

**Transcription**

**Metsä Board Interim report  
January–March 2023**

27 April 2023

## Mika Joukio

Good afternoon and welcome to the presentation of Metsä Board's Q1 2023 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. And I will start with Q1 in brief.

Compared to the corresponding period in 2022, the average sales price of both folding boxboard and white kraftliners improved significantly. Compared to the previous quarter, the improvement was driven by price increases of annual contract customers in folding boxboard. We have also focused on serving our customers in Europe and North America. The total delivery volumes of paperboards decreased, being roughly 100,000 tonnes lower than in the comparison period. I will return to the reasons for this in more detail in the next slide.

Demand for market pulp has weakened. The weakening has been stronger than we previously expected, and mainly for this reason, we had to revise down our previously issued result guidance for Q1 in April.

And due to the market softness, we have adjusted our production in paperboard, pulp and BCTMP. Paperboard production volumes were roughly 25 per cent lower, and pulp and BCTMP volumes 20 per cent lower, than in the corresponding period last year. And we will probably continue our adjustment measures going forward.

The Annual General Meeting took place in the first quarter, and the dividend for 2022 was confirmed in line with Board's proposal: 58 cents per share.

Earlier this year, we updated our strategic 2030 sustainability targets. The new targets highlight our commitment to safeguarding natural biodiversity, mitigating climate change, promoting the sustainable use of natural resources, healthy workplace communities and ethical operations.

And now for the paperboard sales and the overall demand situation. As the graph shows, paperboard delivery volumes have been declining for three quarters in a row. The weakened consumer purchasing power has reduced demand for consumer products, which in turn has been reflected in paperboard demand.

In addition, destocking in the value chain is still reducing the delivery volumes. Right now, there are no signs of a significant turnaround. During the first quarter, the volumes were roughly 20 per cent down from the comparison period and were roughly 10 per cent down compared to the previous quarter.

And here is the situation by region and by product. As I already mentioned, we have focused our sales on our customers in our main market areas: Europe and North America. Of these, sales to North America have been slightly stronger than in Europe.

And for this reason, the sales volumes for South America, the APAC region and Middle-East-Africa have significantly decreased.

If we compare the paperboard grades, the decline has been steeper in white kraftliners than in folding boxboard.

Now for market pulp. Metsä Board's market pulp deliveries fell sharply in the first quarter, totalling 83,000 tonnes. Our associated company Metsä Fibre's pulp deliveries also decreased, totalling roughly 650,000 million tonnes.

Market situation for pulp has clearly weakened. In Europe, the destocking has led to prolonged production shutdowns in paper and pulp, and has thus reduced pulp demand. In China, the economic recovery, following the removal of tight Covid restrictions, has not boosted demand for market pulp as expected.

Softwood market pulp prices fell at the beginning of the year, and the decline has steepened in the second quarter.

Before I let Henri move on to financials, let's have a recap on sustainability. In safety, we are developing in the right direction, although we still have room for improvement if we are to achieve our target of zero accidents.

Low capacity utilisation affected the production efficiency of our mills. Energy efficiency improvement is now somewhat flat compared to the base year 2018. The use of process water reduced, but more slowly compared to the corresponding period last year. We have tightened our 2030 target to reduce water use from 30 to 35 per cent.

The end of Russian wood imports, combined with reduced wood imports from the Baltic countries, increased the share of certified wood fibre of our total wood supply. In the first quarter, we were at a level of 90 per cent.

But now I will hand over to Henri to open the financials.

## **Henri Sederholm**

Thanks Mika, and good afternoon. Let's start with the top-line. Low delivery volumes of both paperboard and pulp were reflected in sales, which were 542 million euros.

The operating result was 89 million euros, down from last year's level but also from the previous quarter. And regarding this, we had to issue a profit warning, as we had previously expected the result to remain roughly at the level of Q4.

Next a closer look at the items that affected the result. First, Q1 versus Q1 last year.

The operating result weakened by 27 per cent. Higher sales prices for paperboards and market pulp more than offset the negative impact from declined volumes. On average, folding boxboard prices in euros improved by 20 per cent, and white kraftliner prices by 10 per cent. Profitability was also supported by a positive FX impact and the sale of unused emission allowances. Total costs, excluding pulp, increased by around 15 per cent from last year.

