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# Metso Oyj (MXCYY.FI)

Business Update Call

## CORPORATE PARTICIPANTS

Juha Rouhiainen

*Vice President-Investor Relations, Metso Oyj*

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

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## OTHER PARTICIPANTS

Alexander Virgo

*Analyst, Bank of America Merrill Lynch*

Andrew Wilson

*Analyst, JPMorgan Securities Plc*

Jonathan Hanks

*Analyst, Goldman Sachs International*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to Metso's Teleconference. Throughout this call, all participants will be in listen-only mode and afterwards, there will be a question-and-answer session. Just to remind you, this conference call is being recorded.

Today, I am pleased to present Juha Rouhiainen. Please begin your meeting.

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Juha Rouhiainen

*Vice President-Investor Relations, Metso Oyj*

Thanks very much, Mirella, and good morning to everybody and welcome to this conference call where we are pleased to introduce our new President and CEO, Pekka Vauramo, who joined us November 1.

So, in this call, we are not making any official statements nor are we making changes to our market outlook. The idea is to introduce [ph] Pek Colonel (00:00:46) for you to get to know him, about his background and first feelings during his first weeks in the company. And Pekka will first open with couple of opening words and after that, we'll be taking your questions. And our goal is to wrap up this conference call in 45 minutes. So, please keep that in mind throughout the call.

With these remarks, we are all set and I'll be handing over to Pek. Please go ahead.

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Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Okay. Thank you and very good morning. I'm just finished yesterday my seventh week in the company. So, I really don't have a long great view yet on Metso, but, of course, I have been busy traveling throughout the various locations that we have and also meeting with Metso customers in different parts of the world.

I have traveled up to this point in a little bit here in Europe, but more so in the Americas, both in South America and in North America. And then, first thing in the New Year, I'll start then in Asia sort of longer travels and go to the various locations and market areas and get familiar with our operations over there in that part of the world.

Metso, of course, there's a lot to cover. We are present in so many countries. We have our own establishment in more than 50 countries and then through distributors, we are present in almost everywhere where there's something happening either in mining side, aggregate side or then in our Flow Control businesses.

Little bit of my background, if you haven't seen it anywhere, I'm a Mining Engineer. So, I do have background in mining. I have worked for mines in fact a long time ago though I started my career as the Mining Engineer with Outokumpu in the days when Outokumpu was more in mining than what they are today. Nowadays, they are stainless steel – a steel company more than a mining company. I think there's still some mining left in their operations, but not to that extent as it used to be in those days.

But I moved on to mining equipment side fairly soon from Outokumpu and I started with a Finnish mining equipment manufacturer in those days called Tamrock, which was acquired and later on by Swedish Sandvik and that forms really the backbone of Sandvik's current mining construction business, what they have. There are, of course, some other parts in that one as well now, but really the backbone is coming from that. And I was in that business for more than 20 years – 22 years in fact.

And did various things in the company, starting from sales and marketing, product management, R&D management, general management and my sort of a last job overall was there to lead all the underground businesses globally, including then also services and consumables businesses, [ph] what they are (00:04:23), equipment services and consumables.

Then I moved on to Finnish group, Cargotec, which is in ports, shipbuilding, material handling businesses and I was heading in fact all the business areas during my 6 years – 6.5 years in Cargotec. I was part of that one based in Hong Kong and we were putting some joint ventures in China together at that time that are currently there in operation.

I was also, during Sandvik days or Outokumpu days, based once in Asia between 1989 and 1993. So, I do have some eight years of experience, mainly in business with China, China in the old days and then modern China, now recently 2010, 2013 when I was there again. Then, from Cargotec, I moved on to, in 2013, to run a Finnish airline, Finnair, and I was the CEO for 5.5 years until I joined Metso now in November.

And, of course, it's a totally different business, airline business, as we all can imagine, it's a consumer business, very fast cycle business and in industry which has its own challenges, as I would say all businesses have their challenges. But people tend to say that the airline business is the most difficult one, but on the other hand, I haven't come across with a very easy business yet.

So, I didn't regard it as specifically too difficult in Finnair, but, of course, at times, we're challenging high fuel crisis, then sudden drop in fuel – fuel adaptation to new market conditions continues local competition with a legacy airline, and so forth. But the interesting times, financially, we made a turnaround. We were able to, I would say, change also company culture quite a bit.

We succeeded to stop the continuous fighting between management and the personnel, which I would say was probably the biggest achievement after all in the company, which is a service company as it is. And most of the people, every day, are really meeting that, working with the customers, with the passengers and that really brings

the service side into – or highlights that it truly is a service industry and also importance of the service and some of the opportunities that the service in that area brings.

