



VALMET  
CAPITAL  
MARKETS  
DAY 2013



## Growth potential in tissue and board


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# Agenda

## Capital Markets Day 2013

- 1 Paper business line in brief
- 2 Growth and profitability potential
- 3 Recent achievements, strategy, targets, and future actions
- 4 Summary



# Paper business line in brief

# Business line overview: Paper

Provides solutions and technologies for board, tissue, and printing paper production

Board and tissue are on a long-term growth trajectory (anticipated long-term market growth ~3% p.a.)

Long history of technical innovations. Recent examples include OptiConcept M board machines and NTT tissue machines

## Market Position #1-2

#1-2 Board

#1 Tissue

#1-2 Paper

Net sales<sup>1</sup> 2012: EUR **0.8** bn

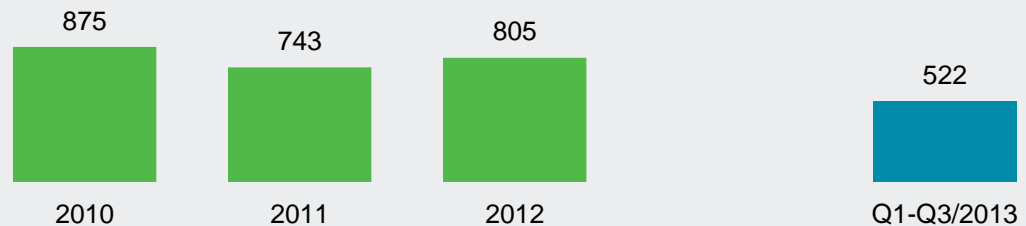
Net sales of Group total: **27%**

Employees (30.6.2013): **4,079**

Employees in China: **40%**

Employees of Group total: **34%**

## Net sales<sup>1</sup>



**40% of all world production uses Valmet machines**

700 board machines  
180 tissue machines  
900 paper machines



1) Net sales by business line on a carve-out basis for the periods indicated (excl. Intra-Metso net sales)

# Changes in the market environment

## Market environment

- **Our core market has changed: customers prefer smaller machines and rebuilds**
  - This change has been driven by the **decrease in demand for print media**
  - New installations are mostly **board machines in emerging markets**
  - **Tissue is continuing to grow** in line with GDP globally

How the market has changed	Large machines	Medium machines
<b>Typical order size</b>	EUR 100-150 m	EUR 20-50 m
<b>Average machine size</b>	8-10 meters	5-7 meters
<b>Level of technology</b>	High	Lower
<b>Competition</b>	More limited in large machines	Increased

## Our position

- **Our market position in board, tissue, and paper machines is strong**
  - Competition is more intense and margins are lower in the **new smaller machine segments**
  - **Competition will only increase** as smaller suppliers combine forces and become more skilled

## Implications for us

- **We need to adjust our capacity cost, offering, and operating model to match these market changes**
  - **Competitiveness program** built around current market conditions and the demand for smaller machines and rebuilds, and lean sales and delivery processes
  - Focus on **modularized and standardized** products

# Business focus and opportunities

Our focus on board, tissue, and paper customers globally:

New production  
lines



Rebuilds



Stand-alone  
products



We offer cost-competitive, fit-for-purpose solutions



- Advanced technology concepts
  - Tailor-made paper and board machines
  - Through Air Drying (TAD) and NTT tissue machines



- Standard and modularized technology concepts
  - OptiConcept M (OCM) and Dry Crape Tissue machines (DCT)



- Stand-alone products
  - Key components and individual machine sections

# Business focus and opportunities

## There are still opportunities even in a flat market

- Energy, water, and raw material efficiency is increasingly important
- Small and special paper and board machine segments
- Extended delivery scopes in certain markets



## We need to be able to offer smaller and slower machines


- Price erosion is one of the challenges we face
- We want to become stronger in rebuilds



## Identify attractive opportunities and create a concrete growth plan

- Stronger presence in certain emerging markets, like India and South America
- Resource planning started early enough





# Growth and profitability potential



# Market drivers and implications for Valmet

- Anticipated long-term market growth
- Estimated market size for the current offering in 2012 (EUR)
- Valmet's market share in 2012



