

Transcription

**Metsä Board Interim report
January–September 2022**

27 October 2022

Mika Joukio

Good afternoon and welcome to the presentation of Metsä Board's January–September results. My name is Mika Joukio, and I'm the CEO at Metsä Board. With me are CFO Henri Sederholm and Head of IR Kati Sundström. Let's first go through the presentation, and we will then open the lines for your questions.

Let's start by looking at Q3 in brief.

Once again, our comparable operating result was record high, exceeded 150 million euros. This was over 23 per cent of sales. Profitability was mainly boosted by paperboard prices, supported by the strong US dollar.

We also did well in production: especially in folding boxboard, the production volumes were high despite the several planned maintenance shutdowns in Finnish mills. The year-to-date total production volume for paperboards was at a record level of 1.48 million tonnes.

Our paperboard delivery volumes decreased slightly compared to the previous quarter, mainly in white kraftliners.

Cost inflation continued to be rapid. Energy and chemicals costs rose even faster than we expected.

Russia's brutal war in Ukraine did not significantly affect our business. We have reallocated all Russian volumes to the new markets, and the wood and energy supply to the mills have operated without disruption.

And the big news of the quarter was that we have started the pre-engineering for the new folding boxboard mill in Kaskinen in Finland. However, the investment decision on that project can be expected in 2024 at the earliest.

So all in all, a very strong quarter in terms of performance and operational efficiency.

Total delivery volumes in Q3 fell slightly compared to the previous quarter. Volumes in folding boxboard remained stable but declined in white kraftliners.

The first half of the year was strong in white kraftliner deliveries and this, combined with the slowdown in consumer spending, has elevated the inventory levels of our customers. Despite the slowdown in demand, the price level of kraftliners has remained stable or even risen slightly. Customers' concerns about availability have increased as the energy crisis in Europe has deteriorated.

And here is the sales split by region.

Overall, volumes were lower than in the 2021, when they were very strong.

And at the beginning of the year, we started to increase our inventories in folding boxboard to prepare for the investment shutdown in Husum next autumn.

Now, market pulp.

So far, demand for softwood market pulp has remained stable in Europe, even though the soaring energy costs have increased the downtime in tissue, graphic and speciality paper production.

In China, demand has also been stable compared to supply, which has remained limited due to the bottlenecks in logistics, as well as unplanned and planned production shutdowns.

In January–September, Metsä Board's delivery volumes in market pulp have increased, whereas our associated company Metsä Fibre's volumes have remained stable.

The price level was higher than in the same period last year.

And now, I'll hand over to Henri, who will go through the financials.

Henri Sederholm

Thanks Mika, and good afternoon.

Let's start from the top line. Despite the drop in delivery volumes, both in paperboards and market pulp, our Q3 sales were nearly at the same level as in Q2, and were clearly higher than in the same period last year. Our year-to-date sales were almost 1.9 billion euros, beating last year's corresponding period by more than 300 million euros or 20%.

As already mentioned, the comparable operating result in Q3 was record high, at 153 million euros, or 23.6 per cent of sales. For January–September, the operating result was 421 million euros, already exceeding the full year result in 2021, which totalled 387 million euros.

Now a closer look at the items that impacted our result.

We'll start with the third quarter development compared to the corresponding quarter last year.

The main positive item was higher sales prices for paperboards. This was supported by a positive FX impact, and especially the strengthening of the US dollar. Market pulp prices also increased, resulting in a higher result share from Metsä Fibre.

The main burden derived from rapid cost inflation, especially in energy, chemicals and logistics. Wood costs have also started to rise, but not to the same extent as other variable costs.

And pretty much the same elements, both on the positive and negative sides, impacted the January–September results compared to the corresponding period last year.

And all in all, higher sales prices for paperboards and market pulp offset the negative impacts from rapidly increased costs.

The positive development was also reflected in the comparable return on capital employed, which was 24.7 per cent in the third quarter and 21.2 per cent for the rolling 12 months.

And now, the cash flow.

In the previous quarter, operating cash flow was already impacted by high working capital. The increase was derived from higher paperboard inventories, a rise in inventory value due to cost inflation, and the increase in trade receivables resulting from higher prices for finished products. The same working capital elements impacted the third-quarter cash flow as well, although at a slightly moderate pace.

