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Linus Larsson

PRESENTATION

Mika Joukio - *Metsa Board Corp - CEO*

Ladies and gentlemen, welcome to Metsa Board's third quarter of 2014 results presentation. I am CEO Mika Joukio, and CFO Markus Holm, and the head of investor relations and communications, Mr. Juha Laine, are also present at this end.

First of all, a small introduction of myself. I started as CEO in the beginning of October. Metsa Board is at the same time very familiar to me, and yet renewed in an extremely [fascinating] way.

I joined Metsa Board's predecessor, Metsa [Serla] almost 25 years ago. For the past almost 3 years, I was CEO of Metsa Tissue, but otherwise I spend my entire career at Metsa Board.

My former position at the company was head of the paperboard business area. During that time, from 2006 to 2012, Metsa Board went through significant restructuring. From Europe's largest [ply] paper company, to the leading producer of forest fiber paperboards.

A lot has been done, but I see plenty of potential to do more, and even better in the future. Let's move on to the third quarter now. Good news is that profitability improved from previous quarter.

This was mainly due to the continued increase of paperboard delivery volumes. Paperboard prices were unchanged. No material change was recorded in the paper business. Volumes and prices were flat, at unfavorable levels.

Market pulp deliveries reduced a bit, but average price increased. We had a strong production quarter, and the investment and maintenance shutdown at Kemi went according to plans. Our cash flow was strong, and net debt reduced to below EUR500 million to EUR491 million to be exact. Net gearing dropped to 57%.

After the reporting period in October, we were honored to be awarded by a position in CDP's Nordic Climate Disclosure Leadership Index. We achieved an excellent score of 98 out of 100 for the depth and quality of our environmental data.

Sales in the third quarter increased to EUR514 million, and operating result to EUR35 million. Results before taxes were EUR27 million, which is the best in several years. Earnings per share has this year more than doubled to EUR0.17.

Cartonboard business are performed more or less as expected. Sales was EUR230 million, and operating results EUR18 million. As already stated, falling boxboard delivery volumes increased.

We have had good progress in North America, and sales are increasing as planned. We have fixed new long-term FBP contracts with leading local players there.

I'm also pleased how we have developed our business in the food service segment. Our products have definitely proven their competitiveness, also in cups and plates. Unfortunately, the result was weakened by lower speciality paper deliveries.



By speciality papers, I mean the wallpaper [paste], and [cost cotive] products. In wallpaper paste business, we saw some negative impacts also from the challenging political and economic situation in Russia and Ukraine. It's anyway clear that we have to find new ways to improve the currently very weak results of the speciality paper businesses.

As the market leader, good price levels are very important for us. Late last year, we were able to increase the European contract prices in folding boxboard for this year.

Short-term price outlook is stable at the moment. Seasonality, as a result of Christmas holiday period, impacts negatively our deliveries and results. This is of course experienced every year.

Linerboard and paper's profitability improved clearly in the third quarter. Sales was EUR271 million, and operating result, EUR24 million. Linerboard deliveries increased as planned, and prices were unchanged.

Paper business performed in a very similar manner than in the previous quarter. Both deliveries and prices were stable. In market pulp business, volumes decreased slightly, but some with better prices balanced the situation.

We booked [EUR12] million positive item from annual contract compensations in the third quarter, mainly related to pulp sales. This positive item was more or less of similar size as the negative impact from Kemi shutdown.

Seasonality impacts negatively also the linerboard business in the final quarter of the year. Prices are expected to remain stable. Paper and market pulp deliveries are in the fourth quarter forecast to be at previous quarter levels, uncoated fine paper prices seem to be decreasing slightly, whereas coated paper and market pulp prices are expected to be unchanged.

As already mentioned, our cash flow continues strong, leading to a clear net debt reduction. Cash flow from operations was EUR52 million in the third quarter. At the end of the quarter, gross debt was EUR701 million, and net debt, as already said, EUR491 million.

Net debt to EBITDA reduced to 2.1. Our balance sheet is very solid. At the end for the quarter, net gearing was 57%, equity ratio 40%, and average interest rate 4.2%. Our liquidity position continues very strong at over EUR400 million.

Our group performance was noted also by Standard & Poor's, who raised the outlook of the B plus rating to positive. The (inaudible) profitability outlook for the whole company based on the facts I just presented.