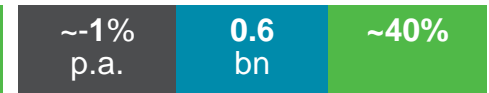
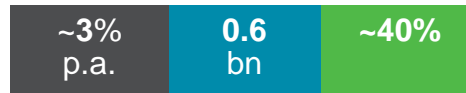
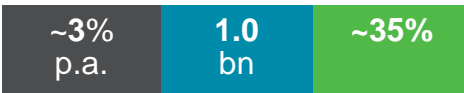
Board



Tissue



Printing and writing paper and newsprint



## Market drivers

- World trade, e-commerce and emerging markets growth drive packaging
- Shift from plastic packaging to renewable materials

- Growth in emerging markets
- Rise in purchasing power and living standards in emerging markets

- Increasing role of digital media decreases demand for printing and writing papers
- Some growth in emerging markets

## Implications for Valmet

- Focus on smaller, cost-efficient machine designs and processes, e.g. OptiConcept M
- Presence in emerging markets

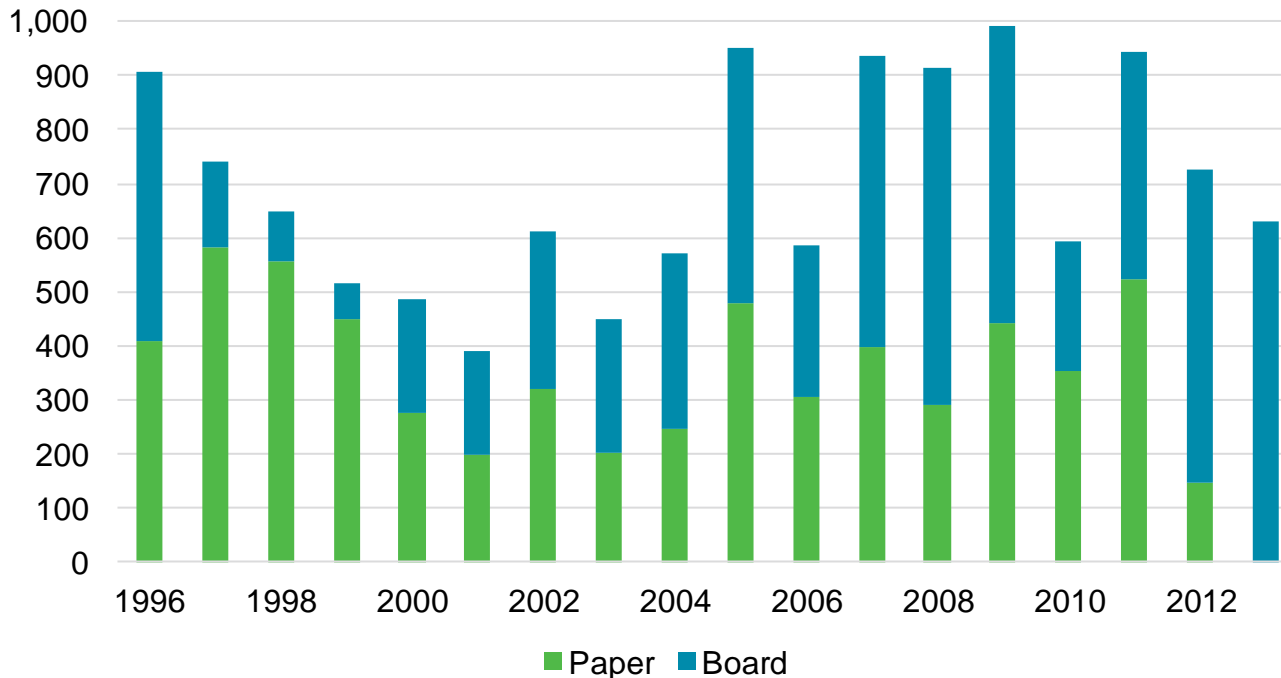
- Market is growing long-term, but competition is intense
- We are strong in North America and EMEA

