Corrected Transcript

25-Jul-2019

Metso Oyj (MXCYY.FI)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

All right. Good afternoon and good morning, everybody. This is Juha from Metso's Investor Relations, and I want to welcome you to our conference call where we discuss Metso Second Quarter 2019 Results. I'm sitting here with our President and CEO, Pekka Vauramo; and CFO, Eeva Sipilä, and they will go through the results after which we have Q&A session. The result presentation can be found on our website and the slide deck begins with disclaimer, and you should read that carefully because it discusses forward-looking statements that we'll be making during the presentation. And please be noted that we intend to wrap up this call in in 60 minutes' time.

With these remarks, we can begin and I'll be handing over to Pekka. Please go ahead.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

Okay. Thank you. Thank you, Juha, and welcome to this call. First of all, I mean we had a strong quarter – second quarter as you have seen in the numbers. It was strong in – in I would say most KPIs and measures that we have. First of all, the markets, all key segments, industrial segments and markets were very healthy during the second quarter. We had strong order intake in both segments. I would say even though order intake at the start was fairly flat, which is mainly due to timing and timing in mining, but it was a strong and we see a continued very strong pipeline ahead of us.

Despite of flat development in Mining Equipment orders, we see that strength continues. Metal prices have recovered and are relatively high level, maybe only metals that are somewhat flat in price development at this moment are copper and zinc, but everything else is really showing a clear trend upwards. And this of course means that the pipeline – our pipeline is strong and healthy looking – looking forward.

We saw good order growth in aggregates and services especially. And same applies to Flow Control side. The sales grew very strongly and margin as well good, thanks to good execution in our all divisions, I would say. Equipment sales continue to grow faster than service, which is typical for the cycle like this. But despite of that, the fact that equipment margins are somewhat lower than service margins, our profitability improved regardless of that one.

We announced also during the quarter several strategic steps. First of all, we closed a service acquisition in Chile that we announced last year already. And then, we announced the acquisition of McCloskey International, the mobile aggregates equipment and service business in Canada. And then, a few weeks ago, a transaction to create Metso Outotec, new combination and to spin off Neles as an independent company. This we announced beginning of the beginning of July. So, these are the highlights of Q2.

Second quarter, financials very quickly, Eeva will go them through more in detail. Orders received, up by 2%. Like I said, I mean looks flat, but activity is very strong and healthy – healthy in all our markets and we have several interesting orders that are in sort of finalization phase, but we were not be able to book them into second quarter. This is primarily in mining side.

Sales 16% up, and EBITA €119 million, which translates to 13.1% margin altogether. And operating profit €114 million, 12.6%. So this is, once again, an improvement over the previous quarter and a clear improvement also on the same quarter last year. And earnings per share firmed up as well. Cash flow was negative in the quarter. This is very typical for our business when our volumes – the sales volumes, when they are growing we are tying capital into work-in-progress. We are tying capital also in receivables, and this was something that was expected. There's also some tax implications – tax payments that were higher than expected during the quarter. Eeva probably comments those later on.

Looking Minerals, orders flat. It's exactly the same number as a year before, but services and aggregates grew very well. We also saw a very healthy growth in small orders of Mining Equipment. But we're really lacking any major orders during the quarter. But like I said, we have them in the pipeline. And sales up altogether 17% and driven by equipment which of course is not necessarily the best thing for the mix, but thanks to good execution, the EBITDA margin in the Minerals improved from 11.5% last year to 12.6% now in this quarter. So, good quarter from Minerals altogether.

Flow story continues. Orders received up by 9%, €165 million during the quarter. Good growth in distribution day-to-day and business and services. Good project orders especially oil and gas in Asia. And there again healthy proposal pipeline continues and especially, I mean strong order bookings of pulp and paper; paper machinery companies and several projects that have been announced just recently meaning that there's a good pipeline and our position in pulp and paper is very, very strong. So, looks promising from that side for Flow Control.

Sales up 13% and this is mainly organic two-thirds or three-quarters is in fact organic. And I forgot to mention that in the sales growth of Minerals, it was almost all organic growth that we had. But both segments growing and mostly organically at this moment.

And EBITA margin improved clearly from 14.5% to 17.1%, 2.6% and these numbers, altogether order growth, sales growth and margin improvement. They sort of speak for the fact that Flow Control and our Valves business has earned its independence, and that we will see then coming ahead once the transaction closes.

