

**Transcription**

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

26 October 2023

## Mika Joukio

Good afternoon, everyone 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. Here with me are CFO **Henri Sederholm** and Head of IR **Kati Sundström**. As always, let's first go through the presentation, and then take the questions.

First - Q3 in brief.

Unfortunately, the third quarter did not yet bring a turnaround in the sluggish market situation. Demand for paperboard remained muted, but stable. Our total delivery volumes decreased slightly from the previous quarter but not as sharply as in the previous quarters. Volumes are still clearly below the capacity levels, and we therefore continued the production adjustment measures.

The good news is that we managed to keep the average sales prices at a good level. There was a small decrease in Europe and Asia, but the situation was stable in North America. However, a good price level was not enough to compensate losses due to low volumes, and the operating result was barely in black. Henri will go through the details later.

The pulp market picked up in China. In Europe, the production curtailments among paper and paperboard producers are still slowing down demand. The positive thing is that pulp prices are on the rise in both markets.

The third quarter was marked by major investment shutdowns, as both the Kemi kraftliner and Husum folding boxboard capacity expansions took place at the same time. We will look at them in more detail later in this presentation

And naturally, the start-up of Metsä Fibre's new bioproduct mill in Kemi was also a significant event for the entire Metsä Group.

Now a few words about paperboard sales and the overall demand situation.

As the graph shows, paperboard delivery volumes have declined for several quarters in a row. Good thing is that the decline has slowed down. Compared to the previous quarter, deliveries in the third quarter decreased by 4 per cent, while the decline from the same quarter last year was as much as 25 per cent. In total, year-to-date deliveries have come down by 23 per cent compared to 2022.

Currently, consumer behavior drives the direction of paperboard demand: high-cost inflation combined with rising interest rates are eating up consumers' purchasing power, and they are more careful about their purchasing decisions. According to statistics, the value of retail sales appears to be increasing, while the volume of products purchased has fallen. In addition, the consumption of cheaper private label products has increased. This is slightly negative for Metsä Board's paperboards, which are widely used in branded products.

And here is the situation by region and by product.

Overall, volumes fell in all market areas for both products. Of the single regions, North America has held up best, although even there, demand has fallen from last year's high levels.

Imported cartonboard volumes from Asia, and specifically from China, have significantly increased. So far, sales have mostly been directed to Turkey and the Middle East, as well as South America. However, increasing volumes are causing a market imbalance in other regions like Europe. In addition, Chinese cartonboard capacity has grown strongly in recent years.

Our aim is to focus on customers, who benefit from our paperboards' high performance, in our main market areas of Europe and North America. In addition to the high quality of our paperboards, we gain a competitive advantage in terms of security of supply and a service concept that helps our customers with various packaging challenges such as reducing the carbon footprint of packaging, reducing plastic use and improving production efficiency.

Metsä Board's year-to-date delivery volumes in market pulp were a third lower than last year. Especially the deliveries of BCTMP were reduced because of production curtailments in paper – which is an important end use of BCTMP.

Metsä Fibre's delivery volumes were down by 11%.

The pulp market has started to show small signs of improvement, especially in China. Since the summer, demand has been at a good level there, while in Europe and North America, demand has been more sluggish. In Europe, the main reason for weaker demand has been the large-scale production curtailments by paper and paperboard producers.

However, in softwood pulp – Metsä Group's main grade – the market balance has been maintained by a reduction in global supply. Softwood pulp supply has been reduced by availability issues with raw material in North America, global production curtailments and permanent capacity closures.

Year-to-date market prices in softwood pulp have significantly declined compared to the corresponding period in 2022. However, during Q3, prices have been rising especially in China.

Before I let Henri move on to financials, let's have a look at how the current market situation is impacting sustainability, and how we are progressing towards our targets.

First, safety. Here, our target is zero accidents. Our year-to-date TRIF actual was 6.7, meaning that there is still room for improvement.

The end of Russian wood imports, combined with reduced wood purchases from the Baltic countries, increased the share of certified wood fibre of our total wood supply. This year, the share has been 90 per cent.

Decreased delivery volumes and the resulting low capacity utilisation affected negatively our mills' production efficiency. This was clearly seen in water use and energy efficiency. Water use per produced tonne was higher, and energy efficiency lower, than in the base year of 2018. On the other hand, less production led to a smaller amount of direct fossil-based CO<sub>2</sub> emissions, which were almost 20 per cent lower than in the previous year. Here, our target is that both scope 1 and 2 emissions will be zero by the end of 2030.

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

## Henri Sederholm

Thank you, Mika, and good afternoon.