- Dependency on newsprint has decreased and is still decreasing
- Transforming paper machines to board machines, and newsprint to other grades

Source: Leading consulting firms, RISI, management estimates

# Major changes in the paper and board market

Estimated net sales<sup>1</sup> (EUR millions)



## Board machines:

Narrow, slow, and lower technology

## Paper machines:

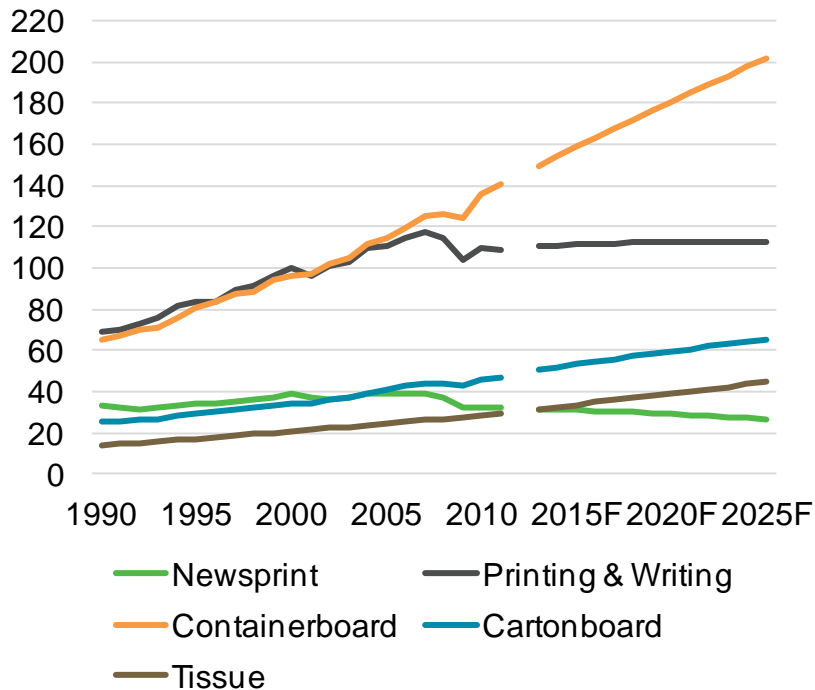
Wide, fast, and high technology

1) Company estimate based on estimated capacity by start-up year and estimated average price per ton (constant value of EUR180/ton used over time)

# Consumption development

Growth in board and tissue consumption is expected to continue while newsprint is declining

Paper consumption<sup>1</sup> (Mton)