Metsa Board's operating result, excluding non-recurring items, is in the fourth quarter of 2014, expected to be roughly at the same level as during the third quarter of 2014.

As you all have noted, there have been quite significant exchange rate changes recently. I will now say a few words about them. Good news is that these recent changes are favoring Metsa Board.

10% change in U.S. dollar versus euro is about EUR45 million annually in our profits on unhedged basis. Impact in U.K. pound is a bit less than half of that. Swedish krona effects to the opposite direction, due to the fact that we have plenty of costs, but little sales in [sec].

10% change in sec versus euro is some EUR30 million in our annual profits. Hedging of the main foreign currency [flaws] has this year varied between 5 and 7 months, thus the reason the exchange rate changes are not visible in our numbers before next year.

[Business area] numbers reflect currency rate changes rather rapidly, but the hedge accounting booked in the other operations balance the impact at Metsa Board levels.

As I emphasized the last couple of times already, the strong volume growth in our paperboard businesses continues. So far this year, we have delivered 10% more than last year. Main growth is seen in North America, where FBP deliveries were already close to 30,000 tons in the third quarter.

I'm very pleased to say that this year's original target of 70,000 tons will be clearly exceeded. Growth outlook in the FBP business is very good. Steady growth continues in our domestic market, Europe, especially in food packaging.

In North America, we are growing fast. The potential in the food service segment is very promising globally, and I'm confident that by product development, we will again find new interesting segments to enter in the future pulp and linerboards.

To continue profitable growth in the future, we need more folding boxboard production capacity. We are currently investigating all alternatives to increase capacity at our current mills.

I will end my presentation by presenting the key management priorities this year and next year. Our return on capital employed target is to exceed 10%. Development has been good recently, but we have not reached the target level, or target yet.

With these following measures, I'm confident that we can reach the targeted broker level. We will grow profitably our folding boxboard and [press folding fold-up] linerboard businesses globally.

We are now in very good speed, and I see a lot of potential to grow further in the future. As a market leader, good price levels are very important to us. We intend to keep our full position in the product quality.

We continue product development, together with our customers and partners, to improve current rates, and to create new products. We have done a lot of work to achieve the best in class supply chain globally. This work proceeds further.

In order to succeed, for example, in North America, our supply chain must be at least as good as the local players. Our exit strategy continues in the underperforming paper business.

In [Fulsum], the growth of linerboard business enables the reduction of the weak paper volumes. In speciality papers, new actions are needed. We simply cannot tolerate the deep losses, and of course the productivity improvements and cost savings will be continued and even accelerated across all operations.

I see a lot of further potential to grow sales, improve results, and create value for our owners. I'm very happy to be back at Metsa Board. Ladies and gentlemen, this was my presentation. Thank you for your attention. Now we are ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Your first question comes from the line of [Antony Kofkilor]. Please go ahead.

Antony Kofkilor

Yes, thank you. Firstly on the paperboard deliveries, or the outlook actually in the European side, I mean U.S., you've been getting good volume growth. What is the situation in Europe, and do you see in current order inflow, any negative from the higher [incentives] in the macro outlook? That would be my first question.

Secondly, if you could give us a number of the speciality paper losses on EBIT level in Q3 and year to date. And thirdly, if you could talk a little bit about the potential new capacity what you are looking for in folding boxboard side. What is the timing you feel that you need to have that new capacity? Those would be my three questions. Thank you.



Mika Joukio - Metsa Board Corp - CEO

OK. So the first question was the European paperboard situation, and our order book is strong, and order inflow has been good. We do not see any reason to expect something negative here.

We expect that the growth will continue, as during this year all together. Of course there will be seasonality, or seasonal slow-down during December, but then after that we do not see any reason why it wouldn't continue.

The second question was the profitability of the speciality paper businesses, and today our run rate, so to say, in [promologues], or [calf coated] products is at the level of let's say EUR20 million negative annually, so EUR5 million each quarter more or less. And then wallpaper base is plus minus 0 at the moment, run rate.

And then concerning the new capacity, our current folding boxboard capacity is enough for growth in 2015, so next year. So we still have capacity to grow, but then after next year, then we will need (inaudible). But for next year we still have capacity to grow.