So, lower volumes were reflected in the top line, yet the improved price level offset the negative impacts somewhat. Total year-to-date sales were down by 19%, and in the third quarter, the decline was as much as 26 per cent compared to the same period last year.

However, the differences were even larger in profitability. The year-to-date comparable operating result decreased by almost 300 million euros, or by 71 per cent. And in the comparison between the quarters, Q3 was down by almost 150 million euros, or 96 per cent, compared to the same quarter last year.

And let's take a closer look at the items that affected the result.

First, the quarterly comparison.

The positive contributors were higher sales prices for folding boxboards and FX impact.

We have already talked a lot about low volumes, and their impact on profitability was quite remarkable – not only because of a decline in deliveries, but also due to production adjustment measures.

However, the most significant negative impact, in quarterly comparison, came from weakened pulp prices in addition to the decreased result share from Metsä Fibre of more than 50 million euros.

And large investment shutdowns in Kemi and Husum in the third quarter increased maintenance costs compared to last year.

If we examine the whole review period from January to September, the positive contributors were clearly higher paperboard prices, the impact of FX after hedges and increased sales of unused emission allowances.

The main negative impacts derived from declined delivery volumes, both in paperboard and pulp, increased fibre and chemical costs and clearly decreased the result share from Metsä Fibre. Metsä Fibre's profitability was hit by lower sales volumes and prices of market pulp, higher wood costs, and the weakened profitability of the sawn timber business.

Naturally, the poor result development was also reflected in the comparable return on capital employed, which fell below the long-term targeted level of at least 12 per cent. The rolling 12-month rate was 8.8 per cent, and year-to-date was 6.7 per cent.

Capital employed at the end of the period totalled just below 2.5 billion euros.

The weak market situation emphasised the importance of efficient working capital management.

Our operating cash flow in January-September totaled 219 million euros, which was 57 million euros more than in the corresponding period last year. Cash flow was supported by production adjustment measures, which kept inventory levels moderate. In addition, working capital was reduced by a decrease in the value of inventories, due to the fall in pulp prices. In the comparison period last year, working capital increased due to rapid cost inflation.

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Operating cash flow in the third quarter was 77 million euros and after the investments, 33 million euros.

And finally, the financial position. Leverage has somewhat increased compared to the very low levels in 2021 and 2022, but remained at a good level, 0.7. There's still a lot of headroom to the maximum target level of 2.5.

The dividend payment in 2023, already took place in the second quarter, was the highest in several years, totalling EUR 206 million. We also have sizable completed and ongoing investments this year. Now, I will let Mika continue with the investment review.

**Mika Joukio**

Thanks Henri.

So, regarding investments, there was a lot of activity during Q3.

In our Kemi kraftliner mill, we completed a development programme initiated in 2021. The programme will increase the mill's production capacity by 40,000 tonnes per year and reduce the mill's energy and water consumption per produced paperboard tonne. Full production capacity, 465,000 tonnes, is expected to be reached during 2024. Target markets continue to be Europe and North America, where we already have a solid market position as a provider of high-quality coated white kraftliner. As part of the programme, Metsä Fibre's unbleached pulp production line was transferred to Metsä Board. The modernised production line has an annual capacity of 180,000 tonnes of softwood pulp, and it is fully used in the bottom layer of the kraftliner produced in Kemi. The investment value of the whole programme has been revised to 110 million euros.

At the same time, our associate company Metsä Fibre started up their new bioproduct mill in Kemi, which replaces their old pulp mill there.

As for Husum, we will increase our annual folding boxboard capacity by 200,000 tonnes. The investment shutdown started in the third quarter and is expected to be finished during the fourth quarter. After the investment, the total capacity of Husum's BM 1 will be 600,000 tonnes per year – and will be fully available on the market by the end of 2025. The investment value is 230 million euros.

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

For the full year of 2023, we expect total investments to be in the range of 250 to 300 million. Maintenance capex will remain roughly at the level of 2022 at around 50 million euros.

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

Our planned investments include the new FBB mill in Kaskinen and the second phase of the Husum pulp mill renewal, including the new fibre line.

The investment values, as well as a more detailed timetable for these two projects, will be specified in the context of possible investment decisions.

Now for the near-term outlook.

The operating environment remains uncertain, and the visibility of paperboard sales development is still rather weak. Rising living costs are affecting consumers' purchasing behaviour and the overall demand for consumer products. In addition, growing import volumes of cartonboard from China are increasing competition in Europe.

Paperboard delivery volumes in Q4 may decrease slightly compared to Q3 due to the Christmas holiday slowdown. We will therefore continue to adjust production for the rest of the year.

