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Q2 2020 Valmet Oyj Earnings Call

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PRESENTATION

Pekka Rouhiainen *Valmet Oyj - Director of IR*

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q2 2020 Result Publication and Webcast. My name is Pekka Rouhiainen. I'm the Head of Investor Relations here at Valmet, and with me today are Pasi Laine, President and CEO; as well as Kari Saarinen, CFO. (Operator Instructions) Without further ado, Pasi, please go ahead.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Thank you, Pekka. So welcome. So our headline is today, orders received decreased to EUR 826 million and comparable EBITA increased to EUR 76 million in the second quarter. So what I will go through today is first number on the quarter in brief, development of the business lines, a couple of words about the share acquisition in Neles. Kari will go through the financial development, and I'll come back with the guidance and short-term market outlook.

First, quarter 2 2020 in brief. So our orders received decreased in stable business to EUR 426 million. In capital business, orders received decreased to EUR 416 million. Net sales remained at previous year's level and were EUR 919 million. Order backlog was about EUR 3.5 billion in the end of the quarter. Comparable EBITA increased to EUR 76 million and margin was 8.3%. Gearing was -23%, and then Valmet agreed to acquire 14.9% of shares in Neles in second quarter.

So first, numbers in brief. So orders received, EUR 826 million together. That's, of course, smaller than a year ago but it's good quarter for Valmet. Net sales were EUR 919 million. It's good as well. Comparable EBITA, EUR 76 million; and comparable EBITA margin, 8.3%. And I think that was -- which word I would say. No, it was good result for the quarter. Backlog, EUR 3.5 billion; and we employed about 13,600 people in end of the quarter. Orders received by business line, there you can see that stable business and capital business were roughly the same, 50-50, this time. And in orders received by area, you see that China was again strong. So 26% of our orders came from China, 47% from Europe. North America was smaller than normally, 14%. But especially, China has been active market in the beginning of the -- in the second quarter of 2020.

Orders received trend, 12 months curve, turned down. So now it's about at EUR 4 billion level. And to 6 months' curve, if it were there, were at EUR 2 billion level. Here, you see also that in first half of the year, China has represented 23% of the order intake, so roughly EUR 460 million. The Chinese market has been active, especially in capital. South America has been active as well, representing 16%. And North America, the whole year has been less than normally. So as an average, North America should be about 20% of our order intake.

Stable business orders totaled to EUR 1.880 billion in last 4 quarters. And here, first time, we have now declining -- one cannot say trend because it's only 1 quarter, but of course, our goal is and continue -- has been and continue to be to grow our stable business. So of course, we can't be fully happy with the development. But of course, the times are not normal now. But of course, our intention is to make the best to continue to grow our stable business order intake.

Backlog, EUR 3.5 billion, and we are saying that about 70% is coming from capital business and 30% from stable business. And we are saying also that about 45% of the backlog is expected to be realized as net sales during 2020. Last year, the same percentage was 50%.



So a little bit smaller percentage but the number out of which it's calculated is a little bit higher as well, so means that we have good backlog for the rest of the year.

Then some words about the business lines. So first, Services. So orders received and net sales decreased. So this quarter, orders received were EUR 328 million. And last year, the number was EUR 371 million. So of course, there's a decline in the order intake. And mainly, it's -- the biggest drop has been in North America. And then the drop is now in all the business units, so mill improvement, energy and environmental, fabrics, performance parts and rolls. So all the business lines have had a smaller order intake than a year ago. And of course, the declining production of graphical papers has an impact to us. Then at the same time, one has to remember that pulp production has been reasonable, and tissue production has been reasonable and packaging as well. But of course, the decline in graphical papers has been hitting us in order intake. Then if we look at half year order intake numbers. So we are now EUR 3 million behind last year. Of course, in the first quarter, we had some help with the acquisitions. But still, now we're at EUR 3 million below last year's order intake in Services. In net sales, we are below last year, about EUR 20 million, and that's coming from the restriction at the customer sites that we haven't been able to execute all the contracts and all the field services because of the COVID restrictions.

