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Harri Taittonen *Nordea - Analyst*

PRESENTATION

Mika Joukio - *Metsa Board Corporation - CEO*

Dear participants, welcome to Metsa Board's Second Quarter 2015 Result webcast. I'm the CEO of Metsa Board, Mika Joukio and CFO Markus Holm is also present at this webcast.

First, I'd like to go through the highlights from the second quarter. During April June, most importantly, our profitability improved compared to the previous quarter. The paperboard delivery volumes continue to increase and price levels were stable. I'm very happy to say that the final steps in a transformation to a paperboard company progressed as planned, and Metsa Board divested the Gohrsmuhle mill in Germany.

Also, the Husum investment is proceeding on schedule. I'll go through the Gohrsmuhle and Husum mill developments in more detail during this webcast. Another highlight in the second quarter occurred in June when Moody's upgraded Metsa Board's rating by two notches to Ba2.

On the next page, you can see figures from the second quarter. Sales was EUR522 million, which is roughly the same as in the previous quarter. Without the impact of Gohrsmuhle divestments - or divestment, sales increased slightly. Operating results, excluding non-recurring items improved from EUR43 million to EUR47 million. EBIT percentage of sales was 9. Result before taxes increased to EUR40 million, which is the best quarterly levels in many, many years.

On slide number 4, we have listed the main result drivers in Q2, compared to first quarter. As already mentioned, paperboard delivered volumes increased. Exchange rates had a positive impact of a couple of million euros. Divestment of the loss making Gohrsmuhle is naturally also a positive result driver.

Then to the negative result drivers, paper deliveries declined as we expected. Investment shutdown at the Husum mill affected our result by about EUR4 million. During the shutdown, the paper machine number eight was rebuilt successfully to a board machine number two. Somewhat lower market pulp delivery volumes impacted the result negatively as well.

On page 5, you can see how our paperboard sales volumes have been increasing. Compared to the first half of 2014, the volumes have increased by 13%. Both volume boxboard and linerboard businesses are growing as we have planned.

The most important growth area is North America. Linerboard growth rate continues at a very good level. This year, our growth in volume boxboard is limited by production capacity. But this will change when the Husum's new board machine is up and running next year. I'd like to remind you that the target for volume boxboard sales is over 300,000 tons annually in midterm, [and the] linerboard, at least 250,000 tons. I'm very confident that we are able to reach these levels in the future.

Here are the [tracks] for the paperboard segment, sales increased to EUR408 million in the second quarter, and the operating result was stable at about EUR60 million. I'm reasonably happy with this result, but naturally, there is room for further improvement in the future.



Non-core operations EBIT continues in [red], and no improvement is expected in the paper market. Sales dropped clearly during the second quarter due to Gohrsmuhle divestment. The good news is that the size of this segment is becoming smaller and smaller when Husum's transformation proceeds.

As commented earlier, exchange rate changes have a positive impact on this year's result. At current levels, we are talking about several 10s of millions of euros. The duration of our hedges has been four to six months lately. The sensitivities are more or less unchanged, so I will not go them through in detail now. US dollar is of course, the most important one. There was a slight positive EBIT impact after hedges in second quarter, compared to the previous quarter.

Then to the balance sheet, which continues strong. In second quarter, net debt increased by EUR70 million from the - from the previous quarter and lost EUR389 million at the end of the quarter. The increase was largely due to - due to negative cash impact of the Gohrsmuhle divestment, as well as due to investments in Husum.

Net gearing was 39%. The equity ratio improved to 46%, which was also mainly due to the Gohrsmuhle divestment. Average interest rate was 3.8% at the end of the quarter. Net debt to EBITDA was 1.5. Here I can conclude that Metsa Board's financial position is strong. These results were noted in June by Moody's who raised our credit rating by two notches to Ba2.