But I decided then to return back to industry, which is a bit more familiar to me when this opportunity came, and I thought that I still have a few more years to go and have lots of energy and health. So, why not to take up this role when it became available and like I said, I mean I started seven weeks ago and have done maybe one-third of my induction and introduction to Metso at this moment.

Therefore, I mean, I don't have any sort of deep thoughts about what the future direction would be and that's why [ph] Jani (00:08:06) also said in his disclaimer in the beginning that we will not change any of our guidances or outlooks or anything like that in this one nor make any sort of strategic comments into the future about that. But, of course, maybe some comments on how I see the situation, and I don't think there's anything contradicting what you have seen in Metso's development.

In this year, we have moved on in the right direction, [ph] clearing it (00:08:44), business terms, we are growing both orders and sales. We had a little bit of slowness in getting really the sales growth in place. We had issues with our supply chain and – after the restructurings that have been made during the years. Yes, but we have gained the speed and the momentum throughout the year and that is visible on our top line or top lines if we [ph] go through (00:09:15) the orders and the sales.

And profitability has also moved in the right direction during the year as we see in the Q3 numbers and that is, I would say, a very good achievement, considering that Eeva Sipilä, our CFO, she was running the company as an Interim CEO, did an excellent job throughout the year. And of course when CEO changes in the company, that normally causes lot of speculation and lot of sort of expectations that who is [ph] the new (00:09:54) going to be and what is life going to be after that.

And I think Eeva did an excellent job to keep the businesses focused on main things. Markets are – that have been in – very favorable in this year and therefore to focus on winning the business, bringing the orders and fixing the issues in the supply chain have been important things. And I would say we have succeeded very well in those and it's visible in our numbers as well.

The previous CEO, just a year ago, made big changes in our organization. It was not a strategy change [indiscernible] (00:10:42), it was change in model how we work internally. And that organization model has settled in very well, I would say, throughout the year. And of course, favorable market conditions have helped in that process quite a lot I would say. And they have definitely helped us to deliver the results up till this point and helped to maintain to keep the focus in most important things during the year.

I'm always asked that what are the changes I'm going to make in this one and I'd say I will not change the organization. In my world, every model works as well as people can work together and I'm very encouraged to see that people are and have been working together throughout this year. And, yes, every change is always an opportunity to change some things.

Every change also brings some negative issues and things do not necessarily go perfectly in the first go. And if we see anything like that, we'll fix those ones, but I'm not going to turn the organization upside down, upside down again for the sake of change only. So, we'll make sure that – so that if there's anything that need to be fixed, we'll fix and move on with the model that we have.

With these words, I think, let's start the questions, questions what you have in mind and let's sort of recall what [ph] Jani (00:12:26) said that we will not get into future statements or anything like that in this one. Thanks.

Juha Rouhiainen

*Vice President-Investor Relations, Metso Oyj*

Thanks, Pekka. And operator, we can now open the lines for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And the first question is from the line of 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 and good morning, everyone. I guess I'd be curious as to your thoughts having had 10 years out at the mining industry and obviously experienced some fairly different and more diverse end-markets and business models. Now, what do you think of the mining industry as it stands now in terms of prospects I suppose? And what do you think the lessons that you can bring from Cargotec and Finnair? What do you think those lessons can be to be applied in Metso? Thank you.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Yeah. Mining industry, of course, when I left Sandvik, that was 2007 and that was I would say at the time I left, I thought that it's nearing the peak of the cycle, but it was nearing, but it was only accelerating towards the peak. That was several years later, in fact, in mining and that was like a super-cycle as we all know. Metal prices got extremely high and mining industry invested a lot.

And then, when things turned down, it meant that there were huge write-offs, write-offs that some of the companies had to do and, of course, that it put all the investments on hold in the entire industry.

And the recovery was somewhat slow from it, but the industry has recovered from it. And of course, I mean what we currently see, it would be difficult to say that we are up for a similar cycle as what happened then between 2005 and I would say, [ph] what (00:14:48) 2011, 2012. But there is clearly an upcycle, even though the metal prices have turned a little bit down and remains to be seen then, of course, what happens in the future with that one.

But clearly I mean things are looking positively and there are some positive things that I have seen in the industry. One is, of course, might be quite simple – as simple as electric cars that are, to some extent, driving some metals, copper for example and then the [ph] factory (00:15:23) metals are the ones where there is a lot of excitement and some investments are ongoing. We have some orders already from that sort of projects and that might be something that is sort of a longer-term trend that is happening in the industry.

And industry has, of course, changed in 10 years or 11 years that I've been away from it now. And automation, digitalization, operating mines from – remotely located mines from cities far away from the operations and those are the issues that we do here. It's maybe not that much action yet, but they are the plans that the companies

seem to have and of course we as a supplier, equipment supplier and process supplier, service supplier to the industry we need to. And then [ph] say (00:16:29) that what does it mean in our offerings and in our operation and way of working.