And then Q1 against the previous quarter, Q4. Average sales price of paperboards improved, driven by price increases for annual contract customers in folding boxboard. Kraftliner prices declined somewhat. And again, improved pricing offset the negative impact from reduced paperboard volumes. Profitability was also supported by a positive FX impact, the sale of unused emission allowances and no maintenance. Costs were slightly lower in energy, chemicals and logistics, whereas wood costs increased.

The Russian war in Ukraine has tightened the wood market in the Baltic Sea region, and this tightness is expected to continue in the coming years. However, the availability of pulpwood is currently in line with demand.

The biggest negative impact was attributable to pulp: lower volumes, weakened price levels and a lower result share from Metsä Fibre. In addition, the depreciation was some 10 million euros higher than in Q4 due to the completion of the recovery boiler and turbine in Husum.

The decline in profitability was also reflected in the comparable return on capital employed, which was 13.9 per cent in the first quarter, and 20.2 per cent on a rolling 12-month basis.

Capital employed totalled 2.6 billion euros at the end of March, an increase of 300 million euros from a year before.

The operating cash flow in the first quarter was 126 million euros, which includes a dividend from Metsä Fibre of 83 million euros. The cash flow after investments was 69 million euros.

Metsä Board's own dividend of 206 million euros was paid in the second quarter, in April.

And finally, the financial position, which remained strong. Net debt was at 9 million euros, and leverage was at zero – plenty of headroom to our targeted level, a maximum of 2.5.

And this position creates a solid platform for our ongoing and planned growth projects, about which Mika will now tell you more about. So back to you, Mika.

## **Mika Joukio**

Thanks Henri.

So, regarding the investments, there will be a lot of activity in the second half of this year.

In Husum, we will increase our annual folding boxboard capacity by 200,000 tonnes. The investment shutdown is scheduled from late August to early October. The added capacity is expected to be full in the market by the end of 2025. After this investment, the total capacity of Husum's BM 1 will be 600,000 tonnes per year. The investment value for this project is 210 million euros.

In Kemi, we will increase our white kraftliner capacity by 40,000 tonnes, after which the annual capacity of Kemi's kraftliner mill will be 465,000 tonnes. The start up of new capacity is at the end of the third quarter, and full production capacity is expected to be reached during 2024. The investment will also improve the mill's energy and water efficiency. Our initial investment value estimate was 67 million euros, but due to high cost inflation, among other things, it will probably end up higher.

And as a reminder, our associate company Metsä Fibre is starting up their new bioproduct mill in Kemi in the third quarter, replacing their old pulp mill.

And we are proceeding with our pre-engineering for new folding boxboard mill in Kaskinen, about which a possible investment decision can be made next year at the earliest.

In 2022, our total investments were 304 million euros, and for this year, we expect them to be in the range of 250 to 300 million euros. Maintenance capex will remain roughly at the level of 2022, around 50 million euros.

On the right-hand side, you can see the indicative timetable for both our ongoing and planned investments.

In addition to the planned new FBB mill in Kaskinen, we are planning the Husum pulp mill renewal during this decade by replacing the mill's fibre lines.

The investment values for these two projects will be specified in the context of possible investment decisions.

Now for the near-term outlook.

Slower than expected economic growth, continued inflation and weakening consumer demand are all creating uncertainty in the operating environment. The visibility of paperboard sales development continues to remain weak.

For Q2, we expect the paperboard delivery volumes and average sales prices to remain roughly at the level of Q1.

The outlook for pulp remains weak. Demand is expected to remain muted, with declining price levels. Upcoming maintenance shutdowns will reduce pulp supply somewhat.

Total costs are expected to remain stable. There may be an increase in wood costs, but a corresponding decrease in other production costs.

And increased maintenance, compared to Q1, will burden the profitability.

FX will have a positive impact in Q2 compared to the previous quarter and the corresponding period last year.

And with these assumptions, we expect our operating result in the second quarter to be weaker than in Q1.