Then a few words about the short term market outlook. We expect paperboard delivery volumes to increase slightly in the third quarter and no significant paperboard price changes are in sight. Long fiber pulp demand is expected to continue to grow slightly and the supply and demand to be in balance also in the near future. The market situation of the paper businesses reported in non-core operations segment is expected continue more or less unchanged at weak levels. The average production cost is forecast to continue stable as well.

When it comes to outlook for the third quarter, we should also remember the annual maintenance shutdown at Kemi [Intercrate]. This will have a slight negative result impact in the third quarter.

Then the short term - short term profitability outlook, Metsa Board's operating results excluding non rec items is in the third quarter of 2015, expected to improve slightly, compared to the second quarter of 2015.

Now to the promised details about the Gohrsmuhle divestment, this deal was an important step in our transformation to a paperboard company and also a major profit improvement measure. The mill was sold to Mutares and its parent - partner company. Mutares is a stock listed German industrial holding company, focusing on acquiring companies in special situations. The deal included all related liabilities. The divestment had a negative cash flow impact of about EUR37 million, which was clearly less than in the case of a potential closure.

Non-core operations segment's second quarter operating results included a positive non rec item of EUR17.5 million related to this divestment. Compared to 2014, the divestment will reduce Metsa Board's annual sales by about EUR90 million and improves operating result, excluding non-recurring items by EUR20 million. From this, somewhat over half will materialize this year.

The transformation of the Husum mill is proceeding well. The first investment shutdown was completed successfully in April. [Board machine] number two is now ready for 300,000 tons of linerboard production. This investment shutdown cost a small negative result impact in the second quarter. Husum's linerboard product run rate is already today, close to 150,000 tons per year.

Paper machines - paper machine number seven will be closed in October and paper machine number six in November. The new folding boxboard production line, board machine number one, will start on the 4th of January next year. This investment shut down will happen during the last quarter of this year and will have a negative result impact of approximately EUR12 million.

The related infra improvements are proceeding as we have planned, for example, major work to increase the [harbour] capacity starts in September, so pretty soon. Due to these changes in Husum, the amount of personnel was agreed to be reduced by about 180. This fixed cost reduction of close to EUR50 million per annum is a part of the overall EUR50 million profit improvement target. This fixed cost reduction will be mostly seen in our numbers already from early next year. The full result improvement in Husum is expected to materialize mostly in 2017 and fully from 2018 onwards.

The new production line - board production line at Husum enables production optimization at all our folding boxboard mills, so also in Finland. Product portfolio will be simplified, with results in better production efficiency across the board. The production of food service board is concentrated to Husum. Food service end use is one of our key growth segments. Our liner board production will not change materially, compared to today's situation.

We are not only developing our production, but we are also increasing emphasis on product development. Our research and development is focusing on further improvement of product quality and sustainability, all in cooperation with our customers, of course, for example, technical properties of food service boards are being developed, and this will help us to enter new end use areas.

I'm happy to tell you that we are also starting to test foam forming a new board making technology at our Kyro mill. Metsa Board will be the first in the world to test foam forming on a production scale. The benefits of foam forming include improved printing surface and further reduction of weight. The production process also reduces the use of raw materials, energy and water. We have done extensive development work for several years to commercialize this new technology.

I will again conclude my presentation with our key priorities. We grow our paperboard businesses profitably and globally, and in order for us to do this, it's of course, very important to implement the Husum Investment project successfully. As the market leader, food price levels are a high priority as it's - as it's to keep our high product quality and further improve our supply chain.

Naturally, we will also continue entering new end use areas, and we'll continue productivity improvements and cost savings wherever and whenever feasible and possible. And in order to grow, we need to develop our competencies, especially related to Husum's new products. I'm sure we can all agree that we have a lot of improvement potential in the pipeline.

Ladies and gentlemen, thank you for your attention. Please go ahead, we are now ready for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

And your first question today comes from the line of Antti Koskivuori from Danske Bank. Please go ahead.