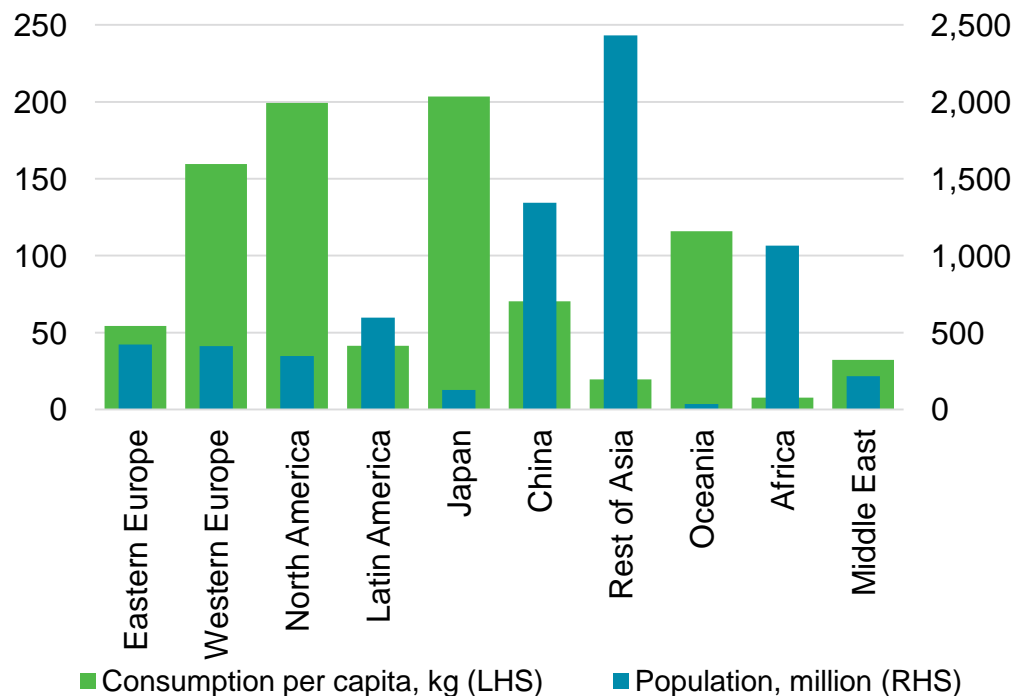


CAGR	2001-2013	2013-2025F
Containerboard	+3.6%	+2.5%
Printing & Writing	+1.2%	+0.2%
Cartonboard	+3.2%	+2.2%
Tissue	+3.3%	+2.9%
Newsprint	-1.4%	-1.4%

1) Source: Pöyry

# Paper and board consumption growth trends

Paper and board consumption per capita vs. population<sup>1</sup>



Average global consumption: 53 kg per capita

Population growth in emerging markets is larger than in developed markets

Level of consumption per capita in emerging markets clearly below that in developed markets

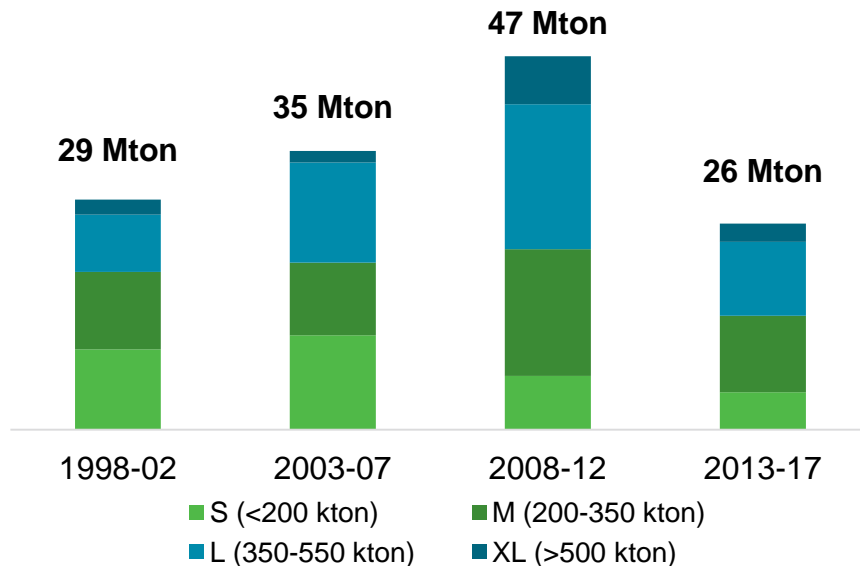
This offers us long-term growth potential

1) Source: PPI Annual Review 2013 (2012 figures)

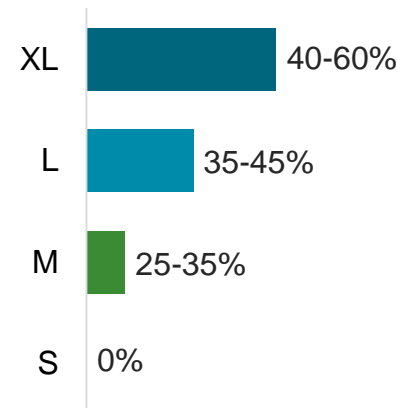
# Demand has shifted more towards smaller paper and board machines

- We are focusing more on modularized and standardized solutions
- Competition is higher in smaller machines