In Automation, quarter was EUR 98 million; and last year, EUR 104 million; so EUR 6 million down. And then if we look the whole half year, now we are still EUR 8 million ahead of last year. So Automation has been growing totally in first half of the year even if there has been COVID virus. So I think Automation organization has been doing good work. Net sales has been growing as well. Here, we -- of course, we have difficulties also with some customer site access, but organization has learned very well to use all the modern tools, and customers have been able to provide us even dedicated rooms to work so that we are isolated from the production personnel. So all in all, Automation organization has been doing good work during this COVID, has been able to grow the business even if times are challenging.

Pulp and energy order intake was EUR 215 million, and then compared to last year, EUR 210 million, so roughly at the same level. And then if we look at first half, now order intake has been EUR 591 million; and last year, EUR 411 million; so nice growth compared to last year. And here, you see that the 12 months' trend is somewhere at EUR 1.3 billion level. Net sales has been growing as well to EUR 506 million compared to last year, EUR 372 million. And here, COVID has, of course, created some challenges as well. So we have had delays in some progress of some of the projects mainly in customer part of our -- of the projects. So customers have had challenges to execute building or assembly or many -- installation, many other things, and that has had a small impact to us. But all in all, here, the -- our organization has been doing also excellent job in working under these little bit special circumstances.

Paper. Orders received was EUR 201 million compared to last year, EUR 419 million. And like you remember, last year, we announced 2 big orders in second quarter. So this EUR 200 million level is adequate for our Paper business. And then if you look at the first half of the year, EUR 522 million, then that's already giving a good volume in orders in the first half of the year. Net sales has been growing in Paper as well. So last year -- this year, EUR 472 million; and last year, about EUR 40 million less. And the same challenges in Paper and in Pulp and Energy, but in both businesses, we have to say that our own operations have been working well. So operations here in Nordic countries have been operating all the time. And then in China, our production has caught up all the delays which were caused by the COVID in the beginning of the year. We still have delays in India, in our Indian unit, because of lockdowns, but otherwise, the organization has been able to catch up all the delays up to now.

So that was the business lines. Then some words about Neles. So all in all, we are repeating the same messages about Neles, what we have been saying earlier. There hasn't been any decisions, any new decisions, and that's why there won't be any new comments about Neles. And I know that many of you will make questions about it, but I have to disappoint you already now by saying that there is no news today. And then I know that you'll try to ask it in 10 different ways, but the answer will be, in the end, the same, but let's see how the discussion continues.

So we acquired -- announced the acquisition of the 14.9% of the shares in Neles, and now we have acquired them in June, July, 22.4 million shares. And the reason is that Neles is globally leading, diversified valve, valve automation and service company. So Neles is a good, quality global company with a large share of recurring new business and strong position in pulp and paper industry. So about 26%, if I remember correctly, they're saying themselves is -- of their business is coming from pulp and paper industry, so the same industry where we are strong. Neles has demonstrated good growth and has potential to grow further, like Neles has been saying themselves as

well. And then we said in June that Valmet's target is to increase ownership when Neles' share price supports additional purchases, and that's still a valid comment. And Valmet's goal is to have an active, long-term role in development of Neles.

Now then Alfa Laval made a tender offer for Neles' shareholders. And we are saying that Valmet and Neles have a common heritage, we serve similar global industries and benefit from same global megatrends. We see that there is a lot of value in Neles in brand, in organization, in market position and many other things, which we respect, and of course, personnel as well. We want to participate in developing Neles in long term, and that's why, as a Neles shareholder, Valmet does not consider Alfa Laval's tender offer to be beneficial for Neles. So that's still the same what we said in June about our reasons, why we acquired the shares. And what we said -- was it last week on Monday or Tuesday, is still valid and then there won't be any additional news today.

Then Kari can tell news. So he has today easier job.

Kari Juhani Saarinen Valmet Oyj - CFO

All right. Thank you, Pasi, and also good afternoon on my behalf as well. So looking at the key figures here at this table, so there is only one negative change here.

