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## CORPORATE PARTICIPANTS

**Mikko Helander** *Metsä Board Corporation - CEO*

## CONFERENCE CALL PARTICIPANTS

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

**Henri Parkkinen** *Pohjola Bank - Analyst*

**Linus Larsson** *SEB Enskilda - Analyst*

**Harri Taittonen** *Nordea - Analyst*

**Rebecca Clements** *BlueMountain Capital Management - Analyst*

## PRESENTATION

**Mikko Helander** - *Metsä Board Corporation - CEO*

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

First, I present the very interesting key events from the first quarter. Most importantly, our profitability improved from previous quarter.

Our folding boxboard delivery volumes increased both in Europe and outside Europe. Growth was strongest in North America, indicating that the increased efforts, they're bringing increases. Folding boxboard European contract prices increased as expected.

We announced price increases for fresh forest fibre linerboard and uncoated fine paper that take effect from April onwards. We introduced very interesting new folding boxboards and linerboards. I will present those more in detail later in this presentation.

We had a nice amount of cash, altogether EUR26 million from the divestment of Lielähti real estate in Tampere. On the negative side, we needed to pay EUR19.7 million for UPM based on the Court of Arbitration's judgment. We successfully refinanced our loan portfolio, including a five-year, EUR225 million bond with an interest rate of 4%. The bond was over 10 times oversubscribed.

Sales were about EUR500 million in first quarter. Clean operating result improved from EUR29 million to EUR36 million, mainly due to increased deliveries. Result before taxes, excluding non-recurrings, was EUR21 million. The financing costs were the same -- some EUR6 million, extraordinarily high in the first quarter due to the refinancing. Without those one-time costs, the result before taxes would have been EUR27 million.

Cartonboard's first quarter operating result improved clearly to EUR18 million, mainly due to increased folding boxboard deliveries. Sales was EUR214 million. [APP] contract prices increased in Europe by some 3%.

In the current macroeconomic situation, it was great achievement to increase prices late last year. Average sales prices in the first quarter remained unchanged mainly due to increased sales outside Europe according to our strategy.

Folding boxboard deliveries are expected to slightly increase in the second quarter 2014. We have increased our inventories during the past few quarters to be able to accelerate growth outside Europe and offer good service level for our customers.

As mentioned, we introduced new folding boxboards in first quarter. They are called Carta Dedicata, that targets the food service end use and Carta Allura, that is for luxury packaging.



Linerboard and paper's EBIT was stable at a good level. Sales increased to EUR271 million. Linerboard deliveries increased from previous quarter and prices were stable. Paper delivery volumes decreased in first quarter and coated fine paper price increased slightly and coated paper prices remained stable.

Market pulp delivery volume increased and average price remained stable in the first quarter. Volumes are expected to remain rather stable in the second quarter. We have announced to increase linerboard and uncoated fine paper prices in Europe. We will do our best to gain better prices. The extensive annual maintenance shutdown at Husum will this year be in the second quarter. This will have a negative result impact.

Net financing and balance sheet-related matters. I'm very happy about the new unsecured financing package signed March. The package included EUR225 million bond that was over 10 times oversubscribed, a EUR150 million term loan, and EUR100 million RCF.

Our gross debt was EUR721 million; cash and interest-bearing receivables, EUR129 million; and net debt, EUR593 million at the end of the first quarter. Net gearing was 69% and equity ratio, 41%. The average interest rate dropped to 4.3%. As mentioned, our cash box was impacted also by the divestment of Lielähti real estate in Finland and the payment for UPM based on the Court of Arbitration's judgment.

Then, the short-term profitability outlook. Metsä Board's operating result, excluding non-recurring items, is in the second quarter of 2014 expected to weaken from the first quarter of 2014 due to the annual maintenance shutdowns at Husum Mill integrate and at the associated company Metsä Fibre's Joutseno and Aankoski pulp mills.

At this point, I would like to remind what is Metsä Board's strategic direction that has consistently been followed since 2006. Paperboard is Metsä Board's core business and we focus on the high quality, fresh forest fibre grades. Our paper business is today materially smaller than some years ago, and the same trend continues as we replace Husum's unprofitable paper volumes by liner volumes.

Extensive fibre know-how and pulp self-sufficiency are very important for us. We will grow our paperboard business in the future and want to remain pulp self-sufficient. We are, however, not planning to be a materially larger major market pulp operator than today.

Our role in Metsä Fibre's planned new pulp mill in Aankoski will clarify the latest early next year. Then finally, it is utmost important to continue development towards super productivity.