Antti Koskivuori - Danske Bank - Analyst

Yes, thank you. I would have three questions, the first one on US falling boxboard shipments, which been kind of flat for the past few quarters. Is this the capacity limitation you are talking about or do you see potential to still grow that volume going to H2? Because I guess you're still - your production volumes are higher than deliveries, implying higher inventories. And related still that, do you still see that there would be more demand at the moment for your folding boxboard than you can actually deliver to the region? That would be my first maybe set of questions.

And the second one is about the maintenance costs, now in H2, you mentioned that EUR12 million negative related to the Husum investment shutdown. How about Q3, how should we look into the maintenance cost in Q3 versus Q2. That would be the second question.

And then thirdly, on FX, now quarter on quarter in Q3, you mentioned that there was a slight positive impact, quarter over quarter, how we should see this to develop in H2? Thank you.



Mika Joukio - Metsa Board Corporation - CEO

Okay, Mika Joukio here, first the US case, so you're right by saying that production capacity really is limiting our deliveries to the US, but being so, our target is to still increase our deliveries during third quarter, as well as in fourth quarter as we have said also earlier. Demand is good, so demand is not the problem. Production is a challenge. And that is clearly our game plan, so to say.

Then concerning the maintenance costs of the - of the third quarter, I mean the impact is about let's say EUR3 million- around EUR3 million and not more. So, we need to remember that during the second quarter, we had a - several standstills, not only Husum. It was the major one, but also we had a standstill at our Finnish folding boxboard mills, which had a - also then influence on our paperboard results, that's good to remember. And so - but the Kemi [Indecrate] shut down will be in third quarter--

Antti Koskivuori - Danske Bank - Analyst

So, the ultimate will be--

Mika Joukio - Metsa Board Corporation - CEO

-- go through the currency case--

Antti Koskivuori - Danske Bank - Analyst

Yes.

Unidentified Company Representative

Yes, so your question on the quarter on quarter change on foreign exchange, of course depends a lot on the currency development, but said with the current levels in the US dollar for instance, we should see a slight improvement from the hedges, meaning that the negative impact from the hedge account, it will be smaller in quarter three versus quarter two.

Antti Koskivuori - Danske Bank - Analyst

Okay. All right, so to be clear, the - on the maintenance still the Q - delta between Q3 and Q2 will be positive now going to Q3?

Unidentified Company Representative

Yes, you're right.

Antti Koskivuori - Danske Bank - Analyst

Yes. Okay. Thank you.

Operator

Thank you.



Your next question today comes from the line of Mikael Doepel from Handelsbanken. Please go ahead.

Mikael Doepel - Handelsbanken - Analyst

Yes, thank you. Just actually one question from my side left, in terms of pricing, we are seeing some price hike announcement on the recycle side, in terms of the packaging markets right now. But do you see any chances of lifting the folding boxboard prices going forward? And secondly, you have announced price higher - price increases for linerboard, what's happening there?

Mika Joukio - Metsa Board Corporation - CEO

Yes, first of all, the price of the folding boxboard of course, we utilize all the opportunities, if there will be any, in order to increase our prices. But now our estimation and estimate is as I just told that the prices will remain relatively flat during the third quarter at least. What will happen at the end of the year, that's another - remains to be seen, depending on the market situation.

Concerning then the linerboard prices, we have been able to increase our prices in - here and there, and average prices, especially on [coated] crates will slightly improve, but in the big picture, of course, that is not very much, but I mean concerning some - especially uncoated linerboard products, we have been able and will be able to increase slightly our prices.

Mikael Doepel - Handelsbanken - Analyst

Okay. And that's good. Thank you.

Operator

Thank you.

Your next question today comes from the line of Linus Larsson from SEB. Please go ahead.

Linus Larsson - SEB - Analyst

Yes, thank you very much. On Husum and linerboard capacity, could you just clarify whether all the work has been completed at this stage and whether the machine, the number two, as it's been renamed is now fully up and running? And should we expect some initial [teething] problems or anything like that?