And so the orders received for the quarter, they were -24% compared to a year ago. Pulp and Energy and Automation business lines, those increased or they were at the same level as last year's, whereas then Services and Paper business lines, they reduced. China was strong at the quarter with orders and other areas reduced. Then looking at the order backlog. So order backlog was EUR 3.5 billion. That's the second highest quarter end for Valmet, and around 45% of the order backlog will be recognized as revenue for the year in the second half of the year. Net sales for the quarter, EUR 919 million. This is plus 2% compared to the year ago. Pulp and Energy increased 24 -- 25%; and Services reduced by 11%. Automation and Paper business lines were at the previous level. Important thing here is that 57% of net sales was capital and 43% was stable business. Last year's quarter's net sales split was 51-49, capital/stable.

COVID-19 pandemic, that impacted quarter's orders and also quarter's net sales. With Services and Automation, access to customer sites was restricted, and many customers did not perform annual maintenance activities during the quarter's earlier planned. The access restrictions also impacted the progress of our projects but only to some extent. Quarter's comparable EBITA, that was EUR 76 million or 8.3% of net sales. This is above last year's. Quarter's cash flow, EUR 150 million, this is almost EUR 200 million higher than a year ago, so extremely good cash flow for the quarter.

Cumulatively, our orders were 5% above last year's. Pulp and Energy increased by 44%. Services and Automation were flat. And Paper business line reduced by 13%. Orders increased in China. EMEA was flat, and the rest of the areas reduced with orders for -- cumulatively. Net sales, cumulatively 10% higher. Pulp and Energy and Paper business lines increased, so capital increased. And then Automation and Services were flat. Cumulatively, our orders now, after 2 quarters, they are 16% of net sales. Year-to-date EBITA, EUR 128 million or 7.4%. Last year, we were at EUR 117 million or 7.3%. And then looking at cumulative cash flow, that's EUR 324 million, and gearing was negative -- -23%.

Then looking at gross profit and SG&A development. So sales mix for the quarter, as said 57% capital, 43% stable. Gross profit was 23%. That's the same as year ago. Last year, sales mix, 51-49, capital/stable, and this means that currently, our capital project portfolio is stronger than a year ago. SG&As, they reduced during the quarter and were 16% of net sales. Our travel costs were clearly lower than a year ago due to the COVID-19 pandemic. We also announced temporary and permanent layoffs during the quarter, but those did not have big impact to Valmet's results during the quarter.

Our cash flow -- and here, we have our EBITA. So cumulatively now, our EBITA is EUR 327 million, which turns to 8.8%, so slight increase from end of quarter 1. And then also, if we look at the situation end of quarter 2 last year, so then we were cumulatively at 8.7% or EUR 291 million -- so excuse me, rolling 12 months.

And then looking at the cash flow. So this is the fourth quarter when our cash flow was strong, and it was EUR 151 million, driven by strong customer payments and also increased -- and also then -- well, payables pretty much remained at the same level.

Looking at net working capital. So net working capital was EUR -644 million, and that turns to -16% of rolling 12 months' orders received. Normal, good level of net working capital is around -10%, meaning that our net working capital position was very good at the end of the quarter due to the reduced accounts receivables and also due to high invoicing on projects over revenue recognized. And normal -- this normal 10% -- -10% net working capital of rolling 12 months' orders would mean that net working capital would be around EUR -410 million, meaning that the difference is more -- a bit more than EUR 200 million.

Looking at net debt and gearing. Gearing was -23% end of the quarter, and our net debt was EUR -223 million. This is same level as end of quarter 1 this year. Year ago, our gearing was 17% or EUR 152 million, so meaning that our cash position has now improved EUR 370 million during 1 year. We paid dividends during the quarter EUR 0.80 per share, and that's EUR 105 million. And that means that our equity-to-asset ratio reduced to 38% from a 41% end of quarter 1 and was pretty much the same level -- or exactly the same level as a year ago.

And then looking at our return on capital employed. So that continues to be good level, 23%. And here, our target remains to be over 20%.

So back to you, Pasi.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Thank you, Kari. So guidance and short-term market outlook. So first of all, we stay in the position that we are not giving the guidance for this year. So Valmet announced on April 16, 2020, that the company withdraws its guidance for 2020 due to the increased uncertainty related to the COVID-19 pandemic. We know that in many places, pandemic is now a little bit in a more calm situation, but you'll never know if there is second or third or fourth wave, and that's why we feel that it's better not to give a guidance for this year yet.

