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Linus Larsson *SEB - Analyst*

PRESENTATION

Mika Joukio - *Metsa Board Corporation - CEO*

Dear participants, welcome to Metsa Board's Third Quarter Webcast. My name is Mika Joukio and I'm the CEO of Metsa Board. Here with me also our CFO, Markus Holm, and Head of Investor Relations, Katri Sundstrom.

First, I'd like to go through the highlight from the third quarter. Most importantly, our profitability in July-September improved from the previous quarter. Also, the return on capital employed improved from second quarter level and exceeded our target level of 12%. The improvement was mainly due to the growing paperboard delivery volumes, and price levels remained stable. The production of coated paper ended at our Husum mill in Sweden. Gradually, we are again one-step closer to a pure paperboard company.

After the review period, we announced the price increase in folding boxboard in Europe. This will become effective for the beginning of December. The installation of the new folding boxboard machine is also being started and actually will begin in early January. As we have informed earlier, the integrated shutdown due to the installation work will have a negative impact on our fourth quarter result.

Earlier today, we announced that we will invest in an extrusion line in Husum. This will expand our offering in food and food service favorables. Investment totals approximately EUR38 million.

Our third quarter sales were a bit lower than in second quarter because of the planned decrease in paper sales. However, the profitability continues to improve. In fact, our operating result or pre-tax result, excluding non-recurring items, had not been this high since 2003.

On slide 4, we have listed the main result drivers and the deviations in third quarter compared to second quarter. To start with the positives and as mentioned earlier, the increased paperboard delivery volumes improved the profitability. Foreign exchange hedging costs were also lower in third quarter than in second quarter. And also the negative profit impact from the divested Gohrsmuhle mill was fully eliminated in third quarter.

On the negative side, the result was impaired by one-day strike, which closed down all of our action in Finland. In third quarter, we had also a maintenance shutdown at Kemi integrate. And finally, the paper delivery volumes kept declining as planned.

Here, I also want to remind for the additional income tax of EUR15 million, which we recognized in third quarter result. This was due an opinion from Finnish tax administration against the deductibility of certain losses in Metsa Board's 2014 taxation. We will appeal against this opinion.

On slide 5, you can see how our paperboard deliveries have been developing during the last three years. During that period, the average annual growth rate has been 12%, which is clearly above the market growth.

Our most important growth area is Americas. As you can see on slide 6, our linerboard growth has been steady for several years. The future growth is expected to derive more from folding boxboard. So far, this growth has been limited due to the production capacity, but this will change when our new paperboard machine starts in January in Husum. Majority of this new capacity of folding boxboard is targeted to Americas.



Then we'll also look to the segments' performance. The Paperboard segment sales in third quarter increased slightly and the operating result improved. Our EBIT percentage is 16%, and we are one of the most profitable paperboard companies in the industry. I am, of course, happy with this fact, but still there is always room for further improvement.

Declining paper delivery volumes, reduced sales in non-core operations, and the segment's operating result continued to stay in [range]. However, the loss was more than in previous quarters mostly due to the fact that the negative impact from Gohrsmuhle mill was finally eliminated. In third quarter, we discontinued our coated paper production in Husum.

The overall foreign exchange impact in operating result after hedges was quite small in third quarter compared to the previous quarter. Our biggest exposure is U.S. dollar, and this exposure will grow in the future.

Then to the balance sheet which is very strong at the moment. Equity ratio at the end of the period was 46% and the net gearing was 34%. Net debt decreased by EUR45 million compared to second quarter. The net debt to EBITDA ratio declined from EUR1.5 million to EUR1.2 million.

Net financial costs in January-September were EUR27 million, and the full year CAGR is expected to be clearly lower than in 2014. Average interest rate on debt was 3.8%.

Then to the investment program in Husum which has continued as planned. In October, we started the installation of the new folding boxboard machine, and the production start-up will be in January 2016. The ramp-up phase of the new machine is estimated to take three to six months. During fourth quarter, two paper machines will be closed down and after this investment program, Husum will become one of the leading fresh forest fiber paperboard unit in Europe.

In folding boxboard, the annual capacity will be 400,000 tons, and we estimate that the full production capacity will be reached latest by the end of 2016. These deliveries are mainly targeted to Americas and food service globally. The targeted sales volume in 2016 is estimated to be at least 200,000 tons.

In linerboard production, the annual capacity will be 300,000 tons, and these deliveries are targeted to Europe as well as to Americas. Together with the linerboard production board machine, which still produces uncoated paper with the current run rate of roughly 150,000 tons per annum. The remaining uncoated paper sales will end as soon as linerboard reaches full capacity, latest by the end of 2017 as we have informed earlier.