So, industry has moved on. Companies will, of course, be, like Metso will be a part of that journey then with the companies.

Then, background, diverse background and the experience that I have, of course, I said something about service and an airline. I think in B2B world, there are things that we could learn from consumer business and services. And there, the cycles, of course, are much faster, because people might buy a ticket today and they might buy tomorrow and then they are either happy or unhappy with the service that they had during the flight.

Here, the cycles are somewhat longer, but I think the same mechanics are still existing, I mean people are buying from people also even – also in B2B environment, it's not the factories buying from another – from equipment supplier, business is always conducted between the people and even more so in our services side.

People will see the outcome of service that we provide and [ph] they form to give (00:17:53) you an opinion on whether we performed well or whether we didn't perform well. And I learned very much how important measurements are in that area and I'm delighted to see that Metso is measuring things, but at the same time, I would say that we have to measure how we are doing with our customers much more frequently than what we've done in past and then learn and really feel the pulse that what the perception of our services and operations, in general, is amongst our customers.

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Alexander Virgo

*Analyst, Bank of America Merrill Lynch*

It's very helpful. Thank you very much.

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Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Thank you.

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**Operator:** And next question is from the line of Jonathan Hanks, Goldman Sachs. Please go ahead. Your line is now open.

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Jonathan Hanks

*Analyst, Goldman Sachs International*

Hi, Pekka. Thank you for taking my question. And I suppose one of the changes your predecessors have done is moved the business to a more decentralized business model. I'd just be interested to hear your experience of working in that kind of business model and if you have in fact found them to be more efficient or effective. Thank you.

Q

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Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

Yeah. I'm very much pro-decentralization in this kind of environment. Of course, we have a little bit different businesses in Metso, really distinct and [ph] really (00:19:21) different businesses. We do have project businesses where I feel that more centralization is key in that one and we have that centralized model there already.

A

But then, when we move on to [ph] smaller where (00:19:37) we move on to product businesses, the businesses where we sell, say, standardized products from – that have been pre-engineered with certain selection of [ph] options (00:19:49) and so forth, I mean there, the decision making can be delegated much, much closer to the customers.

And then, of course, service delivery and very often the creation, big part of the service takes place in front of customer. So, that needs to be run even more sort of decentralized and closer to customers. And since we are in all parts of the world and in terms of countries, I think the only model that kind of work is really the decentralized model.

Then, of course, there [ph] can be certain things that can't (00:20:28) be developed centrally, which we are doing currently in our business area structure, for example in services and in consumables. We can develop some systems there. We can develop systems that, for example, that how do we control the business in terms of our technical performance, financial performance?

And I think we have done some interesting things there that I have seen happening, [ph] how we have sliced (00:21:02), for example, our service business in various different product lines and it's in fact fairly impressive what kind of analytics we do have today in place for that one.

So, there is role for central, but many of the things, especially services, consumables and sort of product things – product business type of business areas and business lines, we need to have enough decision making power there and very close to customers.

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Jonathan Hanks

*Analyst, Goldman Sachs International*

Thank you very much.

Q

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Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

On the other hand, if I sort of expand a little bit on that one, very often projects – the scope includes an engineering part and that is the big unknown part. In sort of a dream world, the project would consist of sort of selection and combination of standard products. But very often, there is 10%, 15%, 20% engineering that is required in the scope and that is, of course, the area where there's always some risks in it and therefore a much more tighter central controls are required in all phases of the project, then at the same time, very good hand-over of project to our services organization who really then take care all the lifecycle part of whatever we deliver in these projects.

So, there, again, it's a balance between centralized and decentralized model. Thanks.

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Jonathan Hanks

*Analyst, Goldman Sachs International*

Thank you.

Q

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**Operator:** [Operator Instructions] We do have a question from the line of Andrew Wilson from JPMorgan. Please go ahead. Your line is open.

Andrew Wilson

*Analyst, JPMorgan Securities Plc*

Q

Hi. Good morning, everyone. I just had a quick question on an investment. There's been a fair amount discussed at Metso over the last 18 months or so with regard to the amount that the business may or may not [ph] clearly invested (00:23:10) in areas like R&D. Do you have any sort of early takes on kind of how you see that, that spend and whether you actually need to run that in just – in context of what we've heard previously?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

That is truly something that Metso highlighted a year ago that we need to invest more in R&D. This year, we have ramped up our resourcing in R&D side and we are getting into – up to speed with R&D. But I do see that we need to continue to invest more from this year level also in future to R&D.