Then short-term market outlook. For Services, we keep it as satisfactory and weak. And now we maybe more say -- last time, we were saying it from a business unit perspective and now maybe more from the area perspective, that it's a little difficult to know how North American situation will come back to the normal. And that's why we are saying that it's weak. Maybe on the other areas, one could say that the demand is satisfactory. And workload goes with the same categorization. In Automation, the same situation. In a couple of the areas, market is satisfactory, and in some of the areas, it's still good. And that's why we keep the same short-term market outlook than last year. In pulp, we keep good market outlook. We have good workload. And like you know, we have one letter of intent with a very big customer here in Finland, and we hope that that will materialize later on as an order, and that's already -- only that one is a good reason to keep the outlook as good. But then of course, there are some other smaller project but there are projects still in development -- or sales phase in pulp outside the big ones. In energy, we keep the outlook satisfactory, meaning that we -- our workload is satisfactory. We have, some cases, develop--- in sales phase, but the total amount means that it's correct to keep it as satisfactory level. Board and paper, we still have good pipeline of active sales projects and we have good workload, and that's why we keep outlook as good. Tissue, the same than last time, order intake has improved a little bit, but we still have a little bit free capacity. And the outlook on sales side is such that we still thought that it's correct to give the outlook satisfactory in total.

So these are the guidance and short-term market outlook. And now I assume Pekka says something next.

Pekka Rouhiainen *Valmet Oyj - Director of IR*

All right. Thank you, Pasi. I'm aware that we have had some technical issues now during the call. So I hope that they will be solved and we can continue with the international phone call, but apologies for those.

We will start with questions here from Keilasatama first. If there are questions here, please indicate, and you would be given the microphone. It seems that there are no questions here at the moment. So we go to the international phone call. So operator, I hand over to you now.

QUESTIONS AND ANSWERS



Operator

And your first question comes from the line of Antti Kansanen from SEB.

Antti Kansanen SEB, Research Division - Analyst

Hi, it's Antti from SEB. A few questions. First one on the cost side where there was a substantial decrease in the SG&A cost. And Kari, you mentioned that the temporary layoffs and such didn't really impact the second quarter. So how should we think about Q3 and Q4 on the cost line? And are there some structural savings that you have found? Or is this just a temporary COVID-related dip in those, please?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, it's now so that the travel -- specifically the travel costs were down in quarter 2 because of the reduced activity. But then if we now look at then going forward so that we have done some structural changes, we have done some permanent layoffs as well, so that means that there will be some lower level of costs as well. But then on the other hand, when the -- once the travel activity and the business activity picks up, so that means that then we also have additional travel costs there as well going to the normal level.

Antti Kansanen SEB, Research Division - Analyst

Okay. But just thinking about rest of the year, if there is not, let's say, a substantial increase in the business activity or traveling, one might expect that there's even more savings coming up for those quarters. And are they substantial?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, of course, it also depends on how this pandemic situation continues. And of course, we all hope that the business levels go to normal as soon as possible.

Antti Kansanen SEB, Research Division - Analyst

Okay. Then on the guidance, so you felt -- didn't feel confident enough to say that your sales is increasing for the full year despite the very strong start for the year. So I perhaps missed the part when you talked about service. So where do you actually see the main risks now going into the second half? If we look at the comparison period, for example, in Services, you're not foreseeing any, let's say, catch-up revenues on second half? Is there a potential for accelerating sales decline? Or how should we think about the decision not to give a sales guidance?

Pasi Kalevi Laine Valmet Oyj - President & CEO

Or we would have been giving sales and profit guidance. And we felt that now there is so much uncertainty that it's better not to give it because, of course, none of us knows if there is a big lockdown coming in third quarter, and then we would be in very embarrassing situation that we just have given a new guidance and then we take it away again. So we thought that it's better not to give it now.

Antti Kansanen SEB, Research Division - Analyst

Okay. Fair enough. And then last question would be on the traditional paper side. I mean there's been a big decline during the pandemic, and if we assume that much of that demand is not coming back, so could you remind what's your actual exposure? Not talking about the capital division, but then on the Services side. So how much revenue is at risk? And do you see any worries over that aftermarket side?