Capacity of start-ups<sup>1</sup>, by machine size



Valmet's market share<sup>1</sup>, by machine size



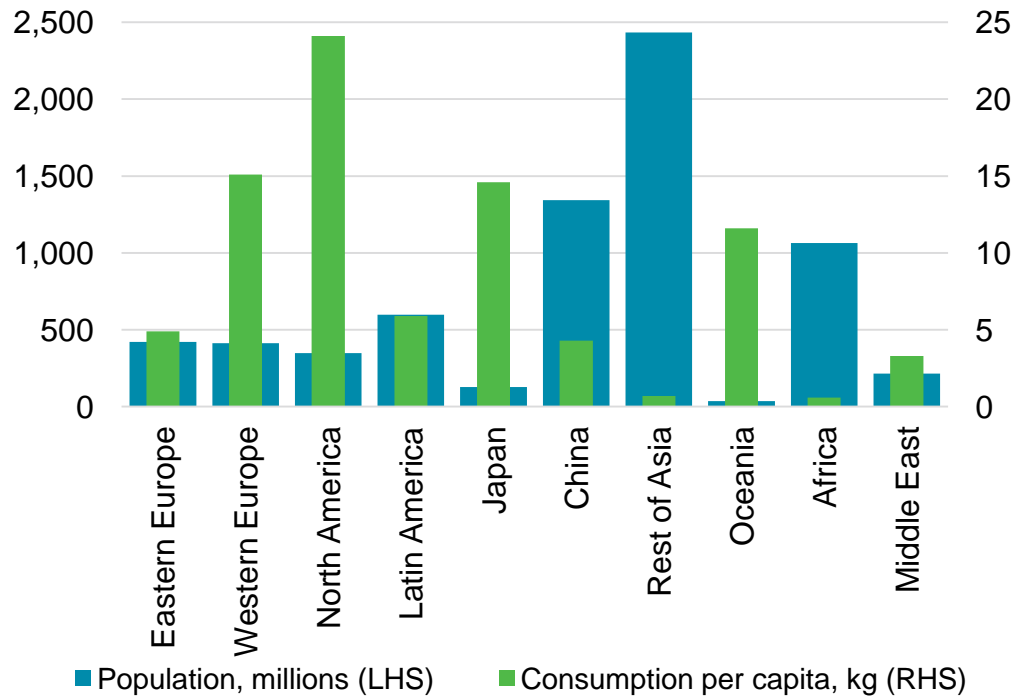
Competition is lower in larger machine sizes.

Higher number of players in smaller machines.

1) Source: Pöyry, Valmet

# Tissue consumption growth trends

Tissue consumption per capita vs. population<sup>1</sup>



Average global consumption: 4.5 kg per capita

New products and consumption models based on tissue are helping increase consumption in developed markets

Consumption in emerging markets is still low, but growing

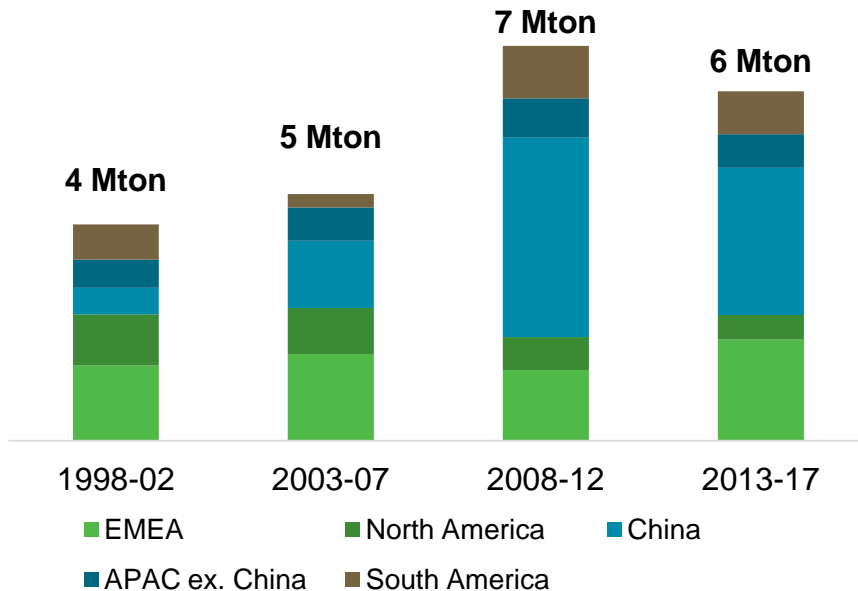
Offers us long-term growth potential in both developed and emerging markets

