

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

METSB.HE - Q1 2015 Metsa Board Oyj Earnings Call

EVENT DATE/TIME: MAY 07, 2015 / 12:00PM GMT



CORPORATE PARTICIPANTS

Mika Joukio *Metsa Board Corporation - CEO*

Markus Holm *Metsa Board Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Antti Koskivuori *Danske Bank - Analyst*

Mikael Doepel *Handelsbanken - Analyst*

Harri Taittonen *Nordea - Analyst*

Linus Larsson *SEB - Analyst*

Henri Parkkinen *Pohjola - Analyst*

PRESENTATION

Mika Joukio - *Metsa Board Corporation - CEO*

Ladies and gentlemen, welcome to MetsaBoard's First Quarter 2015 Results webcast.

I am the CEO Mika Joukio. CFO, Markus Holm and Head of Investor Relations and Communications, Mr. Juha Laine are also present at this end.

First the highlights from first quarter, most importantly, profitability improved from the previous quarter. Paperboard delivery volumes continue to increase and price levels were stable. Net debt reduced to EUR319 million thanks to the successful share offering in March and good cash flow in general.

Exchange rates continue to move to a favourable direction. In December last year, we launched the final steps in transformation to a paperboard company. Those are proceeding well.

In February, we announced the updated public financial targets to better reflect our new structure.

Organization and reporting structure were renewed in the beginning of the year.

In April, the reporting period we made an agreement with mutares AG to divest the Gohrsmuhle mill in Germany. I will talk a bit more about this later on this presentation.

Then to the numbers, quarter one -- our first quarter went according to our expectations. Sales increased to EUR526 million and operating results improved to EUR43 million.

Results, before taxes, was flat due to currency hedging losses in financial items.

Here we have the main pluses and minuses in first quarter, compared to the previous quarter. Like already commented, in the highlights, paperboard delivery volumes increased. Exchange rates moved to a favourable direction. Also, a slightly better [linerboard] pricing had a positive impact.

Then, to the negative result drivers. Paper deliveries declined as we expected. Compression is impacted by the fact that in -- fourth quarter last year, we had some extra benefit from sales of CO2 rights.

Accelerated depreciation of Husum paper capacity in 2015 is also impacting comparability. All together, we are talking about 8 million euros more depreciations the full year versus last year.



Fixed costs were also somewhat higher. Paperboard sales volumes are growing as planned. Growth from Q1 last year was 10% and prices have been stable. We consider this a very good achievement in this micro economic situation. The resulting improvement is clearly seen in our paperboard segment numbers. Third quarter was a good quarter with EBIT of EUR61 million, but of course, we can do even better in the future. Sales increased also nicely to close to EUR400 million.

Non core operations is then a sad story. EBIT continued in red also in first quarter, and no improvement is expected from the paper market, unfortunately. Good news is that the size of the segment is getting smaller in the future.

Then to the balance sheet, net debt reduction continues. At end of the first quarter, net debt was EUR319 million. The decline is due to the successful share offering and good cash flows. Net debt reduced by more than EUR100 million. Net gearing was 34%, equity ratio 41% and average interest rate 3.9% at the end of the first quarter. Net debt to EBITDA dropped to 1.3. These numbers will during this year, of course be impacted by increased CapEx in Husum.

Strong liquidity position continues. Very good news was that Standard and Poor's raised our credit rating by two notches to double B in February. We completed the EUR100 million share offering taxes for in March. It was over subscribed and the final result was about 140%. Net proceeds were EUR98 million.

Now, the total amount of shares is about 355.5 million, of which A shares about 36 million and B shares about 320 million. Trading with the new shares started at the beginning of April. I would once again like to thank our owners for their trust and support.

Then, a couple of words about the exchange rates, as already said, they have moved to a favourable direction in the second half of 2014 and in early 2015.

The duration of our hedges has been four to seven months lately. I will once again remind you about the sensitivity. Annual unhedged EBIT sensitivity of 10% change versus euro is EUR45 million in US dollar, EUR20 million in sterling pounds and a reversed EUR30 million in Swedish krona. The positive impact -- EBIT impact of the hedges was over EUR10 million in the first quarter, compared to previous quarters.

Next, a few words about the short term market outlook, Paperboard delivery volumes are expected to increase lightly in second quarter. Folding boxboard prices seem to continue stable.

We have announced a linerboard price increase on the back of a good demand supply balance. Our market balance is forecast to continue good, also in the near future. The situation of the paper businesses reported under non core operations seems to continue more or less unchanged, at weak levels. Average production cost is forecast to continue stable as well.