Metsä Board's latest paperboard product innovations are introduced on slide nine. Carta Dedicata is a very interesting product for -- a totally new segment for Metsä Board. It is a lightweight cup stock and food service board. Official launch will be done in a couple of weeks, but the first comments from customers have been excellent.

Carta Allura is a new grade for the highest quality luxury packaging segment. And Modo Northern Light Coated from Husum is a high quality liner for corrugated and microflute packaging. All these are good examples of Metsä Board's product development work. We, of course, focus a lot of improving current products, but also actively develop new products for interesting end use areas.

Then, a couple of words about development in North America. Our increased efforts have started to bring results. Metsä Board's folding boxboard, that is even over 30% lighter in weight than other paperboards, has proven its competitiveness and quarterly volumes have grown over 80% in a year. Kemi's coated grades are clear market leaders and quality benchmarks.

The volume growth is very strong. Linerboard volumes have grown about 70% in five years. Carta Dedicata has had a great start in North America food service segment and it complements our FBB portfolio in an excellent way. All in all, we target our North American paperboard volumes to grow over 30% in 2014 and strong growth continues also in the years to come.

In a recent to folding boxboard, we developed strongly and successfully also our linerboard business. Kemi will focus almost fully on higher value-added coated grades by end of this year. Uncoated grades will mostly be produced in Husum. Kemi's capacity will be increased to 400,000 tons. Husum's linerboard production and sales is developing well.



In 2014, we expect to sell over 100,000 tons. Targeting Husum is, of course, to benefit the full linerboard production potential of almost 300,000 tons during the next few years. Capacity additions have been announced also by other linerboard producers; those are not targeting the highest quality segments where the market balance is expected to remain healthy.

Ladies and gentlemen, this was my presentation. Thank you for your attention. Now it is time for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you.

(Operator Instructions).

And 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. This is Antti Koskivuori from Danske. I have three questions. Firstly, on the folding boxboard market in Europe, apparently you saw good progress in the US market. However, you talk about the negative impact from changes in sales mix. Could you talk a bit more about that? Is that coming from the tobacco industry or how do you see it?

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### Mikko Helander - Metsä Board Corporation - CEO

First, I must say that we have seen some positive development finally in cigarette segment; that is good news. Anyhow, still cigarette business is down compared to some lucrative years some years ago.

But anyhow, we have seen positive trend on that side. But all in all our business is growing now very fast outside of Europe according to our strategy. And as I explained, we have had great success in North America and those are main reasons why our sales mix is now changing.

Plus we should also remember that we are now accelerating growth in new end use segments. I repeat, for example, this [cup] stock business, food service segment, that is very interesting new business segment for us, and also on that side we have very good development.

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### Antti Koskivuori - Danske Bank - Analyst

Do you expect the European demand in 2014 to be roughly on the same levels than in the past few years? It was more or less flat in Q1, I guess.

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### Mikko Helander - Metsä Board Corporation - CEO

Today, we are a little bit optimistic. The feeling is that the market is slowly improving, but still we are quite far away from strong normal demand. But anyhow, feeling is that 2014 will be a better year than previous year was, also in Europe. But again, I repeat, in North America demand growth is very strong and especially Metsä Board has great opportunities to increase business volumes in North America.



**Antti Koskivuori** - Danske Bank - Analyst

All right, thanks. My second question is about pricing in FBB. You increased prices in turn of the year; now you say that some of that impact is still coming in Q2. Could you a bit quantify how much in Q1 was the impact from the prices increases and what should we expect for Q2 and onwards?

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

Yes, in European contract business we succeeded to increase prices about EUR30.00 per ton in the first quarter. Some small increase we can expect still coming through into second quarter. But anyhow, the major impact we have seen already in the first quarter.

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**Antti Koskivuori** - Danske Bank - Analyst

All right, thanks. Then, lastly, on the maintenance schedules you have this year. I guess you will have the biggest maintenance impact in Q2 this year. How much you expect that to hamper the Q2 numbers? And what should we expect for Q3? If I remember correctly, last year you had negative item of EUR8 million in Q3. Is that going to take place now in Q2?

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

Yes, you're absolutely right. Now, this big negative impact coming from maintenance shutdowns we will experience in the second quarter. And the negative impact is roughly EUR10 million, if and when everything goes as planned.

And we don't need to expect anymore in the third or fourth quarter, big negative impacts coming from maintenance issues. But the second quarter impact is quite big because at the same time when we will have this big shutdown in Husum, also those two big pulp mills in Metsa Fibre will have big maintenance shutdowns.

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**Antti Koskivuori** - Danske Bank - Analyst

All right. These were my questions. Thank you very much.