I mean we do have quite a wide selection of products and even though many of the products do have long lifecycle [indiscernible] (00:24:08) where we need to renew our offering. We need to introduce more digital. How I would say? We need to put lot more instrumentation onboard, so that we can draw information and data out of our equipment and then provide new services to our customers on that part, which we have also initiated now. And it's gaining speed, but there is more work in that area that we need to do [ph] new (00:24:46). So, that is an area where we continue to invest.

Andrew Wilson

*Analyst, JPMorgan Securities Plc*

Q

And maybe if I can just ask a follow-up to that, I mean I guess it's going to be a fairly gradual ramp in terms of spend on the basis that it clearly takes some time in order to find the right projects and obviously have the capability in-house. I mean, is that the right way at least for now for us to be thinking about it?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

That is I would say a correct way, [ph] because (00:25:15) key there really is the people. People, we need to have the right people. We do have lots of good people in the company, but R&D is something that does have a bit of delivery time when it comes to resourcing. You need to have really competent people, knowledgeable people that are familiar with the customers, processes and conditions where they operate and then also familiar from the technological side on the product.

Andrew Wilson

*Analyst, JPMorgan Securities Plc*

Q

Perfect. Thank you.

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*

A

Thanks.

**Operator:** Next question is from [ph] James Forsyth from Fidelity (00:25:51). Please go ahead. Your line is open. [ph] James Forsyth from Fidelity (00:26:00), your line is open. Please go ahead.





Hello. Thank you very much – good morning and thank you very much for taking my question. First question I've got is what was your perception of Metso before you joined? Obviously, some exposure to the sector previously and what was your perception when you took up the role of a [ph] Metsoant (00:26:21)? Since you've been around and spoken to number of customers and employees, what the sort of – what do you think the customers' perception of Metso and what's it done well and what are areas where Metso can improve?

Pekka Juhani Vauramo

*President & Chief Executive Officer, Metso Oyj*



Yeah. Thanks. Good question. My perception, of course, [indiscernible] (00:26:39) Metso is a Finnish company and maybe it's a little sort of different than what it might be if I wasn't [ph] looking (00:26:47). But I've known Metso for years also even before the name was Metso. Metso, I've had several friends that have worked for Metso and therefore I have been following very closely Metso first as sort of a adjacent business. Then, during Sandvik days when [indiscernible] (00:27:12) Metso's acquisition of Svedala and Svedala being split between Sandvik and Metso.

Then, we sort of became competitors even though I wasn't in that competing part during my Sandvik days. But I have always admired the company. There are some good, really solid things that Metso has done, I admired also the rate how Metso acquired businesses throughout the years and seemed to have done reasonably good job in integrating, which always is a challenge in these ones.

Of course, then the Svedala history that was a long, long acquisition and long – well, let's call it a long, long integration period, which lasted and was beyond the control of Metso at times that led clearly some [ph] marks in the development in that (00:28:13), but [indiscernible] (00:28:15) I've always admired Metso as a company and maybe I considered at one point to work for Metso, but I always have exciting opportunities elsewhere in the past.

Then, another time, I met maybe 10 or maybe more than 10 customers already in different parts of the world. What I do hear is that Metso is seen as a professional organization and people [ph] want (00:28:47) we do. And I truly have had opportunities to see and meet with people from different levels in customer organization, I mean, the people that are in charge of a [ph] size (00:29:00) and are overseeing the service part in the customers' organization. And of course I have to admit that I have been taken to that sort of customers that give me the good news in the beginning, that's human I think.

But I do hear good news people like our services and they appreciate how we develop. They appreciate how close to them we are and this was very well visible in Chile when I was there, when some customers in Brazil who said exactly the same.

But I've also met then CEOs of our customers – customers and CEOs, the regional CEOs of mining companies and they do see Metso as a partner clearly and that is, of course, a position that where we would like to be. And then, when we engage with sort of CEO-level discussions, then of course mostly the discussion is about future and what they see where their business is going and how they see that Metso fits into that picture. Those discussions have been very pleasant and I would say fruitful for me to see and understand where the industry has moved and then how industry has changed, now, during the time that I was doing lot of things.



That's great. Thank you very much.

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**Operator:** And there are currently no further questions registered. So, I'll hand to call back to Juha for any comments. Please go ahead.

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## Juha Rouhiainen

*Vice President-Investor Relations, Metso Oyj*

Okay. Thanks, everybody, for participating to this call and having a good sort of initial discussions with Pekka. We'll be back early February, February 1, with our fourth quarter and full-year results. And of course, then, we will be talking about the outlook and other things.

But in the meantime, thanks again, and we wish you all happy holidays and happy New Year and good weekend. Bye-bye.

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**Operator:** And this now concludes the conference call. Thank you all for attending. You may now disconnect your lines.

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