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METSB.HE - Q2 2014 Metsa Board Oyj Earnings Call

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## CORPORATE PARTICIPANTS

**Mikko Helander** *Metsa Board Corporation - CEO*

**Markus Holm** *Metsa Board Corporation - CFO*

**Juha Laine** *Metsa Board Corporation - VP IR and Communications*

## CONFERENCE CALL PARTICIPANTS

**Antti Koskivuori** *Danske Bank - Analyst*

**Linus Larsson** *STB - Analyst*

**Mikael Jafs** *Kepler Cheuvreux - Analyst*

**Vincent Norman** *Pascal - Unidentified Analyst*

## PRESENTATION

**Mikko Helander** - *Metsa Board Corporation - CEO*

Ladies and gentlemen, welcome to the Metsa Board's Second Quarter of 2014 Results Webcast and Conference Call. I am the CEO, Mikko Helander. CFO, Markus Holm, and the Head of Communications and Investor Relations, Juha Laine, are also participating in this call.

First, a brief look at the key events in the second quarter. Growth of our paperboard delivery volume continued. I'm very happy to see how well our folding boxboard business develops today also in the North America. [No] material changes were seen in the prices of our main products.

Profitability weakened from the previous quarter [until two] successfully completed annual maintenance shutdowns at Husum integrate and at Metsa Fibre's Aankoski and Joutseno pulp mills. Our cash flow was strong in the second quarter leading to a very nice net debt reduction to EUR540 million.

We introduced new folding boxboards and linerboards to the market. They were very well received. The Board of Directors has appointed Mika Joukio as the new CEO of Metsa Board [latest] as of the 1st of December, 2014 when I will leave the Company.

Sales was about EUR500 million in the second quarter. The annual maintenance shutdowns had a negative result, impact. Operating results dropped from EUR36 million to EUR28 million. The result before taxes remained at about EUR20 million.

[Cartonboard's performance] continued to improve in the second quarter mainly due to higher folding boxboard delivery volumes. The sales was EUR219 million and operating result, EUR20 million. Metsa Fibre's Aankoski and Joutseno pulp mills' annual shutdowns impacted the result negatively.

FBB pricing has been stable and we do not expect material changes in the coming months, either. We expect the steady increase of folding boxboard deliveries to continue also in the third quarter.

Growth in North America is high on our agenda. We have guaranteed our [good serviceability there by] hiking up inventories. As already mentioned, the recently launched folding boxboards [Carta Dedic] for cups and plates, and Carta Allura for luxury packaging have been very well received by customers.

Linerboard and paper's performance weakened by the extensive maintenance and shutdowns as expected. Sales was EUR262 million and operating result, EUR15 million. The annual shutdowns at Husum and Metsa Fibre's Aankoski and Joutseno mills went well with no negative surprises. Fresh forest fiber linerboard deliveries were at strong level, but decreased slightly from previous quarter. No material changes in pricing was seen.



Paper delivery volumes decreased from previous quarter. Unfortunately, the prices remained stable at low levels. Market pulp delivery volumes increased and prices were stable.

We expect linerboard deliveries to increase slightly in the third quarter. No change is expected in paper and pulp deliveries.

The price [picture] seems stable. [No] material price changes are [inside] the linerboard papers or pulp in the coming months. Kemi integrates maintenance shutdown has some negative result impact in the third quarter. It will be smaller than the impact of Husum's shutdown in the second quarter.

I'm really happy to report that thanks to strong cash flow, our net debt has reduced to EUR540 million. [Gross] debt was EUR699 million and net debt, EUR540 million at the end of the second quarter. [Net carrying] was 65% and equity ratio, 40%. The average interest rate reduced to 4.2%. Cash flow from operations was in the second quarter very strong, EUR102 billion.

Operating and net working capital reduced clearly from the first quarter [due to] accounts payable improvement measures and certain timing reasons. Our [lucrative] position is very solid with over EUR400 million.

