

Transcript

# **Metsä Board Interim Report January–March 2025**

29 April 2025

## Esa Kaikkonen

Good afternoon everyone, and welcome to the presentation of Metsä Board's first quarter results.

My name is Esa Kaikkonen, I am Metsä Board's new CEO, starting from April 7th.

Together here with me, I have our CFO Henri Sederholm and Head of Investor Relations, Kati Sundström.

Before discussing the results, let me briefly introduce myself.

The forest industry and Metsä Group are very familiar to me, as I've held various roles at Metsä Group over the past 27 years.

I have been responsible for Metsä Group's legal affairs and strategy. For several years, I also led Metsä Group's Wood Products and Tissue businesses, Metsä Wood and Metsä Tissue.

Despite the current challenging environment, I am optimistic about the future. I see opportunities for Metsä Board and believe we can enhance our competitiveness and profitability in the evolving paperboard market.

I would also like to thank my predecessor, Mika Joukio, who served as Metsä Board's CEO since 2014. Mika's expertise and customer relationship skills have been crucial in transforming Metsä Board into a leading paperboard producer.

But now, Let's start with the Q1 summary.

Paperboard sales improved from the previous quarter, mainly driven by increased delivery volumes. Average sales prices of paperboards remained roughly at the same level as in 2024.

As always, Q1 did not include any planned maintenance, which in turn increased production. Production volumes grew not only from the previous quarter but also compared to the corresponding period last year. However, it's good to bear in mind that last year at this time, we were affected by political strikes in Finland.

Increased production activity led to higher inventory levels, which in turn tied up more working capital. Combined with prolonged weak profitability, this impacted the operating cash flow, which was negative. Henri will address this later.

During the quarter, we decided to close our Tako mill permanently and enhance operational efficiency at our Kyro mill to improve the company's competitiveness and profitability. These actions will cut 208 jobs, and we'll do our best to help those affected find new employment within or outside Metsä Group. We expect our annual EBITDA to improve by roughly 30 million euros, starting mainly from the fourth quarter of this year. Customer deliveries will not be affected, as we have enough capacity to meet current demand. Tako's production is moving mainly to Kyro, which has previously served as a backup mill for Tako and its unique products.

And once again, we performed exceptionally well in the CDP evaluation across all three categories: climate change, forests, and water security, achieving an "A" score in each.

The beginning of the year has been marked by US tariffs, which naturally have a significant impact on Metsä Board's business. Let's take a closer look at the impacts.

First, I must emphasise that we have an established market position in the US for both folding boxboard and coated kraftliners. Over the years, and even decades, we have been building our foothold and developing long-lasting customer relationships. We are the largest provider of folding boxboard, as there is no local supply. There are very few alternatives to coated white kraftliners. Our customers value the high-quality of our paperboards, our efficient and sustainable supply chain, and comprehensive services.

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In 2024, our sales to the US were 430 million euros. And in total, we delivered 365,000 tonnes of paperboard.

Currently, we're negotiating with our customers to address the impact of these tariffs on the prices of our paperboards. We trust our customers to understand the impact of tariffs.

Exact financial or operational impacts are still difficult to estimate, as there is a high level of uncertainty regarding the final amount and duration of tariffs.

Despite these challenges, we aim to stay in the US. We are committed to maintaining the relationships with our long-term customers, and we are also seeking new business.

Despite a slight improvement, the overall demand for paperboards remains moderate and far from the levels seen during the pandemic or pre-pandemic times.

First-quarter deliveries this year were quite similar to last year. After a quiet Q4, order inflows initially picked up but slowed down towards the end of the period. It's also worth noting that last year's deliveries were somewhat impacted by political strikes.

In total, volumes remained roughly at the same level as in the corresponding period but increased by 7 per cent from the previous quarter.

And here is the paperboard sales split by region and product.

FBB volumes to the Americas increased but remained flat in EMEA. The European folding boxboard market is still affected by the continued high level of paperboard imports from Asia – mainly to Turkey, Russia and the Middle East.

White kraftliner deliveries to the US decreased but increased in EMEA.

Metsä Board's market pulp delivery volumes decreased compared to last year.