And we move on to finance and I'll hand over to Eeva. I'll come back then with the strategy and some other things at the end of it.

Eeva Sipilä

Chief Financial Officer & Deputy CEO, Metso Oyj

Thanks, Pekka, and good morning, good afternoon to everyone on my behalf as well. Looking at the income statement, Pekka commented on the operational items already so I will only highlight a few additional things.

The drop through both to EBITA and operating profit EBIT is very good. We have slightly more amortization from the M&A transactions done in the past two years, but as there have been no other adjustment or restructuring of items to operating profit is really fully reflected in the improved operational performance. This obviously shows in the significant improvement in the earnings per share which was €0.59 for the quarter and €1.02 for the first half of 2019.

On the tax ROE worth highlighting perhaps that both the P&L and the cash flow for the quarter include a positive €14 million impact from a repayment received from Finnish tax authorities on a claim we made on an issue that was originally booked in early 2018 and it was now reversed in the Adjustment Board to our favor.

Moving on to the next slide highlights the impacts of structural changes and currencies to our orders and sales, a table you also find in our Interim Review. As we can see there was really no material effect from either. Slight positive impact from the acquisitions in – from the acquisitions closed during the second half of last year and the Chilean service company closed in May pretty much nothing against the impact from the sale of our grinding media business in the beginning of this year. So, really, net-net, a very small change. The organic growth in sales is obviously nicely visible in the graph on the right hand side.

Moving to the balance sheet. Still perhaps appropriate to remind everyone on the impact of IFRS 16 leasing standard, which explains to a large extent the growth on the balance sheet total from end of last year. Additionally, a further increase in net working capital items is also visible in these numbers, but I'll come back to that on the next slide where you actually see the various elements of the net working capital more in detail. Net working capital totaled €688 million at the end of June, up some €50 million from the end of last year.

On the graph on the right hand side that represents the lowest part of the bar – black bar in my slide and in the other elements included in our capital employed calculated then on the top of that black part of the bar. This then totals €2.1 billion, in capital employed which is used in the calculation of both the return on equity and return on capital employed KPIs.

As you can see from this slide, clearly, we continue to tie capital in inventories and trade receivables as the business volumes continue to grow. The health measured by days is more positive, but the overall amount especially on the inventory side is an indication that we continue to have work ahead on our supply chain to improve agility and our returns. This is not a new topic as those of you following us longer know, but continues to be on top of our internal efficiency actions. Results are just not visible for you at this stage when we are growing as we are.

Moving to the next slide, so cash flow showed the negative impact of net working capital, clearly minus €160 million in the first half of the year. Pekka also mentioned that the improving profitability is visible in increased tax payments, and that we see from that €52 million well – as well. CapEx was also high in the first six months, €41 million. But we do expect that speed to slow down in the second half somewhat as some major investments we have been working on are at the final stage.

The business acquisitions comprised the acquisition of the Chilean mining service business in the second quarter and then the sale of the businesses, ROE includes the previously mentioned grinding media business sale from the first quarter.

Moving to the key financial ratios, we are very pleased that we have been able to lift our business to above 20% return levels, with the work done so far on improving profitability and on the profitable growth strategy arena. Our balance sheet ratios reflect the lower extra cash position. At the same time, net debt to EBITDA and interest coverage continued to be at healthy levels supporting our plans going forward.

And with that, that's pretty much the sort of highlights on the financials. So, I'll hand it back over to you, Pekka.

Pekka Juhani Vauramo

President & Chief Executive Officer, Metso Oyj

Okay. Thank you, Eeva. A few things about our strategy execution, I mean one thing that we have discussed for the past year-and-a-half or two years is our investments in R&D and we have communicated the level of expenditure. We currently stand 1.8% of sales. We will continue to see more investments going into this area. And like we said earlier that sort of sustainable level should be somewhere between [ph] 2% and 2.5% (00:14:43) and that's our target level target where we will gradually be moving.

Then, there are other strategic steps. The acquisitions that we've announced and transactions here, the McCloskey International which we announced in the beginning of June, we are currently going through the anti-trust filing. We do have clearance from some of the countries – some really important countries already at this moment. In some other countries, the processes are longer processes and we are in middle of those. And there's not really much to comment. We don't expect any major delays because of the anti-trust and we expect to close the transaction in Q4 of this year.

And just if you recall the numbers that we communicated, it is a company with sales of approximately €300 million in 2018 and company that has grown in this industry fairly rapidly over the past 10 years, and we are very, very pleased to – pleased to have it in the family once the approvals are in place.