To summarise:

We have been able to defend our paperboard prices, which have compensated for the negative impact of declining volumes.

Nevertheless, uncertainty continues in our operating environment, driven by destocking in the value chain and weakened demand for consumer products. In the near term, the visibility of sales development will remain low. Quite how long is difficult to predict: it also depends on the global economic situation.

We will continue to adjust our paperboard and pulp production if necessary to meet the current demand.

Despite the short-term challenges, we are focusing on developing our business and investing in sustainable and profitable growth. The long-term demand drivers for sustainable packaging materials, which are increasingly replacing plastics, have not disappeared anywhere.

The second half of this year will be busy, as two of our ongoing investments will be completed, and new capacity is being ramped up.

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. The next question comes from Linus Larsson from SEB. Please go ahead.

### **Linus Larsson**

Thank you very much. Hello everyone. My first question is on volumes regarding deliveries, Q-on-Q in the second quarter. I wonder what your guidance might be on production as you've had two quarters in a row now with, if I understand this right, lower production than shipments. How does that look in the second quarter please?

### **Mika Joukio**

As I said, the volumes in Q2 are expected to be stable compared to Q1 in delivery volumes. Our intention is not to increase our inventories. So then production will be either at the level of deliveries or slightly lower.

### **Linus Larsson**

Maybe some more destocking.

### **Mika Joukio**

Yes. In our stocks, yes, that's true.

### **Linus Larsson**

That leads me to my second question. Looking at the value chain as a whole do you have any observations to share as regards to timing and so forth on this ongoing destocking process? How long will it go on? Will it be helpful?

### **Mika Joukio**

During the first quarter I visited a lot of customers and we had good discussions. A common word for these discussions was uncertainty. So it's very difficult to predict whether destocking will end in Q2, Q3 or even Q4. The visibility is really bad at the moment.

### **Linus Larsson**

Do you see any differences when you compare various subsegments, various geographies?

### **Mika Joukio**

Not really, no.

**Linus Larsson**

Final question, there's been a lot of focus on the weakening pulp markets. Do you provide any guidance for the contribution that you're expecting from Metsa Fibre in the second compared to the first quarter?

**Mika Joukio**

Yes. I don't have any precise figure for you but the fact is that market pulp demand and pulp market altogether is weak in Q2 than in Q1. Impact to our result from Metsa fibre will be lower in Q2 comparing Q1.

**Linus Larsson**

Thank you very much.

**Operator**

The next question comes from Robin Santavirta from Carnegie. Please go ahead.

**Robin Santavirta**

Yes. Thank you very much. The first question I have is related to the CO2 allowance sales. I guess you saw in Q1 a similar amount in euros that you did all year 21 and almost as much as you did all year 22. So a big chunk now sold in Q1. What should we expect for Q2 and for the rest of the year when it comes to CO2 allowance sales?

**Henri Sederholm**

Yes. So what we have stated earlier on is that we will sell unused emission allowances throughout the year so that is still valid. We are not giving a figure guidance on the quarterly sales but it's a fair assumption to assume that we will continue to sell throughout the year. Our balance at the moment is about half a million tonnes. That's why we have a fairly large balance at the moment.

**Robin Santavirta**

But could it be as much as in Q1 this year in Q2? Is that what you plan?

**Henri Sederholm**

No comment on any numbers.

**Robin Santavirta**

All right. Thanks. I understand. Related to the maintenance shots now in Q2, can you provide some details about the financial impact that you expect versus Q1, and how does Q3 and Q4 look like?

**Mika Joukio**

Yes. Comparing Q1 the negative impact is roughly €10 million.

**Robin Santavirta**

Do you have a figure in mind, a ballpark for Q3 and Q4 as well?

**Mika Joukio**

Q3 is the biggest, roughly 20 million, and Q4 another ten.

**Robin Santavirta**

All right.

**Mika Joukio**

Compared to Q1.

**Robin Santavirta**

Thanks. Just a detail for Henry on the depreciation level. How was it? Was it so that there's a further increase now in Q2 or Q3 or how should we model depreciation going forward?