The most significant decline was in BCTMP deliveries to the APAC region, where demand has been weak for some time.

At the same time, Metsä Fibre's deliveries increased by almost 30 per cent. The growth is partly explained by new available capacity from Kemi, as well as last year's strikes.

In Europe, demand for softwood market pulp was fairly stable. In China, demand weakened towards the end of the quarter.

And now the sustainability development.

The biggest changes were seen in TRIF and energy efficiency, and unfortunately, both developed negatively.

TRIF increased to 5.6 from the full-year 2024 figure of 3.4, indicating that we still have room for improvement, as our target is zero accidents.

Energy efficiency weakened, mainly explained by production curtailments over the last 12 months.

However, positive development was seen in the share of certified wood fibre, which was 94 per cent.

But now, I'll hand over to Henri to present the financials.

**Henri Sederholm**

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Thank you, Esa. Good afternoon, everyone. Our first-quarter 2024 sales remained stable compared to the corresponding period last year, at 481 million euros. The increased delivery volumes naturally contributed to the growth from the previous quarter.

Unfortunately, profitability continues to show no notable improvement. The operating result was 23 million euros, almost 30 per cent down from the corresponding period last year.

Now for a closer look at the items that affected the comparable operating result in the first quarter.

On the positive side, there's an improved result share from Metsä Fibre. Their profitability was supported by market pulp sales, as both delivery volumes and sales prices were clearly better than in the comparison period. The sawmill business also developed positively.

Additionally, our operating result improved due to lower energy and chemical costs.

On the negative side, we had significantly higher wood and logistics costs, as well as higher employee costs and depreciation.

In the first quarter, items affecting comparability totalled 27 million euros, mainly related to the asset write-down of the Tako mill.

The comparable return on capital employed in Q1 remained low, at 4 per cent. Our target is at least 12 per cent

Capital employed at the end of the period was 2.5 billion euros.

And now cash flow, which has been unsatisfactory recently.

The downward trend and negative figure for Q1 are mainly explained by prolonged weak profitability and increased working capital.

If we look back to 2023, the rapid decline in paperboard demand led us to curtail production. This freed up working capital, resulting in strong cash flow development. In 2024, with increased activity, the direction was the opposite.

It's also important to note that dividends from Metsä Fibre can significantly impact our operational cash flow, especially during Q1, when they are typically paid. This year, no dividend was paid.

For the full year, we expect the second half to be stronger in generating operating cash flow than the first half.

Free cash flow was also negative, both in the quarterly review and on a 12-month rolling basis. The reduced investment level will impact the future development of free cash flow.

Our net debt increased and was roughly 400 million euros at the end of March.

This year, our dividend payment took place in the first quarter, totalling 25 million euros.

Leverage was at 2.4, still below the targeted maximum level of 2.5.

However, our financial situation remains solid despite the leverage increase, which has mainly been impacted by weakened profitability.

And that's all from the financials, so now I'll hand back to Esa.

**Esa Kaikkonen**

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Thanks Henri.

And now, let's move on to investments.

The major investments are now behind us, and we expect returns from them in the coming years.

Our main ongoing investment now is the paperboard machine renewal in Simpele, which we expect to be completed in the second half of this year. In pre-engineering, the main projects are a new pulp drying machine in the Husum pulp mill, and a production conversion from white kraftliner to foodservice and greaseproof papers in the Husum board mill.

This year, we expect our total investments to be around 100 to 150 million euros, out of which maintenance some 50 to 60 million euros.

And now the near-term outlook.

Geopolitical challenges in the operating environment, most recently the tariffs imposed by the United States, maintain overall uncertainty in the market. This also complicates the predictability of our future paperboard sales and earnings development.

This uncertainty is reflected in consumers' buying behaviour, which remains quite cautious.

In the second quarter, we expect our paperboard delivery volumes to remain at the first-quarter level.

Variable costs, excluding pulp, are expected to remain stable.

The second quarter will include more planned maintenance shutdowns than in the first quarter. In addition, the ongoing quarter will face more market-related production curtailments.

In addition, Metsä Fibre's Kemi bioproduct mill will have roughly one-month repair shutdown, as the units damaged in the gas explosion at the mill's evaporator will be replaced with new ones. We expect this shutdown to have a negative impact of 10 million euros on Metsä Board's operating result in April–June, including the impact from Metsä Fibre's result share.