And the Chilean service business that we acquired end of last year, we were able to close that one, and we are integrating that business as we speak. That is a highly specialized service business, increases our service workforce by nearly 1,000 people in Chile altogether. The specialty with this company is the remote monitoring capability, capability which they have tied with the business model and we are currently, like I said, creating that business now and taking the learnings and expanding in future to other countries and markets.

Then the July 4 transaction to create two companies, Metso Outotec and Neles, as we announced it then, this will be two leading companies that we are forming. Metso Outotec in process technology, equipment and services combining really the strengths of two well-known companies in this business. Both companies contribute also businesses – where the other is not involved us contributing aggregates business into it, and then Outotec Metals, Energy & Water part where Metso is not active at this moment. It is a highly complementary transaction where we form a truly leader in this area. It will be leader in terms of technology. We will have a very good service footprint and our customers will definitely benefit from our service capabilities, and this combination will be very – very competitive and will be competitively offering its products and services to customers all over the world.

We are also establishing and spinning off of our Flow Control business, which today consists of our Valves business area will be renamed Neles. And Neles which has grown very steadily over the past three years I think the average growth rate is around 6%, and now – currently even faster as we saw earlier in the numbers. And while growing it has been able and capable to improve the margin levels all the time. The recent improvement was from 14.5% to 17.1% in terms of EBITA.

We feel that this business truly has earned its independence. It does deserve its own independent strategy, which it will have. It will have – it has already a new CEO appointed. It will have a new fully independent board. And the owners of Neles, day one, will be Metso's current shareholders. So Metso will not have any shareholding in the Neles [indiscernible] (00:19:31). So it's a fully independent company at least that in the Helsinki Stock Exchange.

With this transaction, we are able to continue the listing of both Metso Outotec and Neles day one once the transaction closes which for investors is very convenient [indiscernible] (00:19:54), and we will be able to do it without any IPO process. So, it doesn't distract too much of management time at all.

Metso Outotec part combined sales €4.2 billion with 2018 numbers that includes now McCloskey's €300 million in that one. With that number, we will be number one or number two depending on exchange rates in sort of this business that this company serves. And like I said, complementary nature of our businesses is really unique and it will give us a good platform to – through R&D to develop industry even more competitive and also good platform to grow service capabilities and service business [indiscernible] (00:20:56).

The ownership in Metso Outotec will be such that Metso's current shareholders will, day one, own 78% and Outotec's 22% of the of the combined company. And the synergies we are expecting to find at least €100 million of cost synergies and €150 million of revenue synergies. Revenue synergies are primarily coming from the complementary nature of our businesses and cost synergies are more sort of a traditional administration, procurement, supply chain type of synergies. And we expect these synergies to be fully realized by the end of third year following the closure of transaction.

Then on Neles' side, a fast-growing very profitable business – business having strong position in fewer industries rather than all over the place. We are strong leaders in pulp and paper and downstream oil and gas control valves. Those are the two most important industry segments where we are – we operate in some others as well but most of business truly come from these two segments.

So, this means that we've been able to execute the business well without having too much complexity in our business and in our system and that's what we feel is the strength of Neles today and will be the strength of Neles also going forward.

Neles has outperformed the market in terms of growth and it is in top-class profitability with the numbers that we have been able to show over the time and now even improving in quarter two. Having a good sales mix dedicated management that will, together with the new board, create a new independent strategy for the business and it's well positioned to go profitably in future as well.

Timing of this Metso Outotec and Neles transaction, it will first of all, I mean, everything will happen at the same time. We expect it to close beginning of quarter two 2020. And we have initiated now the anti-trust filing. First filings have gone in already. We have about 20 countries where we need to do that. And we expect that this process will be finalized sometime during the first quarter of next year. This transaction requires approval from both company's shareholders and the Extraordinary Shareholder Meeting is expected to be held in October 2019.

Then our outlook, we repeat the same outlook that we gave after first quarter. Market activity in both segments, Mineral and Flow, is expected to remain at the current high level both in equipment side and service side. And like I said earlier, our markets have been healthy and they continue to be healthy in both of our segments and equipment and service side of it. Thank you.

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

Thank you, Pekka and Eeva. And operator, we can now open the conference call lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Omid Vaziri from Jefferies. Please go ahead. Your line is now open.