1) Source: PPI Annual Review 2013 (2012 figures)

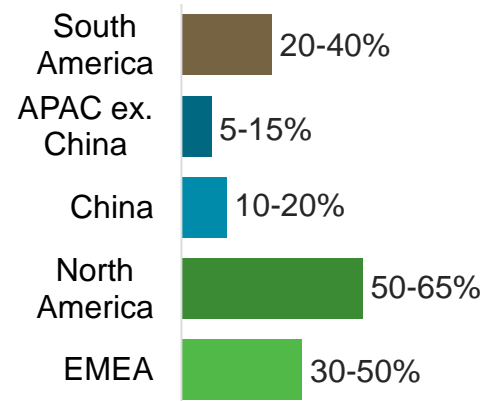
# Tissue market growing long term

- Recent market reduction due to heavy Chinese investments
- Competition is high in all areas, Valmet is strongest in North America

Capacity of start-ups<sup>1</sup>, by area




Valmet's market share<sup>1</sup>, by area



Number of competitors is low in the Americas and EMEA.

Smaller Chinese companies present in China and Asia.

1) Source: Pöyry, Valmet



# Recent achievements, strategy and future actions



# Recent achievements and strategic focus areas

## Global footprint development



- Engineering, sourcing, production, and productivity development in China
- Increasing role of cost-competitive countries in purchasing and subcontracting

## Measures to improve cost-competitiveness



- Capacity costs to be almost halved (2012-2014)
- Cost-reduction program (adjust organization to the market environment)
  - ~1,000 FTE's (Full-time employees) reduction in Finland (~50%)
  - Re-organization in Finland (elimination of organizational layers; reduced SG&A expenses)

## Development of more cost competitive technology



- Modularized and standardized machines (e.g. OptiConcept M and Dry Crape Technology machines (DCT)
  - One OCM started up and three more sold
- New technology (NTT tissue machines)
  - One started up and two more sold

# OptiConcept M – modular paper and board line



	<b>Fujian Liansheng PM6</b>	<b>Siam Cement Group PM16</b>	<b>Lee &amp; Man PM20</b>	<b>Zhejiang Jingxing PM16</b>
Description	Recycled fluting production line	Recycled fluting production line	Testliner and fluting production line	Recycled fluting production line
Annual production	300,000 t	300,000 t	300,000 t	240,000 t
Design speed	1,200 m/min	1,300 m/min	1,100 m/min	1,100 m/min
Wire width	7,250 mm	7,250 mm	7,250 mm	6,250 mm
Start-up	2012	2014	2014	2014

# Advantage™ NTT™ concept – The new standard in premium-quality tissue production

	Fabrica Papel San Francisco, Mexico	Forestal y Papelera Concepcion, Chile	ADNPM, United Arab Emirates
Description	Tissue production line	Tissue production line	Tissue production line
Annual production	30,000 t	70,000 t	27,000 t
Design speed	1,600 m/min	2,000 m/min	1,600 m/min
Wire width	2,600 mm	5,600 mm	2,800 mm
Start-up	2013	2014	2015



# Strategy execution through Must-Wins

## Customer excellence

- Include full service offering in capital projects

## Leader in technology and innovation

- We will maintain our technology leadership position with modularized and standardized fit-for-purpose solutions

## Excellence in processes

- Reduce quality costs
- Save in procurement
- Improve project margins
  - Develop engineering and production footprint
  - Develop cost structure and productivity
- Implement cost-competitiveness program

## Winning team

- Develop an optimum global competence balance



# Summary

# Key messages: Paper



**Tissue and board are growing.** Growth of e-commerce is driving mature markets, growth in emerging markets.



**Valmet's dependency on large paper machines has already been reduced and the cost base is being adjusted.**



**Strong focus on profitability.**

- Restructuring program
- Cost-competitive technology
- Global footprint