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**Operator**

Your next question comes from the line of Henri Parkkinen from Pohjola Bank. Please ask your question.

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**Henri Parkkinen** - Pohjola Bank - Analyst

Yes, hi. It's Henri Parkkinen here from Pohjola Bank. I have one question regarding your comment about kraftliner, kraftliner market and as you say that also some other producers are planning capacity additions or some of them have already decided to bring more capacities to kraftliner business.

How about -- how is the situation at the moment when comparing imports to Europe? How competitive producers outside Europe are at the moment in Europe when taking into account currency effects and so on?

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

My understanding is that they are competitive thanks to many favorable exchange rate. But at the same time, we should remember that grades which are imported to Europe are more low end and commodity grades, and not high quality coated grades where Metsa Board is the market leader and where Metsa Board is very strongly growing and developing their business. Meaning that the imported grades plus the announced capacity increases are not disturbing Metsa Board's business because those are more related to the commodity and low end grades.

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**Henri Parkkinen** - *Pohjola Bank - Analyst*

Okay, thank you.

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**Operator**

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

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**Linus Larsson** - *SEB Enskilda - Analyst*

Yes, thank you very much. Good afternoon. I'd like to come back to the previous question around sales mix. Could you be a bit more clear -- and this is on the cartonboard -- sorry, the cartonboard area. Are you saying that the pricing on the volumes that you managed to place in the North American market are lower than the European volumes that you have within cartonboard?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

Well, first, price level in North America in cartonboard business is healthy, but prices are different in North America compared to our domestic market, Europe. Also, we should remember that the North American business is very much [reels] business.

We don't supply cartonboard in seeds to North America, and that, of course, also reduces average sales price. Plus, exchange rate is not at all favorable for European producers. But despite the unfavorable exchange rate, all our new business in North America is very healthy and profitability is good.

But once you can underline North American market is a completely different market than European market, but North America is wonderful opportunity for us to grow and even have aggressive approach in our growth in North America.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Thank you. And then, my next question, for more than a year now you've had production exceeding shipments. If you look at paper and board combined, do you see a continuation of that in the next several quarters, or will you be matching shipments to production anytime soon?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

You mean all -- in all of our production in the second quarter? I a little bit lost your question. Could you repeat?

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**Linus Larsson** - *SEB Enskilda - Analyst*

Yes. If I just look at your stated quarterly production numbers and your stated quarterly shipment numbers, I note that production has been bigger than deliveries for the past several quarters. And I wonder if we -- when we look ahead, will production and shipments be in line with each other anytime soon?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

No -- no big gap between production and deliveries in the coming quarters. But, of course, again we should remember that according to our strategy we are now growing rapidly outside of Europe and it means a little bit bigger inventories. We need bigger inventories.

We have more paperboard, cartonboard in [ship light saying], and all those things increase inventories and working capital. But that is according to our strategy, to guarantee good customer service also outside of Europe for new customers.

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**Linus Larsson** - *SEB Enskilda - Analyst*

That's understood. And then, just finally, on your ownership in Metsä Fibre and you said previously on the call that you're not planning to become a bigger net seller of pulp. Could you maybe add some color there, what you're thinking about financing of the Aankoski expansion and your contributions there and potential ownership changes from your side?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

No. Too early to comment those issues. I just repeat that Metsä Board's strategy is crystal clear. We don't have intention to become bigger operator in market pulp business. Our intention is to accelerate growth in paperboard business and allocate investments to the paperboard business.

Aankoski project is wonderful, wonderful project, but it is still in the planning phase and decisions will be made early next year. And later on, it will also be decided what kind of role Metsä Board will have in this wonderful project.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Many thanks.

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**Operator**

Your next question comes from the line of Harri Taittonen from Nordea. Please ask your question.

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**Harri Taittonen** - *Nordea - Analyst*

Yes, good afternoon. It's Harri Taittonen. On the sort of Husum, two projects that they have, first, the kind of great conversion plus their cost-cutting, which where the benefits come up to about EUR25 million all in all [asset sale], where are you in that process, if you think currently versus the total target?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

Things are proceeding as planned and we are even a little bit ahead of our plans and our cost structure, our cost competitiveness is improving also in Husum. Plus, again, very important to remind, great development in linerboard business also in Husum. Linerboard volumes are steadily growing and at the same time our cost structure is getting better and better. Plus, also important to remind that pulp production running extremely well in Husum, meaning that all in all cash flow coming from Husum is very strong.