Omid Vaziri
Analyst, Jefferies International Ltd.
Q

Good morning. Thank you for taking my questions. I had three questions. I'll take them one by one. The first question is around the outlook for Mining Equipment orders. We've seen Mining Equipment orders for some of the shorter cycle equipment providers weakened this year. Does this concern you for demands further out given the latest cycle nature of your Minerals business?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

We've read, of course, the announcements that the others have made. But what we do follow is, of course, our own pipeline more than what competitors do, and the pipeline looks healthy as we speak. Then at the same time, we look at some indicators where metal prices are really the – maybe not leading indicators but they tell about health of the market reasonably well. And if you look at them, all except copper and zinc have really recovered nicely. And the precious metals, both gold and silver, are very high, nickel is heading upwards. Iron ore firming up a little bit as well. And then on the other hand, we know that there is a longer-term demand for copper. So at this moment, we don't see any reason to change our outlook. And we feel that with both of these two things we still see that the cycle continues.

Omid Vaziri
Analyst, Jefferies International Ltd.
Q

Yes. Thank you. And with respect to the near term, the usual sequential six months outlook that you provide, would it be possible to hear your expectations specifically on the copper mining area?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

No. I wouldn't like to go into details with that one because there are a few projects. And we are, of course, one of the bidders in all of those.

Omid Vaziri
Analyst, Jefferies International Ltd.
Q

Okay. Thank you. And my second question was on the services. On the service growth, how are you doing on capturing more of the installed base? How's the progress been for you? And how this contributed to the fastest service growth you've had over recent quarters?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

Yeah. I think our service development, if I take a look back what we have done in that one first. We needed to take a better firmer control of some of our service activities and that is something that we did in 2018 primarily. And this year, we have continued to execute the services side of it. We do see increased demand in many different areas, areas we see that improving the presence will further give us opportunities to bid for additional type of services.

We do see increased demand for more expert services. We are not necessarily going into labor hire type of services. We try to stay away from that one but expert services and related parts, components, modification kits, that is the type that where we see still continued potential in our own installed base.

Omid Vaziri
Analyst, Jefferies International Ltd.

Q

Okay. Thanks for that. And my final question is in relation to the McCloskey acquisition that you've spoken of today as well. I understand that the service component of McCloskey business sales is much lower than the Metso Minerals business today. What can Metso do to get this up, and would this, in your view, be enough to narrow the margin gap with the current Metso Minerals?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

For sure, there are actions that we can take on McCloskey. The transaction, however, has not closed yet, and we are still competitors with McCloskey and it is a little too early to comment too much about that one. But one thing I can say at this moment is that consumables, the wear parts that Metso truly focuses on, I haven't seen McCloskey being very active in that field at all. And now, of course, in future McCloskey equipment will have more and more Metso crushers installed. Then, of course, it's natural that we get into this consumable business.

The other side of the service business, not able to comment at this moment. This moment, but we noticed that service – share of services is relatively low. And one sort of natural reason for that one is that since the installed base has grown very rapidly because of the fast growth of the company, so the installed base is fairly young and doesn't contribute maybe as much spares at this moment. So, over time that will improve. But I leave the comments to a later stage.

Omid Vaziri
Analyst, Jefferies International Ltd.

Q

Yes. That's very clear. And thank you very much again for answering my questions. That's all for me.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

Thanks.

Operator: Thank you. Our next question comes from the line of Klas Bergelind from Citi. Please go ahead. Your line is now open.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

Yes. Hi, Pekka and Eeva. It's Klas from Citi. A couple of questions from me. First, a question on what can happen to [ph] yourself for the preferreds (00:31:20) next year, your own actions to improve margin and inventory turns once you start integrating Outotec to happen. Obviously solid drop through again this quarter despite headwinds from mix and R&D, and that's great to see. But questions we get post-Outotec announcement is whether this self-help efforts will be put on the back-burner because of the integration. I mean, I don't think so, but you probably have different integration teams and so forth. But, Pekka, if you could just talk through the opportunities to continue to – margins in Metso Minerals despite integrating Outotec.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

Yeah. Yeah. Of course, I mean we'll make sure that we have dedicated integration teams. And what we have internally communicated that whatever is ahead, I mean 99% of current people should continue to focus on daily business, daily business right now and also into the future. And the ones who are involved in the integration they will be sort of dedicated people separately assigned for that one, and everyone else need to focus on daily business, improving it, winning orders and delivering the previous orders to customers and servicing them. So, that will be our message to the organization. And, of course, we have many means to enforce that – that activity, including incentives in the company.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.