Next, the short-term profitability outlook; Metsa Board's operating result, excluding non-recurring items is in the third quarter of 2014 expected to improve slightly from the second quarter of 2014. We expect this strong [road] to continue in our paperboard businesses. Our paperboard deliveries increased in the first half of 2014, over 7% from last year despite the fact that the domestic market, Europe, is [in recession].

We target growth, both in folding boxboard, and fresh forest fibre linerboard businesses. We will continue a steady growth in Europe supported, for example, by the transfer from recycled fibre [cartonboard] to folding boxboard in food packaging. We have ambitious targets also outside Europe, especially in North America.

Our lightweight [concept] has proven its competitiveness globally. I have been happy to notice that the sentiment in paperboard market seems to have improved in recent weeks. Our order inflows have further strengthened.

Then, a couple of words about our North American business. Our folding boxboard sales have developed very well [there]. [Our even] over 30% lighter in weight folding boxboard is recognized as the missing piece to the North American cartonboard offering; and enabling the further enhancement of sustainability.

We have signed several long-term delivery contracts with leading North American [contractors] and merchants. As already earlier stated, our target in 2014 is to at least double FBB deliveries to North America from the 35,000 tons last year. Sales in the second quarter was already over 200,000 tons indicating that we are well on track to achieve our targets.

I would like to conclude my presentation by introducing Mika Joukio, who has been appointed as Metsa Board's new CEO, the latest as of the 1st of December of this year. That is also the time when I will start in another company after the eight very interesting years with Metsa Board. I will leave the company in good hands.

Mr. Joukio moves to Metsa Board from the position of CEO in Metsa Tissue Corporation. He has worked most of his career in Metsa Board's paperboard businesses. From 2006 to 2012, he was the head of our paperboard business area and deputy to CEO. Before that, he has had several important and managerial positions in the Company.

For example, Mika Joukio has had as the middle manager in Aankoski as well as [Tako and Kyro] mills. He has been also the Head of Metsa Board [ship light sale] and (inaudible). Mika Joukio is 50 years old. He has a Master of Science in [Paper Technology] from (inaudible) [Technical University].

Ladies and gentlemen, this [marks] the end of my presentation. Thank you for your attention. Now it is time for your questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Antti Koskivuori from Danske Bank. Please ask your question.

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### Antti Koskivuori - Danske Bank - Analyst

Yes, hi, thank you for taking my questions. I thought that Q3 outlook, if I can start with the maintenance. You will have a (inaudible) -- maintenance in Kemi mill in Q3. Could you give us a number of what kind of [EBID] impact that will have?

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### Mikko Helander - Metsa Board Corporation - CEO

Yes, it's not huge, definitely, and much less what was the impact coming from Husum maintenance shutdown. We will pay somewhere in the range between EUR3 and EUR4 million.

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### Antti Koskivuori - Danske Bank - Analyst

I guess you talked earlier that the Q2 impact was approximately EUR10 million.

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### Mikko Helander - Metsa Board Corporation - CEO

Including Metsa Fibre, Joutseno and Aankoski maintenance shutdowns. But the Kemi [in ranges three and four] plus we have also a maintenance shutdown in Kaskinen. But Kaskinen is much smaller mill and the impact is much smaller coming from Kaskinen.

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### Antti Koskivuori - Danske Bank - Analyst

I was just thinking about the Q3 guidance for EBID of slightly improving. I'm looking at the maintenance impact [and delta] - the positive delta being somewhere around five million positive side.

Then you talk about the market outlook, which is more or less stable. You're talking about increasing volumes. I mean, is there something that you see to impact negatively on Q3 versus Q2.

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### Mikko Helander - Metsa Board Corporation - CEO

No, business itself I feel is performing well. As I mentioned, also order inflows are even improving. Also in that respect, I see that outlook is positive also in a longer term. But once again, I repeat that we have Kemi maintenance shutdown.

We have a maintenance shutdown also in Kaskinen. Those measures have a negative impact. But let's say it this way. I believe strongly that the third quarter result will be very much in the same range what was our result in the first quarter.

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### Antti Koskivuori - Danske Bank - Analyst

All right, and very helpful and thanks a lot.

