 - 00:47:39 Speaker 13: Thank you. Very briefly, coming back to working capital, just one question on that. You talked about the reasons for the buildup there, but just wondering if you have any comments on the full year. Do you expect that to reverse in the second half? Thanks.

00:47:42 - 00:48:21 Speaker 3: Thank you, Mikael. As I said, in relative terms, we have an ambition to improve our performance over time on a rolling basis, and not to repeat the working capital investment that we did in Q1. Then again, if the business continues to grow in a significant way, it may be that in absolute terms, we need to invest more. I guess that's really what we can say at this stage.

00:48:23 - 00:48:24 Speaker 13: Okay. Thank you.

00:48:28 - 00:49:04 Speaker 1: All right. Thank you, everybody. As a final question, I have received a question from Ed Hussey of UBS by email. Ed Hussey is offline, but he wants to ask about operational leverage. He says that Metso delivered a strong drop-through margin in Q1, despite equipment being a bit higher in the mix. What was the main driver of improvement across margins, and what kind of drop-throughs should we think about going forward, specifically in minerals?

00:49:06 - 00:50:10 Speaker 3: Okay, thanks. Thanks, Ed, for the question. I think we partly discussed this during one of the earlier questions, but the starting point is that we have healthy equipment margins. We had healthy equipment margins also in Q1. Even with this business mix, we're able to deliver a solid minerals margin. The gross margin uplift there is, of course, a function of price work, cost work, and that continues. We don't guide a margin, so I can't give you an exact number there, but what we expect, as we have also discussed, is the aftermarket order backlog to realize the revenues, and the aftermarket continues to have a higher margin than the capital. That will also support us going forward.

00:50:14 - 00:50:42 Speaker 1: All right. Thank you. We have spent exactly 50 minutes. Thanks for being efficient. Thanks for your questions. Thanks for participating. We conclude here. Just a reminder that the half-year review will be out on July 24th, but we hope to see many of you in the meantime at various events. Thanks again, and goodbye.

00:50:42 - 00:50:42 Speaker 2: Thank you.

00:50:42 - 00:50:43 Speaker 3: Thank you.