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**Harri Taittonen** - *Nordea - Analyst*

Okay. I'm just sort of also thinking about the remaining upside, particularly in the cost reduction side. Are you sort of almost fully there, or still remaining?

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

We are very well in line our plans, but does not mean that we don't see new opportunities further reduce our -- to further improve our cost competitiveness also in Husum. We have already in pipeline new [message] and new actions to further reduce Husum cost base, as well as further improved productivity everywhere in Metsa Board.

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**Harri Taittonen** - *Nordea - Analyst*

Okay, okay. So, the working capital increase, which was pretty heavy this quarter, when we look forward, do you feel you can sort of recapture this later in the year, or should we for the full year look at sort of fairly sort of a material negative contribution from working capital? I acknowledge that there is certain seasonality in the first quarter number, but still the increase was quite hefty.

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

Yes, some seasonality, but main reason is our fast growth outside of Europe. And just now we are in this very interesting phase where we are accelerating dramatically our business growth, especially in North America.

And as I mentioned, it means that at the same time we put a lot of efforts to current the customers, good deliveries, reliable deliveries and prove North American customers that we are real local player and our aim is to offer even better customer service, even more reliable deliveries for North American customers as local manufacturers can do.

And that is not possible without bigger inventories in our supply chain. We can call that as some kind of investment.

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**Harri Taittonen** - *Nordea - Analyst*

Sure, sure. No, that's understandable. But is there any kind of -- or would you care to give any, well, sort of estimate or scale or order of magnitude for the structural increase that is related to this during this year?

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

Not ready to give exact figure, but I can confirm that it is not a question of a huge increase, not at all. Our situation is very well under control. But again, I repeat that this is some kind of small investment to accelerate our growth outside of Europe and especially in North America.

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**Harri Taittonen** - *Nordea - Analyst*

Okay. The third and last question is on the cost, you guided a pretty stable cost going forward. But if you split into the main sort of cost items on the variable cost side, what sort of lines are kind of going up? And I suppose you will be benefitting from lower energy costs, for example, but how do you see the wood prices, chemicals overall?

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

Cost side looks very good because first we have succeeded to reduce our variable costs, our fixed costs, thanks to a wonderful efficiency and productivity improvement measures.

But at the same time also, all in all, variable costs and cost inflation is very, very stable. I can confirm that wood costs are about 2% below previous year. Chemicals are very much in line with previous year costs. Energy, even 4% lower than 2013. Some slight increase we have in logistic costs.



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**Harri Taittonen** - *Nordea - Analyst*

Okay. Excellent. Thanks very much.

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**Operator**

The next question comes from the line of Rebecca Clements from BlueMountain. Please ask your question.

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**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Thanks for taking my questions. The first question is about your CapEx, you're talking about expanding it at Kemi and Husum. Is this something that would be extra CapEx, or is that sort of provided for in your general kind of maintenance yearly amounts that you spend?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

No, it's in our announced CapEx, EUR40 million. No extra CapEx coming from Husum or Kemi.

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**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Or in future years as well? Because you talk about Husum going to exceed 100,000 tons like in 2014 and then adding to that in the next few years?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

No investments. No investments. The current Husum linerboard [masseen], without investments, can produce 280,000 tons, at least.

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**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Okay. Okay. And then, did you have a general view on where you think market pulp prices are going in terms of your own selling prices and any input costs?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

Difficult question. Difficult question, but at the moment it seems to be quite stable in the second quarter.

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**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Okay. Okay. And then, later in the year you don't want to speculate at all?

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**Mikko Helander** - *Metsä Board Corporation - CEO*

No, not at all. Not at all.

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**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Okay. Okay. And then, I know you've kind of already been asked this, but regarding the possible Aaneouski project, if you are not interested in expanding your own sort of market pulp exposure, in what way would you be involved in this project? Would you be taking up some of that -- actually being a buy of some of that pulp, or how do you see -- what makes sense in terms of Metsa Board's role if, in fact, that project goes forward?

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

No. Again, I repeat that it's too early to comment those things because now -- most important is now to continue this planning work in this Aaneouski project and early 2014 we will have all the information to make final decisions, and definitely before that we will also decide how Metsa Board will participate.

But again, I repeat Metsa Board's strategy is crystal clear. We don't have intention to become bigger market pulp operator. Our intention is to become even bigger and stronger high quality paperboard producer.

**Rebecca Clements** - *BlueMountain Capital Management - Analyst*

Okay. All right, thank you.

**Operator**

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

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

Okay. Ladies and gentlemen, thank you very much for your active participation. And together with my fellow managers, I wish you a very pleasant evening. Thank you. Bye-bye.

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