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**Operator**

Your next question comes from the line of Linus Larsson from STB. Please ask your question.

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**Linus Larsson - STB - Analyst**

Yes, thank you very much, and good afternoon to everyone. I wonder if you could talk about the folding boxboard market in Europe in general. I understand your volumes are growing. But could you try and describe a bit what's happening in the market overall? Do you see signs of a European recovery? What kind of [finds] are there, actually?

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**Mikko Helander - Metsa Board Corporation - CEO**

Yes. My feeling is that Europe somehow is recovering. Anyhow we, and we have suffered due to the recession. Definitely, European economy is not at all yet very strong. But in the paperboard business and in folding boxboard business, we have seen improving order inflows already the last two months. The order backlog is very good at the moment.

I don't know, of course, what the situation in the competing companies. But the Metsa Board's situation is good, definitely, very good in Europe. A good development and my feeling is that (inaudible) market share is developing to the right direction. At least, I can confirm that the business moving to the right direction.

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**Linus Larsson - STB - Analyst**

If you look across the industry and you were to describe the order backlog right now compared to a year ago. What would you say then?

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**Mikko Helander - Metsa Board Corporation - CEO**

It's better, definitely. The order backlog is better. Of course, we should also remember that we have extremely good development in North America. All of those new orders and new business, and new customers who are working today with Metsa Board in North America. They have also helped us to improve our order backlog. But once again, (inaudible) also demand for Metsa Board products in Europe, it is also strong.

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**Linus Larsson - STB - Analyst**

Then on your fine paper business, I think you wrote in your report that you're [not]. I don't know. You said something about prices being stable, I think. Do you see any (inaudible) for price improvement in any of the paper subsegments later during this year? Or, what's the - ?

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**Mikko Helander - Metsa Board Corporation - CEO**

No.

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**Linus Larsson - STB - Analyst**

- Trend that you're seeing in that business?

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**Mikko Helander** - Metsa Board Corporation - CEO

I'm slightly optimistic. Because some brave paper makers have -- [are going] -- announced the price increases. I hope, really that they will succeed. It would be extremely important for all of Europe in the paper industry. But as you know very well, too many times it happened that the paper makers in the previous years have failed in those price increase measures.

But, let's see. Hopefully they will now succeed. Definitely, Metsa Board is ready to support this development. But important to notice that today paper has a very small impact. Because our paperboard business is nicely growing.

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**Linus Larsson** - STB - Analyst

Just finally a question on your cash flow. You did highlight that your net debt came down a bit in the second quarter. Looking specifically at working capital, could you give full year guidance for what you expect working capital to be for the full year 2014?

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**Mikko Helander** - Metsa Board Corporation - CEO

We don't give guidance for our working capital. Of course, it depends on also how volumes develop. But we are satisfied, and very good development in the second quarter. Definitely, we have still potential to improve efficiency also in the working capital related operations. But at the same time, I would like to underline that our business is growing very strongly in North America.

This new business as well as everywhere and growing paperboard volumes will also [tie] some working capital. But all in all, a good development. But, yes, not ready to give guidance for operating [that net] (inaudible).

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**Linus Larsson** - STB - Analyst

Just looking at finished product inventories success if production exceeded the shipments. Again, and I guess for the reasons that you mentioned. Do you think that would be the case in the next couple of quarters as well? That you will actually produce more than you ship?

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**Mikko Helander** - Metsa Board Corporation - CEO

No, I don't believe that we will see such a big growth in inventories in the future. Again, we should remember in that in the last 12 months, [the focus of our] FBB deliveries to North America have increased more than 200%. To maintain good customer service to guarantee reliable deliveries. It has been [a must] to increase inventories also in North America. But such a big jump in volumes even in North America, I don't believe we will not see in the next coming months.

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**Linus Larsson** - STB - Analyst

Thank you very much.

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**Operator**

(Operator Instructions) Your next question comes from the line of Mikael Jafs from Kepler Cheuvreux. Please ask your question.