The operating cash flow in the third quarter was at 66 million euros, and free cash flow after the investments was 19 million euros. Operating cash flow for the last 12 months amounted to 282 million euros.

And the balance sheet remained strong, with net debt at 91 million euros, and leverage at 0.2.

Now, back to Mika, who will tell us about investments.

Mika Joukio

Ok, thanks Henri.

Now, an update on ongoing investments.

In Husum, we are expecting the new recovery boiler and turbine to start up in November. Knowing the energy situation in Europe, it's good timing, because it will increase our bioenergy production and increase energy self-sufficiency. With this, our total electricity self-sufficiency will increase from 60 to 75 per cent. Further, the self-sufficiency will increase to 85 per cent when Olkiluoto 3 will start, hopefully during December. The overall investment value has increased slightly from our earlier estimate, totalling now 380 million euros.

The capacity expansions of folding boxboard in Husum and white kraftliners in Kemi are proceeding as planned, and we expect them to start up in H2 2023.

And during Q3, we announced that we had started the pre-engineering for the new folding boxboard mill in Kaskinen.

The planning is based on an annual capacity of 800 000 tonnes, 100% fossil free production, and world-class resource and operational efficiency.

This is pretty much everything we can say about this project at this stage. More information will be provided when, and if, the investment decision will be made in 2024 at the earliest.

Then for the near-term outlook

Paperboard delivery volumes are expected to remain stable. However, it's good to remember that the seasonally weaker December may impact the order activity. Paperboard prices are expected to increase somewhat. The strengthening US dollar will further support this.

Demand for softwood market pulp is expected to be stable, with limited supply.

Cost inflation shows no significant signs of slowing down, and the overall weakening of global economy, combined with the erosion of consumer purchasing power, creates uncertainty. Higher costs especially in energy and chemicals, will burden profitability. In addition, maintenance costs will be higher in Q4 than in Q3.

And with these assumptions, we expect our operating result to weaken in Q4 compared to Q3.

And then to summarize

Once again, we had a strong quarter thanks to our successful sales and efficient production. With these, we managed to offset the negative impacts from rapid cost inflation.

We expect the solid demand for premium paperboards to continue, even though there are increased uncertainties in the operating environment. The slowdown in consumer spending together with elevated inventory levels of our customers could have a negative impact on demand. However, at the same time, there are concerns about the availability if the energy crisis in Europe escalates.

And despite the current challenges, our strategic focus is already on the future growth. According to our strategy, we want to grow in fibre based packaging materials, and for that, we have started a pre-engineering to increase our folding boxboard capacity.

And before we open the lines for questions, I'd like to remind you of our approaching Capital Markets Day, on November 10th.

The day's agenda includes an update on our business and operating environment as well as our strategy to grow in fibre-based packaging materials.

It is possible to attend the event either virtually, or on-site in Helsinki.

But more information of this, and the registration, you will find on our website at Investors pages.

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

Q&A

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. If you are using speakerphone, please make sure your mute function is turned off. Voice prompt on phoneline will indicate when your line is open. Please state your name before your question. The next question comes from Robin Santavirta from Carnegie. Please go ahead.

Robin Santavirta, Carnegie: Yes. Good afternoon. This is Robin from Carnegie. I have a few questions. To start with the question related to paperboards. I was wondering what are you seeing when it comes to current order intake in Europe and also in North America? How would you sort of describe the current level if you compare it to the summer or the spring levels? And is there a difference between Europe and North American activity? So, that's the first question, please.

Mika Joukio: Mika Joukio here. So, the order inflow now is slightly lower than it used to be in spring or summertime. And when, if and when comparing then the Americas and Europe, the activity level in Americas, especially North America, is higher at the moment than here in Europe.

Robin Santavirta: And is the lower activity level because of high inventories, or is it because the end demand of your customers has weakened? What is your analysis?

Mika Joukio [00:13:42]: Well, analysis clearly is that the main reason is high inventory levels throughout the whole supply chain.