**Henri Sederholm**

The full year depreciation for this year will be about 20 million higher than last year. So a little bit above 100 million this year. 105 is a good number to use.

**Robin Santavirta**

All right. Thank you for that detail. The final question I have is related to the startup of your growth investment in Kemi and Husum in Q3. What should we expect? Does that mean that the paperboard delivery should remain a subpar in Q3 and any startup costs related to those ramp ups in Q3? How should we think about those?

**Mika Joukio**

Yes. In both cases, Husum and Kemi, we have by purpose then increased our customer stocks, customer inventories. So we don't expect any kind of hiccups concerning the deliveries during the shutdown period or after the shutdown period depending on how successful the startups are but that is the case.

**Robin Santavirta**

In addition to any costs that are related to those start ups? Sort of this abnormal production or start up costs, more employees or other fixed costs increasing related to the start.

**Mika Joukio**



No. Of course in the beginning the production volumes are not necessarily at the targeted level. It takes time. It's ramp up period but concerning the fixed costs we don't expect any additional costs.

### **Robin Santavirta**

Thanks. If I can ask one final one on pulp. It looks like pulp prices in China are going steeply down and looking at the wood cost, what are they? 50 percent higher in Finland and Sweden versus back a couple of years ago? Any plans to curtail for Metsä Fibre production or for you guys to curtail pulp production as well during the summer or early autumn if the prices head to the direction it now seems?

### **Mika Joukio**

Yes. It's one possibility to curtail production both in Metsä Board as well as then in Metsä Fibre depending on the delivery situation of course but our intention is not by purpose to increase our inventories too much.

### **Robin Santavirta**

Thank you very much. Bye.

### **Operator**

The next question comes from Antti Koskivuori from Danske Bank. Please go ahead.

### **Antti Koskivuori**

Yes. Thank you. One question from my side, you talk about paperboard prices in Q2 being flat while if you look at the statistics the white kraft liner prices have come down through Q1. I was just wondering if you could elaborate a bit the kind of assumptions behind that statement. Do you see folding boxboard prices going up compensating on lower kraft liner prices or how do you see that developing?

### **Mika Joukio**

On the average that is the case that the prices are expected to remain stable but depending on the region, depending on the product, there might be pluses or minuses. It's not fair to say that linerboards go down and folding boxboard goes up. That is not the case in general. Therefore based on our understanding and estimates average prices will remain quite flat.

### **Antti Koskivuori**

If we look at the spot prices of white kraft liners should we expect, something that we see today happening in spot prices, to have an impact on your sale prices later on? Is there a meaningful lag between prices that we see in the market and your delivery prices?

### **Mika Joukio**

Our intention in paperboard is not to sell spot. We prefer production curtailments and keep the price levels as we have guided.

### **Antti Koskivuori**

All right. Thank you so much.

### **Harri Taittonen**

Thank you. Good afternoon. My colleagues have exhausted pretty much my list of questions but maybe one. Some news on the US box shipments seem to be picking up a little bit in April, you have exposure of course to that market in your segment, but is there anything that you recognize on that side or is it some seasonal pickup or have you recorded anything on that? Then on the carbonboard side how the trade flows developing is a new feature that you get more import pressure from the Asian markets to Europe or to the common export markets. Is that something which is affecting the restoration of supply demand balance? Those two questions please.

### **Henri Sederholm**

Concerning your first question, of course, there is seasonality. Q2 is normally better than Q1. If we then compare North America to Europe, North America both in Linerboard as well as in folding boxboard is slightly better at the market situation. It's slightly better there on demand so that is the case, and then as far as the Chinese producers, you said Asian producers but I said Chinese producers, they are more active at the moment than for example, a year ago. Of course driven by lower logistic costs and they are active in South America, for example, or some countries in Middle East, Africa and so on, but not that much in the main markets of ours like North America and continental Europe but they are more active now than they used to be.

### **Harri Taittonen**

Thanks for that.

### **Mika Joukio**

Okay. No further questions then. I thank you all participants for your attendance to this to this event and wish you a good and nice continuation of the day and week, and of course we wish. Excellent Vappu. So 1st of May. Thank you.