Pasi Kalevi Laine Valmet Oyj - President & CEO

We haven't disclosed how much Services is coming from paper and how much from the other areas. So I think you see now the impact of current situation and then there are, of course, estimates that the production volume will not come back. But of course, the production of graphical papers will continue. So I think partly, the second quarter order intake decline was because of the graphical paper decline, but then partly, it was also because customers were postponing all the maintenance type of activities from second quarter to coming quarters. So -- but the exact number, I cannot tell.

Antti Kansanen SEB, Research Division - Analyst

Okay. And on the same theme, have you seen any increased, let's say, discussions on conversions now that the outlook in paper looks a bit weaker?



Pasi Kalevi Laine Valmet Oyj - President & CEO

Actually, the conversion market has been, last year, active as well. So we have booked many conversions and rebuilds. So that market continues to be active. I think now it's a little bit too early to say anything, but I would assume that in coming year, 1.5 years, many customers are thinking whether they're accelerating their conversion programs, but no real activity yet.

Operator

And your next question comes from the line of Johan Eliason from Kepler.

Johan Eliason Kepler Cheuvreux, Research Division - Analyst

This is Johan Eliason. Just a question on your comment about the gross margin improvement for your capital business in the quarter. Would you say that it's more from a pricing point of view, execution, quality costs? Or is there a mix in that improvement?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, it's coming from both so that the pricing, the -- our technology is very good, and that means that there's certain pricing power with us. And then also the project execution now during the first half and specifically second quarter has been very good.

Johan Eliason Kepler Cheuvreux, Research Division - Analyst

And how would you say it looks in the backlog then? Is pricing as good for the backlog as it was now in Q2 or even better or worse?

Kari Juhani Saarinen Valmet Oyj - CFO

Well, of course, if we look at the sizes of the projects -- so in some cases, it is so that if we have very big projects, the margins tend to be a bit lower than with the smaller projects. And some of the big projects have only started.

Operator

(Operator Instructions) And your next question comes from the line of Felix Henriksson from Nordea.

Felix Henriksson Nordea Markets, Research Division - Analyst

It's Felix from Nordea. Could you first comment on the Services month-over-month development during Q2? And how do you expect Q3 and the second half of the year to play out in terms of potential easing of the movement restrictions and maintenance shutdowns by your customers being postponed from H1 to H2?

Pasi Kalevi Laine Valmet Oyj - President & CEO

So month by month, we saw more activity towards end of the second quarter in Services business. So it was clear that the slowest months were April and May and then June was better as an average over the whole globe. Then we, of course, have seen that customers have been postponing their shutdowns. And now some shutdowns which were planned to be in second quarter are planned to take place on third quarter, and the ones which have been planned for third quarter will be postponed maybe the fourth quarter. So I think there's that kind of chain reaction and not so that there is too much shutdowns at any -- many point of time because, of course, our capacity is limited and customers' capacity are limited and also other sub-suppliers' capacity is limited. So we will not see too high volume of shutdowns on any quarter.

Did I miss --Did you have a third point as well? Maybe not.

Felix Henriksson Nordea Markets, Research Division - Analyst

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Kari Juhani Saarinen Valmet Oyj - CFO

Philip (sic) [Felix], we can't hear you well.

Pasi Kalevi Laine Valmet Oyj - President & CEO

Or we can't hear anything.



Kari Juhani Saarinen *Valmet Oyj - CFO*

Yes.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Is there -- are there still questions? Or can you ask the operator?

Operator

Yes. Your next question comes from the line of Tomi Railo from DNB.

Tomi Markus Railo *DNB Markets, Research Division - Analyst*

It's Tomi calling from DNB. Extremely bad line here, unfortunately. So difficulties to follow. But still, on the, let's say, guidance, which you don't have but originally had for sales, and the clean EBITA improvement, now you are tracking above for the first half. Back to the earlier question, any risks or any reasons to believe that the second half earnings could not be beaten? Any elements you would highlight that we should be keeping in mind that the earnings could be under pressure.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

I think the general answer is, unluckily, COVID. So none of us knows if there will be more lockdowns in the economy. Let's hope there won't be. And otherwise, customer activity as well, not only lockdowns. But if economy is slowing down, then it is slowing down.