Mika Joukio - Metsa Board Corporation - CEO

Husum, the situation is quite clear, so BM8 is still serving also the paper business, especially on the coated side, but - or the current board machine number two. And the lion share still of the - of the linerboard production is coming from so called PM6. And now, after all these changes and investments on board machine number two, now we are moving the volumes from BM6 to board machine number two.

And based on our trials, based on our tests, we do not see any major risk or even minor risk in quality or production efficiency in that area. But of course, we can only fully utilize the board machine number two as - only after we have closed the - or ceased the paper production for coated crates at the end of this year. So today, also BM6 as well as the board machine number two, both of them are producing linerboard, but in the future, it will be only board machine number two.

Linus Larsson - *SEB - Analyst*

Right. Thanks for that clarification.

And when you talk - on the folding boxboard side, when you talk about portfolio optimization, could you maybe elaborate just a bit on that? Are you contemplating some mix shift between your various mills? Or are you even considering any potential closures of capacity anywhere in the system?

Mika Joukio - *Metsa Board Corporation - CEO*

Yes, so as far as the food service board is concerned, today our Finnish mills, mainly Kyro and Tako are producing those crates. And in the future, as soon as the new board machine is up and running in Husum, we will centralize all food service products to Husum. So, that will then also naturally improve situation, especially in Kyro and Tako.

And then, concerning then the normal folding boxboard and [not] food service board, then we are able to play between Husum and Finnish mills, based on the - based on the amount of supply situation and by doing that, then also simplify our production runs. So, it's self evident that there'll - in the future, there will be less crates per mill comparing to the situation today, and that will improve production efficiency and also increase output.

At this stage of course, we don't have any plans to have any closures or so at any mill. So, our target is to run full also next year at all the mills.

Linus Larsson - *SEB - Analyst*

And it sounds interesting what you're saying about foam forming, could you say something about which equipment that will be used for that production? Would that be produced of one of your existing board machines? And at what stage would this be any significant volume? And at - on - you know, at what stage will it be of any commercial value? Is that still a couple of years out? If you just can talk a bit about that, it would be very interesting.

Mika Joukio - *Metsa Board Corporation - CEO*

Okay, I'll speak as much as I can based on - remembering, this is pretty much still confidential thing, but I mean this foam forming is a combination of process technologies or pumps and different kind of things and then chemicals. So, it's both, machinery and [asset issues] as well as then chemistry and chemicals. And by doing that, then we are able to generate this foam and then utilize that in our forming section.

Concerning the timing target is that the - all the installations have been made by Christmas, this year, so by end of the year, and then the trials and the production scale will start pretty much as - at the same time as Husum mill, so early next year. So, at least first quarter probably next year will be the trial period and maybe then after that, hopefully, then we'll know more. But this is timetable, installations by end of this year and then trials will start in January.

Linus Larsson - *SEB - Analyst*

I guess it's too early to give any indication of what type of volume or any other magnitude, but is this something that you're developing with your customers? And if so, within which end use areas?



Mika Joukio - Metsa Board Corporation - CEO

Of course customers are very eager to cooperate, because this is sustainability issue. So, there is a clear continuation of our light weighting story, and then our target is to have a clear improvement again concerning this bulk development and light weighting. And by doing so, of course, customers are very, very eager to participate.

But at this stage, this is, of course, it's a - even though we have some pilot scale results, but it's a bit too early to tell or guess how much we are able to improve our products then in the product scale remains to be seen. But based on the trials, we are very, very positive and optimistic.

Linus Larsson - SEB - Analyst

Great. Thanks very much.

Mika Joukio - Metsa Board Corporation - CEO

Thanks very much.

Operator

Thank you.

(Operator Instructions).

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

Harri Taittonen - Nordea - Analyst

Thank you and good afternoon. On the packaging board side or in general, we know that there's been some concern on the kind of capacity conversions from graphic paper to both linerboard and then also to the folding boxboard next year, but in linerboard, this has been happening for some time already, and still we are seeing stable or even improving [surprising] for [kraftliner], can you say what's been sort of a driving or the [fact rescuing the market has it been the kind] of export potential that - that's been sort of absorbing the capacity? Or is it so that some new end uses are being developed in Europe to - for the sort of higher end of the linerboard grades?