And based on these assumptions, we expect our Q2 comparable operating result to be weaker than Q1.

And finally, let's have a summary.

We continue to face a challenging market situation. This is primarily due to the ongoing US tariffs, an oversupply in paperboard, and weak consumer demand.

Despite these hurdles, I still want to highlight that Metsä Board's financial position remains solid, although we have recently carried out massive investments. It's also important to remember that as the market situation improves, we expect these investments to generate returns for us.

Our short-term focus is on strengthening our cash flow. We are implementing measures to optimise our operations and improve efficiency across all levels. If paperboard demand weakens further, we can respond with temporary mill shutdowns and employee layoffs. We expect our cash flow to be stronger in the second half than the first.

Additionally, we are committed to enhancing the competitiveness of our mills and products. Continuous improvement is key to staying ahead in this competitive landscape.

And with that, we end our presentation and are now ready for your questions. Thank you very much.

## Q&A

### Operator

To ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Linus Larsson from SEB. Please go ahead.

*Linus Larsson:*

Thank you very much. My first question relates to Americas and volumes. I wonder if you could shed some light on the fact that in folding boxboard, you saw growing volumes year on year in the quarter, while you saw declining volumes in white kraftliners in Americas in the quarter. Could you just talk us through the dynamics there, please?

*Esa Kaikkonen:*

Yeah. There are some declines in WKL volumes in the first quarter compared to the Q4. But, that was mainly due to the fact that the customers were actually ordering more in Q4 and because they were preparing themselves, the potential strike that never took place in Finland.

*Linus Larsson:*

Okay if I put it this way? If you look at your order in flow right now, let's say what are the trends in the US market for folding box board and white liner board please.

*Esa Kaikkonen:*

Well, currently they are of course in the discussions with our customers and we cannot shed too much light on this topic for the time being. But clearly, of course, this situation related to tariffs is actually making our customers, more cautious in their ordering. That has a negative impact currently. But, of course, currently, we cannot predict that what will be the impact, during the quarter. So we have seen some negative trend there but too early to to make any conclusions.

*Linus Larsson:*

Okay. Thank you. And then maybe just one more question on volumes generally, you produce in excess of shipments on the group as a whole for paperboard in the first quarter. And I appreciate that may be in preparations for maintenance and so forth in the second quarter. But when you guide on the maintenance impact and the repair at Kemi and what that may implicate for you in the second quarter. Does that include also the fixed cost absorption effect that that you may have from this mismatch between production and shipments that we see in the first quarter. Or does that come on top? That's my question.

*Henri Sederholm:*

Yeah I can confirm that Kemi figures includes that impact as well.

*Linus Larsson:*

Okay. So nothing in addition to what you say, no additional, absorption impact in the second quarter.

*Henri Sederholm:*

Well, not regarding Kemi, anyway. So that that's what I was just confirming. So Kemi is included.

*Linus Larsson:*

Okay. Thank you. That's helpful.

*Operator:*

The next question comes from Joni Sandvall from Nordea. Please go ahead.

*Joni Sandvall:*

Yeah. Thanks for the presentation and taking my questions. I have a couple of these. You mentioned that you are expecting, more market related production curtailments. Can you specify if this is more on the on the folding boxboard or then on the on the liner side?

*Esa Kaikkonen:*

Well, currently it is more in the folding boxboard that we are planning. Planning some further curtailments, but the amount is of course dependent on the on the, let's say, order inflow in the coming weeks.

*Joni Sandvall:*

Okay. That's clear. Then if we are excluding now that now the US tariff here and looking more on the Europe. Could you give any indication of how you expect pricing environment to develop in Q2 compared to Q1?

*Esa Kaikkonen:*

Well, regarding the prices, we are not commenting on the forward looking prices as such, but you see that in the past year the prices have been stable and well, looking at it forward, there is of course a market, let's say is evolving every day and we are following it closely. But we are not taking any forward looking, looking view on the on the prices.

*Joni Sandvall:*

Ok thanks. And maybe lastly on the guidance still on Q2. Can you give any indication how you are currently expecting Metsä Fibre so associated income to evolve going into Q2.