Robin Santavirta: Right. Right. Thanks. And the second question I have, related to pulp, clearly very strong earnings in Q3 when it comes to your pulp business, what should we expect going forward? And maybe if I phrase the question like this, have you already agreed on price declines in either Europe or China? Or should we expect prices to remain at the Q2 level in Q4?

Mika Joukio: Yeah, we need to remember that the pulp price level has been very, very high, almost historical high, but anyway, very high. And in Finland, sorry, in Europe, we have seen maybe 10 to 30 euros kind of adjustments and pretty much similar level in China. But still, the level is, price level is very good, and also then, the demand is, we expect that the Q4 demand will be quite good.

Robin Santavirta: All right, thank you. And then, the final question I have is related to cost, and particularly related to your wood raw material, pulpwood costs. What you call it now, as I understand, some increases for the end of the year, but I guess it was quite stable in Q3. So, you essentially seen quite limited amounts of cost inflation from your key cost item pulp wood. Now, isn't the market quite tight now in the Baltic Sea region? And how do you see sort of the winter, A, when it comes to availability, if we have a wet start to the winter, or B, when it comes to this top price level, and I guess that then comes to as a cost with the lag going into '23, what should we expect for the winter and the spring?

Mika Joukio: If I take first, wood procurement situation, of course, when we discontinue to take wood from Russia, which was altogether 9% of our overall consumption or need, and then, we don't at the moment buy from Baltic countries due to the price levels, so procurement is from Finland and Sweden, and we have had, we have increased our activities, and I'm convinced that we are able to, or Metsä Group is able to supply all wood we need to our mills. I'm confident. But as far as the price or cost inflation is concerned, Henri will tell you more details.

Henri Sederholm: Yeah, sure. So, I would still say that the cost inflation of wood is clearly lower than the cost inflation of our other key raw materials and cost elements. So, it is clearly started picking up, as we have mentioned, on the second half, but still, we see that the overall inflation for this year will be lower than the other cost elements.

Robin Santavirta: How should we look in into '23, then I guess there's a bit of a lag before sort of the higher prices come through the P&L, is something sort of working, I can see statistics of quite significant increases in both Sweden and Finland at the moment, and the direction in both countries are actually up in some cases steeply up. Shouldn't this be visible in your P&L sort of, with a lag of some time?

Henri Sederholm: That's right. There is some time lag, but we are not yet giving any guidance on sort of next year's cost level, as there are so many uncertainties at the moment.

Robin Santavirta: All right. I understand. Thank you very much, Mika and Henri.

Operator: The next question comes from Johannes Grunselius from DNB. Please go ahead.

Johannes Grunselius: Hello everyone. This is Johannes Grunselius, DNB. I have two questions. The first one is on FX. You obviously have exposure to the dollar, Swedish Krona provides you a very nice tailwind, which we saw in the third quarter. Could you help us a little bit in, you know, give some colour on the magnitude on the tailwind, let's say for 2023, if currency rate stays where they are, what kind of magnitude should we expect for next year, please?

Henri Sederholm: Yeah. So, you know, we are hedging the currencies for six to eight months. So, that's about the time lag that it takes before the kind of current spot rates hit our P&L in full scale. So, we are gradually going to the levels that we are seeing today. So, the first half of next year will already be clearly better rates than the second half of this year, and then further improve for the second half of next year, considering that spot rate would stay as it is today. So, of course, things can change, but as we see now, there will be definitely a gradual improvement when we start next year.

Johannes Grunselius: Sure. I understand you are exposed both to the spot and then you have your hedging level, but the hedging levels are turning gradually better, right? So, that's why I'm asking you on some kind of colour or possible, you know, range on the tailwind, but maybe you don't want to disclose that one.

Henri Sederholm: We are not going into the details at this stage, so we'd rather sort of comment closer to the time, but we can say only generally that it will be improving.

Johannes Grunselius: Yes. Yes. Fair enough. And then, my other question is on the expansion when it comes to new folding boxboards volume. So, you provide some indication of the annual effect, and that's highly appreciated. Should we anticipate some sort of significant effect second half of next year already, or that's more coming 2024? That's my question.