Then the short term profitability outlook, MetsaBoard's operating results, excluding non-recurring items is in the second quarter of 2015, expected to be roughly at the same level as in the first quarter of 2015. The transformation of Husum mills is proceeding well.

First, investment shutdown was completed successfully in April. Board machine number two is now ready for 300,000 tons linerboard production.

This shutdown causes a slight negative result impact in the second quarter. Paper machines six and seven will be closed in October and November as we have originally planned. And the new folding boxboard production line called board machine number one will start up at the beginning of next year. This investment shutdown will have a negative result impact in the fourth quarter. Also, the related infra improvements are proceeding as planned.

Then to Gohrsmuhle, I'm happy to tell you that we have agreed to divest the mill to mutares and its partner company. Mutares is a German industrial holding company, focusing on acquiring companies in special situation.



They are in good position to develop -- to develop the mill specifics further together with the personnel. Closing of the divestment is subject to German competition authorities approval, and it is expected to take place by the end of this month -- so by the end of May 2015. This transaction has a negative cash flow impact for us, but it's clearly smaller than in the case of a closure.

The positive non-recurring items of EUR15 million, will be booked in non-core operations due to operating result. This divestment reduces our annual sales by about EUR90 million and improves our annual operating results by EUR20 million, compared to 2014.

On slide 15, I will go through the basics of MetsaFibre's new paper product mill in Aankoski, Finland. The decision was made a couple of weeks ago. Net capacity increase in Aankoski will be approx 800,000 tons a year. Investment cost is about EUR1.2 billion, and the mill will start up in the third quarter of 2017.

MetsaBoard will invest about EUR25 million. We will not have any other commitments in the project. Our holding in MetsaFibre remains unchanged at 24.9%. All together, our pulp balance is expected to be 500,000 to 600,000 tons per annum [loans] from 2018 onwards.

Maturity of this loan position is softwood chemical pulp. This is a good reserve to grow paperboard business further in the future, also maintaining self sufficiency in pulp.

Now, I'd like to remind you about our updated long term financial targets, which we have published in February. New targets are return on capital employed minimum 12% from 2017 onwards and net gearing maximum 70%. All targets were return on capital employed minimum 10% and net gearing maximum 100%. These new targets reflect better the company's improved situation as the leading European fresh forest fibre paper board producer. The dividend policy remains unchanged.

I will conclude my presentation with the key priorities this year. We aim to grow profitably the paperboard businesses globally.

It's of course, very important to implement successfully the investment project in Husum. As the market leader, good price level are a high priority for us. We will keep our high product quality and further improve supply chain.

The target is also to continue entering new end use areas.

(Inaudible) one of the most important issues has been the elimination of the losses from Gohrsmuhle mill. Like already presented, this looks good now.

We still continue productivity improvements and cost savings wherever and whenever feasible. And in order to grow, we need to develop our competencies, especially related to Husum's new product.

Here the chart on the right, you can see that we were close to reaching our return on capital employed targets already in first quarter this year. We have a lot of improvement potential in the pipeline.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Antti Koskivuori. Please ask your question.



Antti Koskivuori - *Danske Bank - Analyst*

Yes, thank you and good afternoon. I would have two questions, firstly, if you could say how you view the European falling boxboard market balance in one, two years out, as it seems that there is also another 400,000 ton machine coming online in 2016? Do you anticipate any impacts to your export strategy in that segment? That's my first question.

And then secondly, about the cores, like would you -- could you give us a number what was the impact in Q1 EBIT from this unit? Is it still in at that EUR20 million annual level that you are -- you are guiding for 2014? And just to be sure, in your guidance are you expecting that this unit is divested by the end of May? Thank you. Those were all my questions.

Mika Joukio - *Metsa Board Corporation - CEO*

Okay so Mika Joukio here, so the first question concerning the European falling boxboard plans in the coming year, so of course, we see that the growth at the marketplace continue. And if there will be new players, there will be new players, and that might mean tight competition, which is -- which is normal of course.

But it's far too early to say anything more at this stage. We concentrated our issues in other words -- in other words implementing the Husum investment successfully, and then at this stage, we do not see any reason to change our export strategy at this stage.

Antti Koskivuori - *Danske Bank - Analyst*

Right.

Mika Joukio - *Metsa Board Corporation - CEO*

And then the second question concerning Gohrsmuhle, yes the annual profit impact is EUR20 million as we have reported earlier. Also and yes, we expect that -- that everything goes as planned and then at least from June onwards, that loss is gone.

Antti Koskivuori - *Danske Bank - Analyst*

All right. Thank you very much.