*Henri Sederholm:*

Well, unfortunately, we are not giving sort of separate guidance on Metsä fibre results here. So that we only give guidance on Metsä Board level.

*Joni Sandvall:*

Okay. Thanks. That's all for me.

*Operator:*

The next question comes from Andrew Jones from UBS. Please go ahead.

*Andrew Jones:*

Hello. I just have a question or a couple of questions. Firstly, on volumes into the US. I'm curious what stops buyers shifting to using, say, SBS as an alternative to some of your products that's produced domestically and in particular, obviously, SAPPI ramping up a big new mill which won't be facing those tariffs. Again, like from a technical standpoint.... In the coming quarters and then, uh, well, I'll pause and ask next one after the answer.

*Esa Kaikkonen:*

Well, I have to ask you to repeat the second question, and I'm guessing the first question a bit that how it was. But you were asking the, let's say, substitution of FBB by SBS and the potential of that. We believe that the what our value proposition in the US market is strong. We believe that we have a really good, let's say customer, let's say base their and customer relationships and also very, very robust technical service. Having said this, we believe that those customers that we have over the decades, procured in FBB and WKL as well, remain as our customers also going forward. And we can even grow their of course, giving the uncertainty on the tariffs, the amount of the tariffs and, and how long they last. Then that's another question. But the substitution effect and the threshold for customers to change back to the SBS, is dependent on the let's say, segment where the customer is operating, and I'm not going to the specifics there. That that what currently the trust that our customers are actually understanding the situation that we are in. Second question, I must ask you to repeat. Sorry about it.

*Andrew Jones:*

Yeah. And I was going to ask for a second question after your answer. So the second thing would be, I guess, you mean, you've obviously acknowledged the potential for volume loss in the US, and we've obviously got Oulu ramping up, competing on the FBB side, in the coming months. I mean, these are obviously structural changes. Now, you know, obviously utilisations are low and the group for history. I'm curious whether you think the closure of Tako mill is enough to rebalance the market. And, you know, could there be the potential for more closures? And I guess, broader question, you know, how does your vision for the company differ, maybe from your predecessor and you know, do you think he went far enough with some of the capacity closures?



*Esa Kaikkonen:*

Yeah. Well, I think that the changes in the capacity going forward will not give any estimate. I think that we have been actually making this independently and seeing that what makes us stronger in the market. And we have been balancing our offering accordingly. And we are actually then getting efficiencies of analysed the efficiencies of 30 million roughly out of this. And currently I believe that it will be a good to balance the market from our part. If you are looking at our customers. So in that regard, I think that I cannot comment at this point of time more on supply demand balance. From our perspective, we believe that the Tako closure was a good strategic move and bold move given the current situation and we were just actually ramping up also, Husum mill and the new capacity there. So they were related those two to decisions.

*Andrew Jones:*

Okay. And just one third one, FX movements. You said there isn't a sort of a headwind into the second quarter, looking at your sort of sensitivity that you've given in the past. I would have thought there'd be, you know, a decent headwind going forward for the rest of the year given, you know, where currencies have moved. I mean, are you basically hedging, you know, the majority of your forex exposure in the sort of, you know, in the very near term? And should we see a greater FX headwind maybe into the second half?

*Henri Sederholm:*

Yeah, if I take this one. So we are hedging currently at about eight months, forecasted currency flows, which means that we are almost fully hedged already for this year. And without going through the details, I can say that overall effective FX rates for this year are pretty well in line with those of last year. So we will actually be seeing a little bit more favourable USD effective rates on the second half of this year than on the second quarter. So, all in all, the big picture is that the year on year impact from FX will be actually quite small.

*Andrew Jones:*

Okay. But potentially 2026 would have a bigger impact once some of those hedges roll off I guess?

*Henri Sederholm:*

That's a fair statement. If the spot rates stay where they are today, particularly in the US dollar. That's the correct assumption.

*Andrew Jones:*

Okay. Thank you.

*Operator:*

There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

*Esa Kaikkonen:*

Okay everyone. There is no further question. So thank you very much on our behalf for the session and the questions. We'll get back to you in the next quarter.