Antony Kofkilori

OK. A follow up on the last question, what is the time line you would expect to take to ramp up new capacity in folding boxboard, construction time I guess?

Mika Joukio - Metsa Board Corp - CEO

Yes, so normally, and that based on my own experience also, is that normally takes roughly one year from decision to then implementing the investment. And of course then after start up, it normally takes let's say 9 to 12 months to speed up, or start up the production line, whether it's new or rebuild, then to the targeted volume. So that is roughly my experience.

Antony Kofkilori

All right. Thank you very much.

Operator

Your next question comes from the line of [Linus Larsson]. Please go ahead.

Linus Larsson

Thank you very much, and good day to everyone. A follow up on what you just said on [cost meal] of the EUR20 million, I assume that's on an EBIT level. At what stage will you address that structurally, what you're thinking? Can you make further changes at the site, or are there -- at what stage will you have to make some maybe more drastic conclusions about that preparation, please?

Mika Joukio - Metsa Board Corp - CEO

Concerning the profit improvement, of course, we have two areas. First of all, we need to improve and increase sales. We need to -- as we have done already this year, we need to develop new products, production capacity, surely we have there. So we need to increase the top line.

Then of course, as important, is to reduce costs, whether they are fixed costs or [verepo] production costs, but in both areas, we need to be very, very active. Concerning then your question about the drastic movements, at this point I can't say anything about that. Now we just need to concentrate on the top line as well as then the costs.

Linus Larsson

That's fine, thank you. And on the wallpaper base, can you shed some more light on what happened in the Russian and Ukrainian markets in the third quarter for instance, what share of your wallpaper base business is based in those geographies? And could you also put the number possibly on what kind of demand drop you saw in that market?

Mika Joukio - Metsa Board Corp - CEO

Yes, in Ukraine as well as Russia, but especially Ukraine has historically been very, very important market area and country for us, and that is roughly 20%, 30% depending on the year a little bit, but in the long run, it has been 20%, 30% of sales of our wallpaper business, so both, all together, Ukraine and Russia.

The situation today is when we have discussed with our customers that the basic demand is there, but then the wallpaper producers, of course they are uncertain, and also then they are reducing their stocks, which is understandable in this kind of situation.

So the basic demand is and should be there. People are still using wallpaper both in Ukraine as well as in Russia, but now during this autumn time, there has been clear slow down. But it's a bit difficult to say how long does it take.

Normally also, always did the fourth quarter is slower all over than third quarter, but then after then January, typically February, then the market will start to increase again, or improve again.

Linus Larsson

And if you were to compare the market volumes in the Ukrainian and Russian markets, Q3, compared to Q3 of last year, what's the percentage change roughly?

Mika Joukio - Metsa Board Corp - CEO

I can't remember. You can contact our investor relations if you want that number, but I don't have that in my head at the moment. Anyway, during this year it's clearly lower than last year.

Linus Larsson

OK. And then just finally again coming back to previously asked question regarding the potential investment in the new folding boxboard machine, just for clarification's sake, when at the earliest would you be prepared to make a final decision on that potential investment scheme?

Mika Joukio - Metsa Board Corp - CEO

As already presented, so we are now evaluating different options at our current mills, and as I said, we have capacity to grow as far as next year is concerned, and it's difficult to say earliest.

We are working hard in order to be ready to make position, but I can't say any exact week or month or quarter for that. But we know desperately that concerning 2016, we don't have capacity now, if and when we want to grow.

Linus Larsson

Thank you very much.

(AUDIO GAP)

Mika Joukio - Metsa Board Corp - CEO

So ladies and gentlemen, there seems to be some technical problem, so as far as we understand here, there will be more questions, but I ask some patience.

(AUDIO GAP)

Ladies and gentlemen, still we continue to find out this technical problem, but hopefully it will be solved soon. Sorry about this.

(AUDIO GAP)

OK, ladies and gentlemen. Unfortunately we are not able to solve this now, so there are some problems at London end, so I ask you all to contact our investor relations, Mr. Laine, and then ask further questions from him.

I'm really sorry about this, but that's the situation. So we need to end, and I wish you all -- thank you for your participation, first of all, and I wish you all a pleasant evening. Thank you.

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