Operator

Thank you.

Your next question comes from the line of Mikael Doepel. Please ask your question.

Mikael Doepel - *Handelsbanken - Analyst*

Yes, thank you. Good afternoon. A couple of questions, firstly on the FX, you're mentioning here that the impact on the operating profit after the hedges were EUR10 million in Q1, compared to previous quarter. If you can -- if you do that comparison in a year over year basis, what would the impact have been?



Mika Joukio - Metsa Board Corporation - CEO

[Hongu] will take it.

Unidentified Company Representative

Yes, Mikael, the impact is roughly say a minimum EUR50 million after hedges on a year on year basis that we expect, assuming the level of the exchange at the end of March.

Mikael Doepel - Handelsbanken - Analyst

So, that's for the full year, a minimum of EUR50 million?

Unidentified Company Representative

That's for a full year after hedging -- hedges a minimum EUR50 million.

Mikael Doepel - Handelsbanken - Analyst

Yes, and in Q1, what was the impact then?

Unidentified Company Representative

Well, versus quarter four, it was a bit over EUR10 million.

Mikael Doepel - Handelsbanken - Analyst

Compared to Q1 last year?

Unidentified Company Representative

And compared to Q1 last year, it was bigger I think, magnitude of EUR15 million, EUR20 million something probably.

Mikael Doepel - Handelsbanken - Analyst

Okay. And in terms of your hedging levels, you're saying that you are currently hedged a little bit less than six months, should we assume something around 40% or closer to 50%?

Unidentified Company Representative

Well, it's roughly around 50%, I would say.



Mikael Doepel - *Handelsbanken - Analyst*

Okay. Then in terms of the impact on the Husum shutdowns and investments in Q2 and also the bigger one in Q4, could you quantify how much this will impact and also in which divisions it will show up?

Mika Joukio - *Metsa Board Corporation - CEO*

So, Mika Joukio here, concerning this first shut down, it's a few millions...

Mikael Doepel - *Handelsbanken - Analyst*

Okay.

Mika Joukio - *Metsa Board Corporation - CEO*

... and then concerning then the last -- or the main shutdown -- put it this way, that will be a bit more than EUR10 million if we forget this depreciation which are EUR8 million. So, all together, they are pretty close to EUR20 million.

Mikael Doepel - *Handelsbanken - Analyst*

Okay...

Mika Joukio - *Metsa Board Corporation - CEO*

.. and then the impact of the last quarter.

Mikael Doepel - *Handelsbanken - Analyst*

Yes. Yes. Then, in terms of the -- of the MetsaFibre's investment in Aanekoski, and I'm still a bit puzzled about how small the share of your capital investment will be in that project, given the size of the project and given the debt capital structure indicated for the project. Could you -- could you just you know, run through -- or explain to us how you're -- arrive at that EUR25 million?

Mika Joukio - *Metsa Board Corporation - CEO*

Holm will take this.

Markus Holm - *Metsa Board Corporation - CFO*

So it's Markus here, so we have the pro rata share of the equity investment in that Aanekoski project, so -- which is the EUR24.9 million.

Mikael Doepel - *Handelsbanken - Analyst*

Okay. All right. Thank you very much.



Operator

Thank you.

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

Harri Taittonen - Nordea - Analyst

Yes, it's Harri Taittonen, Nordea, good afternoon. Let's just start with the guidance and the currency impact within that, I mean when we look at the other line, it's of course quite a lot of negative impact from the -- from the sort of currency moves and in that current exchange rate is second quarter -- do you still look at that line within EBIT to be sort of more or less equally negative? Or what sort of estimate do you factor in on that one within the guidance?

Markus Holm - Metsa Board Corporation - CFO

It's Markus here. So, the expectation, yes is with the end of -- end of March FX rates that it's roughly on the same level that we have in hedging losses in quarter two as in quarter one.

Harri Taittonen - Nordea - Analyst

Exactly, that's good.

And then on the -- sort of the volume side, so the last year, the paperboard volumes, you had the record production quarter in that -- in the second quarter. But this year, you will be affected by the -- well, basically by the works, do you expect the third quarter to be the sort of the highest production quarter? Or is it going to be the -- not this first quarter when you made 360,000?

And this -- against this sort of first quarter production, do you have like theoretical off site or is this pretty close to the sort of full capacity that you did in the first quarter?

Mika Joukio - Metsa Board Corporation - CEO

Yes, Mika Joukio here. So, concerning falling boxboard, we are running full -- the whole year through, as I have said. Of course, there are minor maintenance and smaller investment shutdowns, so practically, we are running full including Easters and Christmases, everything, so folding boxboard.