**Mikael Jafs** - *Kepler Cheuvreux - Analyst*

Yes, hello, and good afternoon, everybody. I have a question regarding the liner produced [that is -- that for you], it seems to be a very good success story. However, some of your competitors have complained that this will most likely to price declines in and during the [Autumn] in that type of product. What is your response to such statements? Thank you.

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**Mikko Helander** - *Metsa Board Corporation - CEO*

Yes, and as you said, we have good development in the Husum linerboard business. A great start of last -- or let's say spring 2013 when we started the linerboard business at Husum mill. We should remember that this lightweight linerboard made from fresh forest fibre in Husum is a completely new product.

We cannot find the exactly, and the same product made by other companies due to that reason also. It is very difficult to make a direct comparison. But I can confirm that the product is very good. It is very warmly welcomed by Europe and North American customers. Also, price level, it is [very good].

Our policy is that we don't discount our high quality products especially when it is a question of [new innovative] products. We expect the healthy pricing and healthy margins. That is also the case in Husum when we discuss about our new linerboard business.

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**Mikael Jafs** - *Kepler Cheuvreux - Analyst*

OK, many thanks.

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**Operator**

(Operator Instructions) We have another question coming from the line of [Vincent Norman] from [Pascal]. Please ask your question.

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**Vincent Norman** - *Pascal - Unidentified Analyst*

Yes, my question is regarding the [other] operation, and segment, and the impact on the operating results. The operating results excluding non-recurring items for this quarter and for the first half of this year.

I am very surprised by the figures especially of the 6.4 minus -- minus 6.4 and the Q2. Could you be more precise on what is exactly contained in these other operations? Why we are looking - and why we are seeing this strong variation on this quarter? Thank you.

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**Unidentified Company Representative**

Yes. On the other operations, there have been some variations between the quarters. We usually guide that we have some EUR5 million in other operations in the quarter. Quarter one, it was clearly better, below EUR2 million. There was a timing impact in, for instance, commissions within the quarter.

Quarter one was too good; and then, quarter two was worse. Then also some impacts from hedge accounting affecting quarter two. But looking on the first half, we are well in line with the guidance and expectations.



**Vincent Norman** - *Pascal - Unidentified Analyst*

I don't agree. Because for last year, you had minus 6.8 excluding non-recurring items. For the, just for the first half we are at [only] minus eight. What could we expect from the second semester [for and in terms of operations]?

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**Unidentified Company Representative**

It is roughly -- you're right, it's roughly eight for the first half this year. What I mean, is that with the guidance of some maximum EUR5 million per quarter. We are still below that.

I would use as an assumption that we will be at or below the EUR5 million each quarter. Quarter one was better than normal.

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**Vincent Norman** - *Pascal - Unidentified Analyst*

It was last year, according to your statement.

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**Mikko Helander** - *Metsa Board Corporation - CEO*

Yes.

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**Vincent Norman** - *Pascal - Unidentified Analyst*

OK, thanks.

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**Operator**

(Operator Instructions) You have another follow up question from Vincent Norman from Pascal. Please ask your question.

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**Vincent Norman** - *Pascal - Unidentified Analyst*

Yes, sorry, and just another question about the [selling] by Metsa Fibre of the Pohjolan Voima shares. [You wrote send back] for you of EUR4 million, a positive EUR4 million. What is the share that you still have within Metsa about the [head for a saner] (inaudible) of [hackent of budgerland]. It's 2%, that's right.

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**Unidentified Company Representative**

Two point six percent.

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**Vincent Norman** - *Pascal - Unidentified Analyst*

Two point six?

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**Unidentified Company Representative**

Two point six percent, yes.



**Vincent Norman** - *Pascal - Unidentified Analyst*

OK, thanks.

**Operator**

There seem to be no further questions at this time. Please continue.

**Mikko Helander** - *Metsa Board Corporation - CEO*

OK, ladies and gentlemen, thank you for your participation. Together with my fellow managers, I wish you a very pleasant afternoon and evening. Thank you all. Bye-bye.

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