Once again, on slide 13, we have listed the expected impacts of the transformation. The investment program in Husum will have a positive impact of EUR50 million on our annual operating result compared to 2014. This will be realized mostly in 2017 and fully in 2018. In 2016, I expect the impact to be roughly one third of that EUR50 million.

The Gohrsmuhle divestment which we executed in second quarter will have a positive impact on our annual profits of EUR20 million. Approximately half of this will materialize in 2015. And if you look at the capacities after this transformation process, the total annual paperboard capacity will be over 2 million tons.

Earlier today, we announced to expand our offering in paperboards and to invest in a non-extrusion line, in extrusion coating line in Husum mill. A substantial amount of food and food service packaging requires barrier properties especially against, for example, moisture and grease, and they can be produced with extrusion coating. The value of the extrusion line and related infra is approximately EUR38 million, and it will be implemented as said at Husum mill. The start-up of the new line will be on the first quarter in 2017, with the capacity of 100,000 per annum, which is part of the Husum's full capacity of 400,000 tons in folding boxboard.

This investment decision is the first step in developing barrier solutions in our paperboard production and especially in food service packaging business. We will continue to develop other barrier solutions including bio-based materials also.

I'm also very delighted to tell you that we have achieved some significant recognition for high quality products and sustainability. Firstly, four cartons using Metsa Board's paperboard won awards in 2015 Pro Carton ECMA awards. And in the sustainability, we are included in the Climate



Disclosure Leadership Index with the highest possible score. In addition, Metsa Board was recognized as a world leader for sustainable use of water. In fact, we were the only European company and the only forest industry company in this group.

Then if we take a look on the fourth quarter of 2015, paperboard delivery volumes might decrease slightly towards end of the year because of the seasonally weaker December. In October, we announced to increase our prices in folding boxboard in Europe. This will come effective as per 1st of December. Our paper delivery volumes will continue to decrease as planned and we expect the long fiber pulp supply and demand to be in balance.

The investment shutdown in Husum will have a negative impact on our fourth quarter operating result. The total impact is approximately EUR15 million and it has been revised from earlier EUR12 million. And these underlying premises, we expect that the operating result excluding non-recurring items in fourth quarter 2015 will decline compared to third quarter of 2015.

I will conclude this presentation by summing up the key issues. Most importantly, our profitability improved and we have a strong financial position for the future. Paperboard delivery volumes continue to grow, but bear in mind that a slight decline is expected in the last quarter of 2015 due to the seasonality.

We will continue our comprehensive product development work and expand the offering in paperboard. The recent example of this is the investment decision in extrusion coating. We'll also continue the developments work where [we're transforming] a method which we expect to enable a further reduction of weight of paperboard as well as to improve the product quality and sustainability.

And finally, our transformation process to a pure paperboard company is really coming near to its completion.

Dear participants, thank you for your attention. Please go ahead now, we are ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first request is from the line of Antti Koskivuori from Danske Bank. Please go ahead.

Antti Koskivuori - Danske Bank - Analyst

Yes, thank you. This is Antti Koskivuori from Danske. Three questions, firstly, on the Q3 in-depth of the strike in Finland and as well as the maintenance shutdown that you had, could you give us a number what was the impact of those two incidents on your Q3 figures?

Mika Joukio - Metsa Board Corporation - CEO

It's quite easy. All together there were EUR5 million roughly, strike plus this Kemi integrate shutdown.

Antti Koskivuori - Danske Bank - Analyst

Yes. But what I'm trying to get at is the delta between Q4 and Q3. So am I correct that the delta in the maintenance and other costs, this is going to cost like [in terms] of EUR10 million going into Q4 versus Q3 then when you're guiding the EUR15 million cost from the investment shutdown in Husum.



Mika Joukio - Metsa Board Corporation - CEO

Of course, in the last quarter, we also have some shut-down in other mills in Finland, but roughly yes, you are right.

Antti Koskivuori - Danske Bank - Analyst

Okay. Okay, thanks. The second question, could you give us an indication how the price increases or how your customers are taking the price increase now in your annual negotiations? What is the confidence level that you will reach that level of price increase you announced or part of it or how do you see that?

Mika Joukio - Metsa Board Corporation - CEO

Yes. As we said, the annual negotiations are ongoing at the moment, and it's a bit too early to say what are the consequences. Of course, they take it -- you asked how do they take it, they take it seriously. But what is the end result, it remains to be seen. It is, as I said, a bit too early to say.

Antti Koskivuori - Danske Bank - Analyst

Yes. Okay, thanks. On the same topic, you mentioned that you expect EUR50 million from the Husum transformation in 2017 as a contribution, what do you assume as a price performing boxboard, that calculation, are you accounting any other price increase that you have now announced? Or is it at the current price levels?