And then in linerboard, at [Chemmi] mill we are running full, and so pretty similar situation comparing to folding boxboard mill. And then concerning linerboard, at Husum, of course there when -- if and when we are able to increase the linerboard volumes, then we will reduce the paper volumes. And by doing that, then we are utilizing production line of board machine number two. So -- but we are running full practically the full year through.

Harri Taittonen - Nordea - Analyst

Good, very good. There's another final question is just to remind how much of the earlier book that sort provisions are still to be shown in cash flow expense throughout this year and sort of the next?

Mika Joukio - Metsa Board Corporation - CEO

I don't have the exact figure in mine now.



But after this you can call Mr. Laine and then we can...

Harri Taittonen - *Nordea - Analyst*

Yes, of course with the Gohrsmuhle exit being done this way, of course that changes the picture to the better, so you get a cleaner exit in that way, there. Okay, thank you very much.

Operator

Thank you.

(Operator Instructions)

And your next call comes from the line of Linus Larsson. Please ask your question.

Linus Larsson - *SEB - Analyst*

Thank you very much. And good afternoon.

On the non core operations line, I wonder if you could just clarify your expectations a bit. So, Gohrsmuhle should be gone by Q3, and then you say that two fine paper machines will be phased out during Q4. When we look into Q -- sorry, when we look into next year, what kind of result should we expect on the non core operations line, please?

Mika Joukio - *Metsa Board Corporation - CEO*

Mika Joukio here, I think it's a bit too early to tell you or give you any figure at this stage. You're right by saying that Gohrsmuhle will be out, I mean -- as you said by third quarter, and then paper production or the current paper machines number six and seven will be discontinued.

So, we will have some paper production at the current board machine number two still until -- also during next year so the [pieces mill] production, but that's it practically. So, next year there will be only some paper production from board machine number two from Gohrsmuhle, so it's -- that segment will be relatively small.

Linus Larsson - *SEB - Analyst*

Yes. But okay, and basically...

Unidentified Company Representative

.. but at Husum mill...

Linus Larsson - *SEB - Analyst*

Right, right and basically the phasing out of paper production on BM two will depend on the ramp up of other products on that same machine...



Unidentified Company Representative

The linerboard, whether (inaudible) that's right.

Linus Larsson - SEB - Analyst

Right, right. But would it be fair to say that realistically by the end of '16 that production line is fully converted?

Mika Joukio - Metsa Board Corporation - CEO

Latest by end of 2017, but of course our target is ASAP.

Linus Larsson - SEB - Analyst

So, you said latest by end of '17...

Mika Joukio - Metsa Board Corporation - CEO

Yes, '17 as we have -- we have communicated earlier. But of course, our target to do ASAP.

Linus Larsson - SEB - Analyst

Yes, that's great. And then just on Gohrsmuhle, congratulations on that deal. It will make a difference. When you say that there will be non-recurring income of EUR15 million, could you maybe explain that a bit. And most importantly, could you also confirm that you will not have a pension liability relating to that operation after you've closed that deal and that is part of the numbers that you have communicated.

Mika Joukio - Metsa Board Corporation - CEO

Okay, Markus Holm will....

Markus Holm - Metsa Board Corporation - CFO

Yes, basically the EUR50 million is explained by the elimination of accumulated losses and liabilities in our group books, basically, you could say selling that for EUR1 and the pension liabilities will be gone completely.

Linus Larsson - SEB - Analyst

That's great. And then just one final, on the guidance, I don't know to what extent you would like to comment on that, but you did have a solid paperboard result in Q1, and should we expect Q2, not only on a group level, but also on the core paperboard operation to be as you said, roughly on the same level as in Q1?

Mika Joukio - Metsa Board Corporation - CEO

Yes, roughly at the same level, but we will have this short maintenance shutdown, the main one in Husum, but also at other mills before summer period, so even having those, we'll be more or less at the same level.



Linus Larsson - SEB - Analyst

Great. Great.

Mika Joukio - Metsa Board Corporation - CEO

The volumes are growing anyway.

Linus Larsson - SEB - Analyst

Very good. Thank you very much.

Operator

Thank you.

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

Henri Parkkinen - Pohjola - Analyst

Yes, hi. Good afternoon for everyone. This Henri Parkkinen OP -- OP Group. I have two question, first of all, on your North American business, I think that during the previous quarter -- when you have released couple of the last quarterly results, you have commented on your North American business, it would be very interesting to hear that how your folding boxboard and craftliner volumes develop in North America during the first quarter of this year.