Q

And then a follow-up to that. I'm trying to bridge the drop through and thinking ahead then. So, it's a big underlying improvement to the margin considering that you still have some 50 basis points negative impact from mix and R&D each. So, it's nearly 250 basis points underlying improvement without mix and R&D. So, how much is this bottlenecks annualizing from last year versus your own efforts since you joined as CEO starting to bite, I'm thinking supply chain efficiency, factory optimization, lowering quality costs, et cetera, just to understand what has happened so far and what we can expect ahead.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

I think I have been now in the office eight months, nearly nine – nine months...

A

Nine months.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

...and maybe there are some signs of it, but of course I clearly recognized that many good actions that have been put in place already before my time, they are bearing fruit as we speak. We have some other things in the pipeline that we hope will then provide continuation for the improvement.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.
Q

All right. My very final one is a question on your guidance. Can you talk a little bit more about the difference within Minerals? Last quarter I think you said that you were still positive on mining, looking to the market but you saw aggregates leveling off. And now, we have indeed some softness in India in aggregate for example. Do you still have this view? You're still pretty bullish on mining? We heard from CAT yesterday, they're also bullish. It feels like a late-cycle demand is still coming through in mining versus those underground. But on aggregates, you're still seeing softness here within your guide, just to understand the mix between the two.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

I think only area in aggregates of softness of our main markets, I mean main markets, Western Europe, North America, China, India. The only area where we can see softness is India. We were expecting somewhat faster recovery after the elections, which really hasn't started yet at this moment. But it will at one point start. It's once again a timing issue for aggregates. Mining, like I said I mean all the indicators that we use, strength of our pipeline, metal prices, communications with customers, we haven't seen any change in mining outlook.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.
Q

Thank you.

Eeva Sipilä
Chief Financial Officer & Deputy CEO, Metso Oyj
A

I'll just remind you of the seasonality obviously in the [indiscernible] (00:35:20) aggregate side. So, of course, we're kind of going into the slow quarter of their -when the high season in aggregate is from sort of November, December to April – April in the year...

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.
Q

Yeah. Yes, of course.

Eeva Sipilä
Chief Financial Officer & Deputy CEO, Metso Oyj
A

...due to the sort of summer and winter conditions. Yeah.

Klas H. Bergelind
Analyst, Citigroup Global Markets Ltd.
Q

Of course. Okay. Thank you.

Operator: Thank you. Our next question comes the line of Tanuj Agrawal from Barclays. Please go ahead. Your line is now open.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.
Q

Hi there. And just to follow up on the margins again. To start with Flow Control margins, I was a bit surprised seeing 250 basis point margin expansion in the business. Also, given that the Pumps division, which is a high margin business was transferred to Minerals. So I just wanted to understand more on the leverage you're getting there. So are you seeing any increased margins on the orders that you are booking or are there any specific areas within the business where you are seeing those low-hanging fruits in terms of getting better leverage? And also you have some high margin businesses like U.S. transportation which were at bottom last year. I think that should be recovering, helping the margins again. So just some colors around those sub-segments as well, please.

Eeva Sipilä
Chief Financial Officer & Deputy CEO, Metso Oyj

A

Well, I think those – both elements throughout Metso we have put a lot of focus on pricing and to sort of be more granular on that. And that's also visible on the Flow side. Then again, I would sort of give very high remarks to the Flow team on their work on the operational efficiency. And obviously, the Valves business is a business with high leverage. So the volumes certainly sort of give a nice tailwind. But there's been a lot of work really going on in the internal supply chain as well as with the suppliers and ensuring a better sort of flow and that's the less hustle. You have the – the better the margins are. I wouldn't sort of put much on the transportation business segment. It is a very small niche. It had a good year last year and has continued to be on a good level but it is a sort of at the end of the day rather marginal business. So, it's really is the sort of the work done on the – throughout the sort of breadth of the businesses.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay. Understood. Sure.

Operator: Thank you. Our next question comes from the line of Magnus Kruber from UBS. Please go ahead. Your line is now open.

Magnus Kruber
Analyst, UBS Europe SE

Q

Hi, Pekka and Eeva. Magnus here with UBS. Just to follow up on Klas' question there on the aggregates business. Could you give us some color on how the growth rate developed year-over-year from Q1 into Q2?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

Yeah. We're looking some numbers.

Eeva Sipilä
Chief Financial Officer & Deputy CEO, Metso Oyj

A

Yeah. I mean we can sort of say that it was a double digit growth in both quarters of the year.