Mika Joukio: Yeah, concerning this Husum investment, folding boxboard investment, the start-up will be sometime, I mean, in September, October next year, and the standstill will be, at the moment we estimate like 45 days, and then, after that, the start-up period. So, of course, the volumes won't increase next year, and then it's understandable that we are building the stocks, inventories at the moment. And then, as far as the 2024 is concerned, of course, it depends on the start-up curve, but our estimation is that the rebuild line will reach the target capacity by end of 2025, so that the full capacity, the 600,000 tonnes, could be reached then latest 2026 totally.

Johannes Grunselius: Okay, that's helpful. But since you have built inventories now, you will take down operations in Husum to prepare for the expansion. Will it actually mean a sort of a technical short-term effect, which is negative on the P&L? How should we think about that in the third quarter?

Mika Joukio: Okay. Henri will evaluate that.

Henri Sederholm: Yeah. There will be an investment shutdown, which will be sort of more than a month next year. So, that will have an impact, but we will give more guidance on that later next year. But that will definitely have an impact.

Johannes Grunselius: Okay. Okay.

Henri Sederholm: Yeah.

Johannes Grunselius: But maybe that could be booked technically as a CapEx, or is it more of a P&L effect as you see it now?

Henri Sederholm: Well, we don't have the details for you at this stage, but of course, we are trying to cover also the kind of sales volumes from the inventories for that period. But surely, there will be also some cost elements involved.

Johannes Grunselius: Okay. Okay. Thank you so much.

Operator: The next question comes from participant from UBS. Please go ahead.

Andrew Jones: Hi, gents. A couple of questions from me. First of all, just for a bit more precise guidance on 4Q, you've talked about flat paperboard volumes. Can you give us some indication as to, you know, what the market pulp volume is likely to be like in Metsä Board and in Metsä Fibre? That's the first one. Secondly, just, you know, I don't know if you can guide that precisely, but costs were pretty stable in Metsä Fibre in this quarter, obviously, the wood cost is coming through on a lag, but could you kind of maybe give us some form of sort of range of, quote-unquote, cost inflation you might be expecting in the fourth quarter for both the Board business and Metsä Fibre? And just finally, on the FBB mill that you are planning the 800,000 tonnes, I'm just curious about, you know, where you expect to place those volumes in the long term. Because it seems as though, you know, the market probably isn't growing enough to accommodate both that and the project from Stora Enso, in addition to quite a lot of new capacity coming out of Asia in the near term. Where do you see that material going, and what gives you confidence the market would be large enough to take it? Thank you.

Mika Joukio: Okay. Okay. First of all, the Q4 volumes. So, as we said, paperboard volumes, our estimation is that they will be flat or stable comparing Q3. Of course, there is always the kind of slowdown in December, but still, our estimation is that, comparing Q3, the volumes will be flat. Then, as far as pulp is concerned, the last quarter normally is quite strong in pulp business, and especially December, and remains to be seen,

of course, there are certain uncertainties, but we are positive as far as pulp volume development, both here in Europe, as well as in China, are concerned. Then, if I jump to this, before Henri will tell you more about this cost inflation, but then, Kaskinen volumes, of course, the sales plan is part of the planning, of course, we have had already some plans before this announcement, but our main market is Europe and North America, and our intention is to continue to grow there also then based on the Kaskinen volumes. But then, we need to remember that Kaskinen volume, if and when everything, I mean, if everything goes very, very positive, then the earliest possible start-up actually would be 2026, which would mean, if and when we could be able to make a decision then next year, so then, the project period is at least two years. And then, we have the start-up period, so when the kind of remarkable and significant volumes are at the marketplace, it can be easily 2027. So, remains to be seen. So, but our target is to, our strategic goal is to grow in fibre-based, fibre packaging materials in long term also, and this is quite long-term play, so to say. But then, the inflation, Henri.

Henri Sederholm: Yeah. The cost inflation... Sorry.

Andrew Jones: Yeah, I was just going to say, I mean, what's your internal assumption for, I mean, A, you know, how big is the European FBB market now, how much growth do you expect over the next sort of four years? Because as I say, it is a large amount of capacity between yourselves and Stora.