Tomi Markus Railo *DNB Markets, Research Division - Analyst*

But from your own point of view, is it fair to assume that you will have as good as the -- or deliveries, let's say, catch up from the delays in the second half. And as you said that month by month, there is more Services activity and you have earlier said that you expect ---- let's say mill improvement to come back relatively quickly after the lockdowns are over.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

It's very, very difficult to answer now somehow. Kari, can you help?

Kari Juhani Saarinen *Valmet Oyj - CFO*

But maybe, Tomi, if you just like -- if we look at back now quarter 2, and so our manufacturing has been working pretty much full capacity, and there has been no stops there except some in India, then also, if we look at the sub-suppliers, so really no major shortages and also then project execution has worked quite well. I could say even well, so overall like what's in our own hands. So things actually have progressed quite well. We've -- also, we've reacted so with temporary layoffs. We've also done some, like, permanent kind of structural changes. So we've been also quite, like, agile here. So things that are in our own hands actually have worked. We are quite happy with the activity that our organization has taken.

Tomi Markus Railo *DNB Markets, Research Division - Analyst*

Exactly. And the question is more that you don't expect any major reversal for that trend in the second half year.

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

It's very difficult to say. Like we had less net sales in Services now than last year. And then nobody knows or -- of course, we have estimates but can we -- are we now so confident that we could give a guidance. We thought that we cannot.

Tomi Markus Railo *DNB Markets, Research Division - Analyst*

Okay. And then a question on Neles. Have you been buying more shares in the recent days or weeks after that trade you announced when you flagged your new holdings?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

No. We flagged and then next flagging limit is at 20%. So there between, we cannot give any comments to any direction.

Operator

(Operator Instructions) And your next question comes from the line of Thomas Brenier from Lazard.



Thomas Brenier Lazard

I'm sorry. I'll ask a question about Neles because it's been quite an important topic for the company. Just on the official statements that you've made with the current stake that you have, I guess everyone agrees that Neles is a good business, a good company with good opportunities. Could you help us understand how -- with a 15% stake and seat on the Board, how Valmet would make it a better company and how you think you can help them?

Second question is, I've seen concerns from analysts that with Valmet involved in Neles, it could lose customers, like Andritz or Voith. Could you see how you see this point as well?

Pasi Kalevi Laine Valmet Oyj - President & CEO

To this question about losing customers, it's very easy to answer because I have been running the business myself for 8 years. And we never lost deals because of that -- to Andritz. So in practice, we are buying some products from Andritz and Andritz is buying some products from us. And if they are good products, then why not buy it from each other. And that's not a reason at all. And I have my own long experience with that.

And then how we can help, we are an industrial company. We know how to manage industrial companies. We know one very good segment of Neles, very well, pulp and paper. We have good track record of developing company in long term, and that's what we can offer also to Neles.

Operator

(Operator Instructions) Next question comes from the line of Vincent Normant from Pascal.

Unidentified Analyst

Just a quick question, a quick follow-up. On the margin for Q2 and -- so you said you had very good activity in Q2 for capital business. Could you maybe elaborate a bit more? Would you say that capacity was nearly 90%, 95%? And how you see that evolving in the near future especially for the pulp business because you are starting this very large project in South America. So it would be surprising to see the capacity level going down in the near future.

Pasi Kalevi Laine Valmet Oyj - President & CEO

We had good capacity utilization in our capital businesses in the second quarter. Now like you have seen, our backlog is good and we are saying that sales activity is still good. So we have good utilization. Of course, we have some units where we are even maybe overloaded, in some units maybe they could -- there's still a little bit lack of work, but as an average, the utilization is good. And the backlog gives reasons to believe that the utilization in the third quarter will be good as well.

Unidentified Analyst

Okay. So there is no reason for the gross margin to decrease, I mean the gross margin of the capital business, in the near future?

Pasi Kalevi Laine Valmet Oyj - President & CEO

No. That may be something what I didn't say, but Kari can try to answer to that.