Mika Joukio - Metsa Board Corporation - CEO

No. It's current price level, so, of course, we do not speculate with the prices. This EUR50 million is actually fully 2018 compared to 2014, and then mostly, of course, as you said, 2017, but fully 2018. But we do not calculate that. Of course, the prices play a significant role, but in that -- I mean, paper prices and paperboard prices because we are getting rid of paper and then replace that with the linerboard and paperboard or folding boxboard. So, of course, in that respect, there is a price difference but we are not speculating any, with any price increases as such.

Antti Koskivuori - Danske Bank - Analyst

Okay, thanks. Very clear. And lastly, about the extrusion coating line investment, EUR38 billion investment, could you, you know, give us an indication what kind of ROCE are you expecting from that investment or whatever metrics you want to use?

Mika Joukio - Metsa Board Corporation - CEO

You mean ROCE of that particular investment?

Antti Koskivuori - Danske Bank - Analyst

Yes. That's right.

Mika Joukio - Metsa Board Corporation - CEO

If you put it so, I would say something like -- I mean payback is about five years if you put it that way. But we do not calculate the ROCE separately for that particular line. We see -- so that it's much, much better to have this extrusion in our own hands comparing to external converter.



Antti Koskivuori - *Danske Bank - Analyst*

Yes. Absolutely. But is that included in the EUR50 million that you earlier mentioned?

Mika Joukio - *Metsa Board Corporation - CEO*

Not really.

Antti Koskivuori - *Danske Bank - Analyst*

Okay. Thank you very much. That's all my questions.

Mika Joukio - *Metsa Board Corporation - CEO*

Thanks.

Operator

Your next question is from the line of Harri Taittonen of Nordea. Please go ahead.

Harri Taittonen - *Nordea Markets - Analyst*

Thank you and good afternoon. If we continue with that EUR38 million investment with the extrusion coating, I mean does it mean there are new customer bases for you as you are dealing with also a new geography? So it seemed sort of [cost cutting the coated] outsource (inaudible)?

Mika Joukio - *Metsa Board Corporation - CEO*

Yes and no, I would say.

Harri Taittonen - *Nordea Markets - Analyst*

Can you develop a new client base because of this?

Mika Joukio - *Metsa Board Corporation - CEO*

Yes. So, as we have said earlier, our target is to roll in food service segment, and this extrusion line of course supports that target and that aim. So we will have new customers because today we are not yet very big in food service segment, so of course, naturally we will get new customers and not only the current ones.

Harri Taittonen - *Nordea Markets - Analyst*

Okay. Good. Good. And then, I think your ramp-up (inaudible), it felt very quick in the three to six months in terms of volume. But if you think of that kind of ramp-up to the [full] quality and to the margin potential, how much would you say that that would be?



Mika Joukio - Metsa Board Corporation - CEO

Three to six months is for the folding boxboard machine, nothing to do with the extrusion coating.

Harri Taittonen - Nordea Markets - Analyst

No, no. But I'm referring to the second one, boxboard machine. But is that sort of six months, you're looking at period -- what's the target quality or price potential for that mix from that machine?

Mika Joukio - Metsa Board Corporation - CEO

You know, of course, our -- I mean the target quality we need to achieve also already much earlier than six months. But then these three to six months means that in order to ramp up the machines to the full speed, it normally takes that, let's say, it lasts half a year. But naturally, the quality we need to reach much more earlier.

Harri Taittonen - Nordea Markets - Analyst

Okay. Next question, just looking at the balance sheet and the -- I mean everybody has been seeing and focusing on the final stage of the transformation, and of course the Q4 and the coming months are crucial day. But after that, what will you be (inaudible) kind of looking to do with the balance sheet in terms of use of cash flow once the CapEx program is completed and the balance sheet is already quite strong? (Inaudible).

Mika Joukio - Metsa Board Corporation - CEO

As I have said earlier, we announced a year ago, in December, that our target is, that the balance sheet is, also this transformation process, as strong as before. And then now the situation looks very good we haven't had any unpleasant surprises. For example, [this quarter] was much better than we originally estimated. And for that reason, then our balance sheet as strong as you said.

On the other hand and of course in management, we are already planning the next steps of the Husum, which is far too early to say anything about that. But of course, there is life after Husum as I used to say here internally. And we need to think about that also. And for those transactions, a strong balance sheet is really good.

Harri Taittonen - Nordea Markets - Analyst

Okay. I look forward to hearing more about that. Thank you.

Mika Joukio - Metsa Board Corporation - CEO

Thanks.

Operator

Thank you. Your next question is from the line of Mikael Doepel from Handelsbaken Capital. Please go ahead.



Mikael Doepel - *Handelsbanken Capital markets - Analyst*

Yes, thank you. Good afternoon. A couple of questions. first of all, in terms of linerboard volumes in 2016, how much more capacity would you expect to have? How much more incremental volumes should we assume?