Magnus Kruber
Analyst, UBS Europe SE

Q

Okay. Got it. And just on the Metso Outotec combination, it's sometime since the announcement now. Could you talk a little bit about the feedback you see from your customers so far?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

Look, many customers don't see this opportunity very much in the same way as we do that, the two strong companies, one strong in the front end of the process and the other one in the back end of the process putting the sort of strengths and resources together merging also the service organization having truly global footprint on that. They do see the benefits and they do see the benefits in terms of future technologies that we will be able to push forward and turn into products. And then on the other hand, the service backup that we will be able to provide. That's what we do hear from most of our customers that we have spoken.

Magnus Kruber
Analyst, UBS Europe SE
Q

So, now a concern regarding to your market share position and so on after the close?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

Well, of course, we do hear some commentary like that, but mostly it is that this truly makes sense for the entire industry, and there is someone who does have the capability and resources to develop the technologies even further. Yeah.

Magnus Kruber
Analyst, UBS Europe SE
Q

Okay.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

Industry faces fairly big challenges in terms of sustainability, for example, and that requires a lot of R&D efforts, also digitalization, data analytics and that part requires a good platform on which to innovate and apply it and so forth. So, there's many aspects that this combination can bring forward.

Magnus Kruber
Analyst, UBS Europe SE
Q

Okay. Many thanks. And just a final one. And I guess it could be a little bit too early to talk about, but in terms of the synergies from McCloskey, could you talk a little bit about that? Is there anything apart from top line synergies?

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj
A

Of course, there are some synergies, but mostly they are in fact top line synergies that we have with McCloskey. And as we communicated then we see possibilities to sell McCloskey developed products through Metso's distribution, and then McCloskey will most likely be using Metso's crushers in their future designs – designs, and therefore, they are mostly revenue type of synergies that we do see happening through this one. Of course, if our crusher volume continues to grow, the volume helps because they are sort of fairly standardized products – products manufactured in well-established factories and it really improves the efficiency of the factories. And there are some synergies that we can see in that area.

Magnus Kruber
Analyst, UBS Europe SE

Q

Excellent. Thank you so much. Thank you for answering my questions.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Andrew Wilson from JPMorgan. Please go ahead. Your line is now open.

William Ashman
Analyst, JPMorgan Securities Plc

Q

Hi there. Yes. It's actually William Ashman, JPMorgan. I just had a question on oil and gas. And if you can provide a few more specifics around what you're seeing there in terms of supply chain and in which regions? And I also had a question on the R&D spend and is there any particular parts of the businesses or particular markets you're focusing that spend on? Thank you.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

[indiscernible] (00:42:45).

Eeva Sipilä
Chief Financial Officer & Deputy CEO, Metso Oyj

A

Maybe on the oil and gas, what we highlight in the report kind of worth mentioning is really that if we look at the orders received, we had good project activity in Asia. And as you may well remember, we're obviously sort of in the downstream – downstream part of the oil and gas. Otherwise, there's a day to day distribution, there's sort of a general comment to the whole flow – across customer is – customer industries was positive with good activity. That would really be the one thing to highlight. Obviously this project business is a bit lumpy and – but as I said, that's where we kind of saw something perhaps worth highlighting.

Pekka Juhani Vauramo
President & Chief Executive Officer, Metso Oyj

A

[indiscernible] (00:43:36) we have an organization with seven business areas. We have R&D organized into these business areas. All business areas have their own dedicated growth plans supported by the R&D plan. And then on group level, we have had up till development of digital tools and digital products, data products for our customers. So that is the only one that is centralized. And there are some dedicated resources and dedicated expenditure in the group level. But R&D is happening across the board in all business areas as we speak. There is nothing in particular that I would like to highlight to say that this particular area is where we are putting a lot of effort.

Yeah, we can say maybe Pumps is an area that we are developing, maybe relatively a little bit faster than the others, but it's happening across the board.

William Ashman
Analyst, JPMorgan Securities Plc

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Okay. Thank you.

Operator: Thank you. And as there are no further questions registered at the moment, I would return the word to the speakers for any closing comments, please.

Pekka Juhani Vauramo

President & Chief Executive Officer, Metso Oyj

All right. If there are no further questions, this concludes our conference call for second quarter results. And we'll be back with the third quarter on October 25.

In the meantime, we wish you good continuation of summer. Bye-bye.