Kari Juhani Saarinen Valmet Oyj - CFO

Now of course -- Vincent, of course, that depends a lot on the project mix, what we are having and -- but quarter 2 was good. So we had a very, like, higher-than-usual share of capital business, 57%. Typical, it's 50-50 and -- but of course, like, depends on the quarter. But quarter 2 projects, the progress with the projects was extremely good. And then maybe also other thing that we need to remember that our order backlog was the second highest ever in any of the quarters so that we are in a kind of a quite high level of the business regardless of the pandemic.

Operator

And your next question comes from the line of Johan Eliason from Kepler.



Johan Eliason *Kepler Cheuvreux, Research Division - Analyst*

It's Johan here again. Just a question on this good gross margin in your capital business, and you said the project developments were really good during the quarter. But isn't it so that one of the effects from COVID-19 on your project business is that you couldn't really do the final installations at the customer sites. So the revenues and those -- the earnings you sort of recognized during the quarter were basically only impacted by all the things you could impact internally. Now going forward, as I suppose you will have to do physical installations again, isn't there risk on the capital business margin increasing going forward in that case?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

No, because we are, of course, booking cost to cost. So we are not booking extra margin in manufacturing and then less margin somewhere else. So it's with the same margin for the whole project. And then of course, if there are delays caused by customers, then we have to discuss about the cost compensation if there are delays by COVID. But then of course, in some of the projects where we are in charge of installation, then of course, it might be that we have challenges with the cost management because of the COVID, but we try to manage that.

Kari Juhani Saarinen *Valmet Oyj - CFO*

And maybe Johan to add on here. So what Pasi was saying, so that we recognize revenue based on the gross profit of the -- or the project margin of the project and the final assembly typically is quite small amount of the final revenue. And so it's all included in the cost estimation and -- meaning that something would need to go badly wrong if we would need to book some additional costs on top of what we are estimating.

Operator

Next question comes from the line of Sven Weier from UBS.

Sven Weier *UBS Investment Bank, Research Division - Executive Director and Analyst*

Just one question on Neles again. I was just wondering in terms of your observation of your shareholder base and their support for the deal. I mean obviously, we could see that when you announced to buy the 15%, the share price was going down. When you announced to step up the stake, the share price was going down quite a bit. And today, when you repeat your commitment to it, it's going down again. So does that play a role in your next steps? Or what is the kind of feedback you have received more directly from your shareholder base and not via maybe the share price reaction?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Of course, now we have had period when we haven't had the possibility to talk with investors a lot. So we will get more feedback, direct feedback in coming weeks.

Sven Weier *UBS Investment Bank, Research Division - Executive Director and Analyst*

And -- but do you take that into consideration, what happens to your share price on the days when you announce something related to Neles? Or do you simply assume that's not representative for how your shareholders think about it?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

We are not reacting to any daily reaction. So we work here in Valmet long-term, and we work to increase our shareholders' value in the company in long term. So sometimes, even after the quarterly results the share price goes down and then it might be that after a couple of weeks, it's at the same level where it was originally. So one cannot make long-term management decisions based on a couple of percentage daily changes in the share price. But of course, the whole idea of management and the Board and the company is to work to create shareholder value. And that, of course, is one of the basic thoughts we keep in mind when thinking about Neles. Of course.

Operator

(Operator Instructions) Next question comes from the line of Marius Eriksen from ABG.

Marius Eriksen *ABG, Equity sales*

Why did you buy more shares in Neles after Alfa Laval made their tender offer?



Pasi Kalevi Laine *Valmet Oyj - President & CEO*

Like we said in the announcement that we buy shares when we see that it's beneficial for Valmet.

Marius Eriksen *ABG, Equity sales*

And why is it beneficial to buy above the offer price of Alfa Laval for Valmet?

Pasi Kalevi Laine *Valmet Oyj - President & CEO*

That's how we have analyzed the situation.

Operator

(Operator Instructions) There are no further questions at this time. Please continue.

Pekka Rouhiainen *Valmet Oyj - Director of IR*

Okay. Thank you, operator. And are there some questions here at Keilasatama still? If you want to ask questions, please indicate. If not, this then concludes today's event. So the Q3 result publication will take place on the 27th of October. So see you all then again. Thank you.

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