Mika Joukio: Yeah, we are not looking only folding boxboard market. Of course, there are white lined chipboards, there are SBS, and we compete, so to say, also against them, and not only against folding boxboard. So, folding boxboard is very, very competitive grade, comparing white lined chipboard or SBS, as far as the lightweighting and kind of resource efficiency is concerned. And we look the bigger picture than only folding boxboard, both here in Europe, as well as in North America.

Andrew Jones: Okay. Thank you.

Mika Joukio: Inflation, please.

Henri Sederholm: Yeah. Yeah. So, the cost inflation Q4 against Q3 will be at least as rapid as Q3 against Q2. So, that's what we can say about it. We are not sort of quantifying the exact impacts, but we can say that it's at least as rapid.

Andrew Jones: Yeah. Okay, great. That's clear. Thank you.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad.

Mika Joukio: Okay, so no further questions. So, thank you very much for your... Sorry. There is one.

Operator: Please state your name and company. Please go ahead.

Linus Larsson: Thank you. It's Linus Larsson. Just maybe on the Husum recovery boiler start-up, and if you could guide us as to what the impact might be in the third, sorry, in the fourth quarter, please.

Mika Joukio: Yeah, so now, it seems so that the start-up will be in November, anyway in the last quarter. And our plan is that there won't be any kind of remarkable shutdown. So, it's pretty much like plug and play when we are changing from the old boiler to a new boiler. So, not remarkable kind of profit and loss impact.

Linus Larsson: Great. Thanks. That's reassuring. And then, on the third quarter, the minority charge was somewhat bigger than in previous quarters. I just wanted to double check if there were any one-offs, or if that's just purely on the Husum pulp mill minority share.

Henri Sederholm: Yes, purely the latter.

Linus Larsson: Thanks for that clarification. And then, if I may just go back to the previous discussion on the potential Kaskinen investment. It's, like you said, it's a big, it's a big potential machine, I'm just a bit curious, not necessarily how you place those volumes in the market, but more like what the concept would be, what kind of, I mean, the way you would operate that machine would presumably be quite different from other folding boxboard machines in your companies. So, I don't know, it's early days, but how are you thinking around that to make it cost efficient?

Mika Joukio: Mika Joukio here, so yeah.

Linus Larsson: Such big volumes.

Mika Joukio: Yeah. That is one element in this pre-planning, all in all, how we operate the mill. Of course, we have some ideas already, but intention and target clearly is that it will be world-class efficiency and resource efficiency as well as stem production and operating efficiency, and that is the kind of main target and main thing in our pre-planning. And it was not by accident that we decided to have that mill, in the Kaskinen, we have excellent area, excellent site there, it's by the sea, it's very close to the harbour, et cetera. So, there are all the elements in order to achieve this world-class resource efficiency. But as said, as you mentioned also, it's a bit too early to comment more, because planning is ongoing, and just actually started.

Linus Larsson: Yeah, no, I'm sure we'll come back to that. But in this context also, when it comes to the financing, the CapEx, anything you can say around that? I mean by that stage, your stake in Metsä Fibre will imply a lot more pulp capacity with also Kemi up and running. Is that part of the equation that you may take down ownership in Metsä Fibre, or do you see your pulp position there as important for, I don't know, even more growth in paperboard going forward or something else?

Mika Joukio: When we have the more precise figure, I mean the CapEx figure, then of course, one part of the pre-planning is to also plan the financing. And then, there are elements, as you mentioned also, which can't be thought, but at this point, it's a bit too early to say, because we don't know the exact sum of money, and we have also other investments, for example, our maintenance investment level is at the level of 50 to 60 million euros a year, that need to be taken into account, and also other possible investments. So, we are in the planning phase, but obviously, and clearly, financing is one element, no doubt.

Linus Larsson: Thank you.

Operator: The next question comes from Robin Santavirta from Carnegie. Please go ahead. Robin Santavirta, Carnegie, your line is now unmuted. Please go ahead.

Robin Santavirta: Thank you very much. Two questions still, if I may. First one is on the CapEX, you estimate at 300 million this year, that's useful information. How should we look upon 2023 CapEX? Is it the same range, a bit lower or any kind of, sort of, or comments on that would be appreciated?

Mika Joukio: Henri will take this.