And second question is about your price increase announcement that you are aiming to increase prices of craftliner by some EUR40 per ton in Europe, from mid May. How much of this price increase attempt is related to market issues? And how much is it related to latest FX development? Thank you very much.

Mika Joukio - Metsa Board Corporation - CEO

If I take the number two question first, so it's practically mainly only on the -- on the demand and supply -- based on that. And mainly we are -- we are looking for uncoated or the price increases in uncoated products. But also something in coated.

And then the North American business, the US business of -- for the boxboard first of all, the first quarter was - in rough figures more or less the same as last quarter last year. And now the second quarter will be slightly better, seasonally also, but here we need to remember that our capacity is limited.

So, we are planning flat out and so what we are doing at the moment, we are allocating volumes from here to there. And that of course, means some restrictions, and -- due to production reasons, but our target is to grow quarter after quarter there also this year, and that will happen.

In craftliner, linerboard from Chemmi quarter one was very good, so our business in North America, is good and it's growing. From -- also from Husum, not only from Chemmi...



Henri Parkkinen - *Pohjola - Analyst*

Okay, if I -- if I come back to this part two of folding boxboard, so you say that your capacity was limited. So, in other words, you were -- do you say that you were not able to benefit from FX development in North America in folding boxboard as much as you have -- as -- because of these restrictions?

Mika Joukio - *Metsa Board Corporation - CEO*

It has been a case for -- also during the delays, the second half of last year, because we -- of course ran into several European customers we need to serve our Asian customers, and that there are certain limits in our growth at this point, because production is limited. We are not able to allocate all the volumes to North America.

Henri Parkkinen - *Pohjola - Analyst*

Yes, I understand that. Okay. Okay. Thank you very much. Very helpful.

Thank you.

Operator

Thank you.

And your next question comes from the line of Mikael Doepel. Please ask your question.

Mikael Doepel - *Handelsbanken - Analyst*

Yes, just a couple follow ups. Just continuing on the -- on the folding boxboard market and you talked about US and a bit about Europe, but there is a lot of capacity developing in China right now. And there is perhaps some concern that some of these volumes will find their way into Europe. Have you seen any indications of that?

Mika Joukio - *Metsa Board Corporation - CEO*

Have been here and obviously they will be here, but Chinese -- a tradition, they come here when the -- when the -- when the euro is strong, and then they will disappear -- or at least they take the volumes out from Europe when they -- when the local currency, so euro is weak, so that has been the case for a decade already at least. But they are here, especially in the eastern part and the southern part of Europe.

Mikael Doepel - *Handelsbanken - Analyst*

Okay, and then secondly, in terms of CapEx, do you mind giving some guidance for this year, perhaps some indications on next year's level?

Mika Joukio - *Metsa Board Corporation - CEO*

Yes, then so no change. This year, our CapEx will be EUR170 million, including this Husum and that's it. So, no change here, comparing to the communication that has been -- we have given earlier.



Mikael Doepel - Handelsbanken - Analyst

And looking at 2016, would you expect CapEx to come down?

Mika Joukio - Metsa Board Corporation - CEO

Yes, of course, but it will be at the level of EUR100 million.

Mikael Doepel - Handelsbanken - Analyst

Okay. Thank you very much.

Operator

Thank you.

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

Harri Taittonen - Nordea - Analyst

Hi, so I had just one more follow up on the Russian market, and then sort of [starting on that], which -- where you sort of reported some weakness and negative impact on earnings earlier, but now we have seen the global strengthening again, how do you see this sort of the delta or the change in the coming quarter, compared to what you saw in the first quarter?

Mika Joukio - Metsa Board Corporation - CEO

Our deliveries to Russia are very stable because they are mainly for the multinational brand owners. And consumption or demand from them is very stable. So, we do not see any major changes during the second...

Harri Taittonen - Nordea - Analyst

Right.

Mika Joukio - Metsa Board Corporation - CEO

... quarter compared to the first quarter either.

Harri Taittonen - Nordea - Analyst

Right. And those are pretty much euro denominated sales in any case aren't they?

Mika Joukio - Metsa Board Corporation - CEO

Yes. Yes, they are.

Harri Taittonen - *Nordea - Analyst*

Yes, okay. Okay. Thank you very much.

Operator

Thank you.

There are no further questions at this time. Please continue.

Mika Joukio - *Metsa Board Corporation - CEO*

Okay, so thank you very much for everybody and I think the session is over. So, I wish you excellent, excellent May and nice summer time. Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.