Mika Joukio - Metsa Board Corporation - CEO

No, I think it's both ends. I mean the market in Europe is growing and has been growing, and our estimation is that it will grow also in the future in the linerboard area. But as I - as I presented, we have been able to increase our volumes also in the US, where we traditionally and historically been big supplier, based on [Kemi mill], and now we are even bigger based on [Kemi] and Husum. So, I think demand is healthy and good, not only in Europe, but also in the - in the United - Americas - in North America.

Concerning the new end use areas, I think especially for linerboard, there are - there are several opportunities in the food segment, especially when you think about the [shells] for example, you can see more and more linerboard products these days, and that's only one example of innovations and new end uses. So, we are pretty confident that we are able to continue this growth also in the future.

As I - as I - as I said already today, the run rate in Husum is about 150,000 tons a year, so - and Kemi has been running full and will run full order books and order inflows are healthy. So, we will run full also third quarter - during third quarter. And we have not seen any hiccups in demand.



Harri Taittonen - *Nordea - Analyst*

Exactly, okay. Thank you. And then if I think of folding that the change will be more happening next year, so of course, it's a bit early to talk about it, but it is the same story that there will be sort of new end uses and also the export market which might be helping absorbing the - kind of the overall industry capacity increase, not only you but--

Mika Joukio - *Metsa Board Corporation - CEO*

Yes, but in folding boxboard, we need to remember that folding boxboard is very technical, very different product. And we have--

Harri Taittonen - *Nordea - Analyst*

Yes.

Mika Joukio - *Metsa Board Corporation - CEO*

-- been developing this product for several decades already as we know, and I have said to our own people and then also the other people that our target clearly is to keep our product quality as high a level as possible, keep our service level as today or even improve and make sure that that our customers have no reason to look other options. Our customer relationships are excellent. We know this - we know this as global brand owners from the history and so on. So, our target clearly is to keep our own - how would I say, own game in a good shape, to put it - put it that way--

Harri Taittonen - *Nordea - Analyst*

Yes.

Mika Joukio - *Metsa Board Corporation - CEO*

-- so, we'll--

Harri Taittonen - *Nordea - Analyst*

Exactly.

Mika Joukio - *Metsa Board Corporation - CEO*

-- it doesn't make sense to speculate at this stage what will happen next year. Our target is to keep our - keep our promises to customers and to keep up the good work together with them.

Harri Taittonen - *Nordea - Analyst*

Sure. Okay, and just another one just sort of following Linus' question on the - on the foam business and foam forming, I mean is it some - just sort of wondering if there's - whether there's sort of theoretical market size or target market size or potential or is there an existing sort of market and applications for this or is it something which is kind of developing as it goes?

Mika Joukio - Metsa Board Corporation - CEO

Theoretical market is the whole paperboard market--

Harri Taittonen - Nordea - Analyst

Yes.

Mika Joukio - Metsa Board Corporation - CEO

-- simple. Of course, customers look forward for new innovations, for better yields so like the products and that goes for linerboard, that goes for volume boxboard and that goes for all segments. It's not only for food. It's not only for pharmaceuticals or cosmetics. It's for all segments.

Harri Taittonen - Nordea - Analyst

Okay, okay. Got it - got you. Many thanks.

Operator

Thank you.

There appear to be no further questions at this time. So, I'll hand back for closing comments.

Mika Joukio - Metsa Board Corporation - CEO

Okay, thank you, everybody for excellent questions and at this stage, I wish you everybody, nice August, hopefully it's a bit warmer at least. In Finland July has not been that good, I mean if you - if you happens to like sunshine, but not - has not been very good, but hopefully August will be better and all of you can have a nice decent holidays anymore, but enjoy life and we'll see you again.

Thank you.

Operator

Thank you.

Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may now disconnect.



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