Henri Sederholm: Yeah. It will be in the same region, slightly lower is likely outcome.

Robin Santavirta: All right. Thank you. And then, if I just can come back to this Husum expansion that you have next year, clearly that will be a quite nice earnings driver for you then in '24 and '25, but just thinking about this stop then, 45 days is a long time, I guess, to assume generates more than half of Metsä Board's earnings, and if that is out of line 45 days, is it the whole complex, also the pulp production, or can you produce pulp and dry it and sell it to the market? Or is it all of Husum out of play for 45 days? And if so, aren't we talking about tens and tens of millions in earnings impact then? Sure, temporarily, but still, then in next year Q3?

Mika Joukio: So, of course, board machine number two can operate normally during the shutdown, and then pulp mill can operate almost normally. I mean, we have the pulp drying machines, they are in operation, and then BM2. But as you probably remember, our pulp production capacity is, I mean, is so that we need to have everything up and running, so BM1, BM2, and drying machines in order to run full at the

pulp mill. So, we need to curtail a little bit then this pulp production during the shutdown. But drying machines and BM2, they are running full.

Robin Santavirta: Okay, I understand. So, not all of the complex, any kind of guidance for that before the event is always useful. But there's obviously time to that. That's all for me. Thank you.

Mika Joukio: Yeah. Okay. So, no kind of estimation at this point.

Robin Santavirta: No. No. Yeah.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The next question comes from participant from UBS. Please go ahead.

Andrew Jones: Hi. So, follow-up questions, I wanted to just ask about these investments in FBB in Asia, I believe, you know, yourselves and, you know, have been a bit more sort of, what's the word, not too concerned about that volume ending up in your markets. But, you know, given the size of those investments in China, I think there's like over 3 million tonnes of FBB coming through in the next year, you know, I mean, can that be absorbed in China, or is it, you know, are you likely to see those volumes showing up in Europe or North America, and, you know, will customers be willing to risk taking that new product, or, you know, is it, do your existing customer relationships mean that, you know, that sort of switch is unlikely? Like how do you see the impact of those volumes on your markets?

Mika Joukio: So, during the past, let's say 20 years, the Chinese producers, they have been here in Europe every now and then, then they are going back to Asia, depending on the kind of local demand. And you are right by saying that there will be over capacity, there is already over capacity now in China, comparing to the kind of the local demand. At the moment, they are not here, probably due to the high container prices, but historically, they've been coming and going, mainly in the eastern part of Europe, Turkey and so, and then, as far as the US is concerned, they are mainly in the West coast, not that much in the East coast, where we are active. So, we don't see that, even though it's, of course, a big volume that they are building there, but we don't see that as a kind of big risk for our plans and operations.

Andrew Jones: And do you see the quality being vastly different from what's on the market from yourselves and your competitor in Europe and North America? Or do you see it being fairly substitutable?

Mika Joukio: Yeah, of course, I wouldn't like to kind of evaluate the quality level of the competitors, but what I can say only is that our quality is best in class in folding boxboard, as well as in coated white kraftliner, and that we have noticed when we make comparisons. Of course, we follow the quality of the competitors very carefully, but maybe you better ask some customers or converters about the quality, and not us as a competitor.

Andrew Jones: Yeah. Yeah, true. And I guess there's also like a large, I guess, cost differential as well in terms of, you know, they're importing a lot of raw materials, and you know, presumably at a large cost disadvantage. I mean, do you have any sort of way of quantifying that? Or is there any sort of estimate that you would have in terms of what the sort of relative cash cost of a Chinese producer would be compared to yourselves?

Mika Joukio: I don't have the figures for you. We prefer to play our own game, and of course, we look around, but we concentrate on our own ball, and try to get that ball into the goal. So, that's our philosophy.

Andrew Jones: Yeah. Yeah. No, fair enough. Yeah. Well, thanks a lot. Cheers.

Operator: There are no more questions at this time. So, I hand the conference back to the speakers.

Mika Joukio: Okay. Thank you everybody for very active participation, good questions, and hopefully, you got some good answers also. So, thank you, and I wish you a good continuation for the day and the week. Thanks. Bye-bye.