The average sales price of FBB is expected to slightly decrease from Q3. White kraftliner prices are expected to remain pretty much unchanged.

The total cost level is expected to remain stable. However, Q4 will include fewer maintenance and investment shutdowns than in Q3.

The demand for market pulp is expected to remain at a good level in China. In Europe, the production shutdowns in the board and paper industry are expected to continue and limit demand. However, market pulp prices are expected to improve in Q4 compared to Q3.

And FX will have a small negative impact compared to the previous quarter.

And with these assumptions, we expect our operating result in the fourth quarter to remain at the level of Q3.

To summarise:

So far, 2023 has been marked by low volumes, both in deliveries and in production.

Short-term uncertainty will continue, as demand for consumer products remains low. A change in direction would require an improvement in consumer purchasing power.

In this market situation, we will continue our efforts in efficient working capital and sales mix management. This will lead to production adjustment measurements and temporary layoffs.

We focus on customers who benefit from the high performance of our products and services in our main market areas, Europe and North America. In addition, we will continue our production adjustment measures to meet demand.

Despite the short-term challenges, we will continue to develop our business and invest in sustainable and profitable growth.

I will end my presentation and repeat what I said earlier: the long-term demand drivers for sustainable packaging materials, which are increasingly replacing plastics, have not disappeared.

And with that, we 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 Johannes Grunselius from DNB Markets. Please go ahead.

**Johannes Grunselius**

Hello everyone, it's Johannes Grunselius from DNB here. Thanks for the presentation. My first question is about how you view the inventory cycle adjustments in inventories in the value chain. This has been quite painful for you and your competitors. Where do you think we are in that phase? Is it largely done or do you see more headwinds in Q4, Q1 year from further inventory adjustments? Can you elaborate on that, please?

**Mika Joukio**

Yes. Our opinion is that these inventory levels are now pretty much down compared to where they used to be earlier this year and during the first half of the year. We don't expect that destocking would be an important factor anymore.

**Johannes Grunselius**

Okay, interesting. Would you say that this would be a logical tailwind for you moving into next year for one or two quarters, or is it difficult to call?

**Mika Joukio**

It's very difficult to call because consumer behavior is the main driver here, and that's very difficult to estimate, of course.

**Johannes Grunselius**

Okay, I got you. Then my second question is, it's a difficult question, I understand that, but you can elaborate a bit on how you view the cost curve in your industries, in your paperboard niches? Do you see any signs that, competitors are closing down production temporarily or even on a permanent basis because they simply cannot cover cash costs at these levels?

**Mika Joukio**

I don't want to comment on what competitors are doing. I just simply say that we have taken downtime, we have had temporary layoffs, and most probably other players do the same. However, as I said, I don't have a precise information on that.

**Johannes Grunselius**

Okay. My final question is, on the positive side, your prices on your core product seem to be holding up very, very well given market circumstances. Could you just give us a sort of a feeling for how one should think about earnings contribution from incremental terms here is fixed, is maybe the margins on incremental tons on your core products like 50 percent in that ballpark region would be interesting to hear your thoughts on that.



**Mika Joukio**

I don't want to talk too much about prices. Our intention is to keep healthy price levels. That has been our target during this year and that will be our target also during Q4 as well as then for next year.

**Johannes Grunselius**

Okay.

**Mika Joukio**

Prices, of course, play a very, very important role as far as the profit and loss calculations are concerned.

**Johannes Grunselius**

Okay, thanks for the explanations.

**Operator**

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

**Linus Larsson**

Thank you very much and a good day to everyone on CapEx. I'd like to hear your thoughts or maybe even an estimate on the total number for the full year 2024 and your general thinking around a potential project at Kaskinen and Husum phase two. Is it at all possible that they will start burdening cash flow already in 2024, or is that only potentially later on?

**Mika Joukio**

Concerning CapEx this year, it's somewhere between 250 and 300. As presented already in the presentation. Then next year CapEx will be lower. How much lower remains to be seen, but at this point, I would say clearly lower. Then concerning these big investment plans that we have for Kaskinen, and Husum fibre line - at this point, I would say that no major CapEx will be seen next year concerning those investments. Of course, first, we need to make a decision, and only after that then we will use money for those.

**Linus Larsson**

Thanks, then maybe getting back to pricing and understanding there are limits as to what you can and would like to say around following boxboard price negotiations. However, maybe you could at least remind us about the amount of sales that is affected by full-year

contracts and what's really up for renegotiation at the end of the year. Also maybe if you could in any way comment on the price dynamics, costs are still high. Demand is, for the time being weak. Profitability is low. How is that going to play out in negotiations? If you could just in any way comment around that would be interesting of course.