Mika Joukio - *Metsa Board Corporation - CEO*

So our run rate at the moment in Husum is close to, let's say, close to 150,000 tons linerboard so that mean 150,000 tons on coated paper also from that line. And next year, target is around 200,000 tons linerboard and 100,000 tons on paper. So the growth is about 50,000 tons in linerboard.

Mikael Doepel - *Handelsbanken Capital markets - Analyst*

Yes.

Mika Joukio - *Metsa Board Corporation - CEO*

In rough figures.

Mikael Doepel - *Handelsbanken Capital markets - Analyst*

Yes. And then in terms of linerboard market and especially pricing, I think those a bit of a mix signal (inaudible) looking at some statistics, we see why (inaudible) increasing in some markets. Some producers are talking about price pressures, some are saying prices are stable. What's your view on the pricing outlook for linerboard especially Europe?

Mika Joukio - *Metsa Board Corporation - CEO*

In Europe, we have been able to, this year, increase our prices especially on the uncoated products. We announced the price increase in April as it started in May, and we were able to get some increases during the second quarter and third quarter.

At the moment in the coated side, I do not see any [method] changes. I mean, there is new capacity at the moment. Okay, our Husum production line, yes, but other than that -- so no reason to believe at the moment that there would be any remarkable price changes in linerboard, whether they are coated or uncoated.

Mikael Doepel - *Handelsbanken Capital markets - Analyst*

Okay. And then just finally, what was the impact from this one-day strike in Finland on your numbers?

Mika Joukio - *Metsa Board Corporation - CEO*

Just EUR3 million, close to EUR3 million. So together with this Kemi integrated shutdown, that was a little bit of EUR5 million.

Mikael Doepel - *Handelsbanken Capital markets - Analyst*

Okay. That's clear. Thank you very much.



Operator

Thank you. And your next question is from the line of Linus Larsson of SEB. Please go ahead.

Linus Larsson - SEB - Analyst

Thank you very much and good day to everyone. Going back to Husum and the start-up process, could you give us some [CAGR] or assurance on how you are going to place these very significant volumes in the market? Could you say something about the commitment that you have from clients at this stage? Can you talk a bit about the mix that you anticipate throughout 2016, please?

Mika Joukio - Metsa Board Corporation - CEO

Yes. So as we had said earlier, target piece is clearly that this new volume will be marketed, will be sold to the Americans as well as then to put food service globally. But our intention is not to sell the markets that volume, for example, to Europe. That is not the case. So it's mainly for Americas and then food service locally. And in the food service business, now, of course, our intention is to grow, and this extrusion line of course helps in that game.

As far as the commitments from the customers are concerned, yes, we have some commitments for a certain volume of this new volume. And by having that, of course, it's easier to then ramp up the machine next year.

Linus Larsson - SEB - Analyst

And would you like to comment on the extent of commitments that you have at this stage, if that is all possible?

Mika Joukio - Metsa Board Corporation - CEO

What do you mean extent?

Linus Larsson - SEB - Analyst

If you could say to what proportion the targeted volumes are already committed?

Mika Joukio - Metsa Board Corporation - CEO

At the moment, I think more than 50% of that growth is already -- or we already have agreements.

Linus Larsson - SEB - Analyst

Great. Thanks. In the event that you will struggle to place these volumes, what's your plan B in case this marketing plan pushes through optimistic, let's say?

Mika Joukio - Metsa Board Corporation - CEO

We are the market leader in Europe and we are also globally important folding boxboard player so we do not have any reason to play with the prices. If the situation would be as you describe, then we are ready to take downturn. For example, we have several mills in Finland and also Husum, so then we support the situation for having containments. But our intention clearly as underlined here is not to play with the prices.

Linus Larsson - SEB - Analyst

May I also ask -- it can be a different topic, but the wallpaper business has been [cut] in the past. What's the situation in the Wallpaper business in the third quarter, if you could comment about profitability and the market overall?

Mika Joukio - Metsa Board Corporation - CEO

Yes, the market has been difficult. I had said it earlier that Ukraine is very important market for us and also Russia, and both volumes really declined early this year and late of last year. Now we have got some volumes back, so there is a demand. But still of course the profitability of the Wallpaper business is not as good as in the paperboard, far away from that. It's not [really], but we have -- the decline in wallpaper business globally really takes place, so it's not an easy business at all. But comparing to -- if comparing third quarter and second quarter, or the first quarter, the situation is getting gradually better because we are having these -- some volumes back. But still, it's not an easy case.

Linus Larsson - SEB - Analyst

That's very good. Thank you very much.

Mika Joukio - Metsa Board Corporation - CEO

Thank you.

Operator

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

Mika Joukio - Metsa Board Corporation - CEO

Okay. Then ladies and gentlemen, thank you very much for your attention. Good questions, excellent questions, and I wish you nice afternoon and evening. Thank you.

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