**Mika Joukio**

Yes, the annual deal negotiations here in Europe are ongoing as we speak, and it's too early to say what will be the result. Then I have earlier said the prices are pretty much based on demand and supply, but of course, the costs also play a certain role. The intention is not only to make paperboard, but the intention is to make money, as I have said several times. That needs to be remembered when we have these price negotiations, whether they are here in Europe or they are in North America.

**Linus Larsson**

Right, thanks. Also, the sales affected of these negotiations?

**Mika Joukio**

Could you repeat it?

**Linus Larsson**

How much of the business are we talking about that is subject to a full year following box full-price negotiations?

**Mika Joukio**

Yes, in North America, quite a small part is annual deals. Then here in Europe might be 50 percent roughly to figure.

**Linus Larsson**

Okay, great. Thank you very much.

**Operator**

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

**Andrew Jones**

Hi, and thanks for the presentation so far. I just wanted to ask about this volume trend because volumes are down 25 percent year-on-year. From what you said earlier, it sounded

like you're not seeing destocking be an issue in that. Are you saying that destocking had no effect on that year-on-year decline in the third quarter? Could you disaggregate how we should think about that decline? How much is destocking, if any of it, how much is underlying demand and how much is just losses to imports that you've called out in the release?

**Andrew Jones**

If we listen to Huhtamaki or others, they might say that coffee cups and things like that are down a few percent. We're not talking that scale of demand erosion. Where is that coming from in the underlying market? If there's no destocking having effect on that anymore, that sounds like really bad news for the underlying market. What are your expectations for an improvement in the coming months? I've got a follow up after that. If you could kick off there, thanks.

**Mika Joukio**

As I said, we don't see that destocking, at this moment, would take place anymore. Maybe earlier in Q3 and late Q2, that was still the case, but at the moment we don't see that anymore. Of course, this tough competition, which is then coming pretty much from the Chinese producers, they are very active now here. That can be seen in the volumes of the European players where typically Turkey, the Middle East, and Latin America, have been the areas where the European producers have exported volumes.

**Mika Joukio**

Now the competition due to the Chinese and Asian players, is much tougher than it used to be, and that's very important. Then the Russian volumes, we are not selling anything, not a single ton to Russia anymore, of course, and we used to sell more than 100,000 tonnes there annually. All these together, plus the consumer purchasing behavior, that leads to a situation where we are at the moment.

**Andrew Jones**

Okay, just to push back on that a little bit, in terms of those import volumes, can you try and quantify how much of an effect that's actually had on sales volumes for the likes of yourselves and other European producers? How significant an issue is this in your addressable market?

**Andrew Jones**

I don't have a clear figure for that. However, they are remarkable volumes. We are talking about hundreds of thousands of tons.

**Andrew Jones**

You're talking about the delta year-on-year.

**Mika Joukio**

Remember that the Asian players were not very active for example, during Covid when container prices were sky-high from China to Europe, for example. Now the container prices are lower and they have a lot of extra capacity there. That has led to the situation where we are.

**Andrew Jones**

We've still got large Asian mills ramping up and commissioning now. There's more volume to come there. It doesn't sound to me like that's slowing down. It's about your expectations could it accelerate further, and could that mean that 2024 potential volumes could be weaker still?

**Mika Joukio**

I think that pretty much also depends on Chinese consumption, how that will develop, and of course, if that develops positively, then the consumption in China would be higher and that would lead to the situation that the export volumes would be lower. However, of course, we need to remember that there are also new capacities coming in China. Let's see what will happen.

**Andrew Jones**

Yes, and a separate question on the recycling and reuse directive and the vote that we had this week. Could you give us a feeling for how you see that impacting your end markets and potentially these growth rates that you've talked about in the past for folding box board? I think you've talked about somewhere between three and four percent per annum growth in the market. This seems like a reasonable headwind if there are restrictions on single-use food applications. What do you assess the impact to be on your long-term volume growth, and how does that impact your decision around Kaskinen, which is obviously adding a huge amount of capacity into a market which seems to be in an atrocious state right now with medium-term headwinds coming through.

**Mika Joukio**

Yes, of course, it's a little bit too early to evaluate what kind of impact that directive could have, because there are quite mixed views on that. However, the share of the food service board to European market is not very big. Remembering that then, then the impact is not necessarily that important. However, of course, that is not only for food service packaging, it's also overall packaging. Then remains to be seen what will be the impact of that at the end of the day in different member countries and so on. I think the discussion is still ongoing, but of course, we follow that very, very carefully.

**Andrew Jones**

I just wonder, is there any circumstance under which you don't do kaskinen? All of these data points sound extremely bearish, and you seem to be proceeding as planned with the development. What would stop you from doing it?

**Mika Joukio**

The preplanning of Kaskinen is ongoing, and we are working on different fronts, whether it's logistics, whether it's environmental permits, whether it's technology, and so on, and all these infra things in order to be ready. If ready for decision-making, then when the time is right, and it's very difficult to say when the time is right, and of course, the final price tag plays a very important role. Also concerning decision-making, we don't have the final price tag yet, but whenever we have it, then of course we need to evaluate very carefully whether it's doable or not, but we are moving on all fronts as planned at the moment.

**Andrew Jones**

Okay, thank you.

**Operator**

The next question comes from Cole Hawthorne from Jefferies. Please go ahead.

**Cole**

Thanks for taking my question. Just like a little bit of color on the White Kraftliner markets, it seems the trends of volumes or diverging from the boxboard side. I'd just like to hear what's driving the kind of incremental improvement on the White Kraftliner side. Are you seeing demand from the retail-ready converters, or are there any in markets that are pulling through some of those volumes on the White Kraftliner business? If you could also give some color by region, that would be helpful.

**Mika Joukio**

Yes, the White Kraftliner that we are producing is widely used in retail and also in consumer packaging. I think the same reason that we have struggled with the folding boxboard, I think the same reason goes for the White Kraftline . If I remember right, 75, or 80 percent is used in retail or food packaging. It's pretty much comparable with our folding boxboard.

**Cole**

Is there a difference in the order books and what you're seeing between the boxboard side and the Containerboard or the Kraftliner grades?

**Mika Joukio**

Not really, no.

**Cole**

Okay, and then is there anything that you're seeing on the import front that may be impacting those or the export front that may be impacting the kraftliner?

**Mika Joukio**

Of course, the impact of the export is not as remarkable as in folding boxboard. However, we need to remember that the coated White Kraftliner market is quite small all in all, and our market share is pretty high. That is not that vulnerable so to say as a folding boxboard. However, as I said all the inflows are pretty much similar as far as White Kraftline and folding boxboard are concerned.

**Cole**

Great, thank you.

**Operator**

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

**Johannes Grunselius**

Yes, Johannes here again. Just want to take the opportunity to take a second question or another question on Metsä Fibre. Now, with the new mill up and running, as I understand it, apart from the volume change, how is this impacting the cost of the operations? If you can give us some idea how to think about that. Also, I see in the third quarter you have a minus €4 million in contribution from Metsä Fibre. I know Metsä Fibre also consists of quite meaningful wood product operations. Could you give a sense of what the wood product contributed to in the third quarter? Thanks.

**Mika Joukio**

Yes, maybe Henri take this, but before that, then it's sawn goods business that they are in. They are not that much on the wood products, we have a separate business area for that.

**Henri Sederholm**

Obviously, the new bioproduct mill in Kemi is more cost-efficient than the old one. We don't have figures to give, but that's definitely the case. It doesn't directly change our linerboard cost structure. Profit is coming through the associated company result of Metsä Fibre.

**Johannes Grunselius**

Okay, could you remind us about the nominal capacity and how that has changed now with a new mill in place?

**Mika Joukio**

The new capacity is 1.5 million tons.

**Johannes Grunselius**

And the old one was something like 600 000 tons, something like that, right?

**Mika Joukio**

Yes, that's right.

**Johannes Grunselius**

At least you can confirm there is a meaningful change in the Opex pattern given the new production setup. Right?

**Mika Joukio**

Yes.

**Johannes Grunselius**

Okay, fair enough. Thank you.

**Operator**

The next question comes from Cole from Jefferies. Please go ahead.

**Cole**

Thanks for taking the follow-up. I just wanted to ask about the pulpwood costs in Finland and Sweden. We've seen some of the statistics, particularly the weekly data in Finland, coming off a fair amount more than what we've seen in Sweden. There seems to be a bit of diverging commentary between various companies on where wood costs are going. Do you have any view on the differences in the wood cost development between Sweden and Finland at the moment, considering you've got operations on both sides?

**Mika Joukio**

Yes, we have seen both prices going down a little bit, but then again when we look at our P&L impact, it will take quite some time before the stumpage price changes come through to our P&L because of the long lead times. That's why we are not really seeing the impact that fast on our own on profitability. However, we have seen a small decline in wood prices in both markets.

**Cole**

Okay, thank you.

**Operator**

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

**Mika Joukio**

Okay. Mika Joukio here. Thank you very much for your good questions, good comments, and all-in-all your attention. I wish you a good continuation of the day. Thank you.