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## CONFERENCE CALL PARTICIPANTS

**Linus Larsson** *SEB Enskilda - Analyst*

**Mikael Jafs** *Cheuvreux Stockholm - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the Q3 2012 Ahlstrom OYJ Earnings Conference Call. At this time I would like to turn the conference over to Mr. Juho Erkheikki. Please go ahead, sir.

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**Juho Erkheikki** - *Ahlstrom Corporation - Financial Corporation Officer*

Thank you, and good afternoon from Helsinki. Welcome to Ahlstrom's Third Quarter Interim Report Conference Call and audio webcast. My name is Juho Erkheikki and today's conference call will be hosted by our President and CEO, Jan Lang, and our CFO, Seppo Parvi.

Following the presentation, you will have the chance to ask questions. Please note that the links to the webcast and to the slides are available on our website at Ahlstrom.com. You may also ask questions online.

Now Jan, please go ahead with the presentation.

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Thank you. Thank you very much. Welcome from my side also. We have a quarter behind that has obviously been rather challenging in performance terms. What I would say upfront here is that certainly there are a number of markets and businesses where there are demand issues -- problems. But at the same time, we feel that a number of positive topics have also emerged and have been developing into the right direction which is balancing out the shortfall, particularly on the volume side.

So if you look at the page number 3, July - September in brief, certainly most of our product demand were soft and remain soft. The positive trend that particular we see in advanced filtration where we have a lot of good traction in terms of generating new business and growth.

Where the main lowlights that perhaps one has to look at it on a geographical basis Europe and Asia, particularly Europe in the sense that very weak demand on a broader basis. Asia, weak but in the context of having expected that start to recovering, we have not seen that. We don't think that it's going to happen here for the remainder of the year either.

In financial performance, in terms of the numbers improved somewhat against comparison period but still not at a good level. What is positive however is pricing management. That has been an active part of the program here in recent months and the basic topic here is volume and volume driven wide operating profit as we heard.



And then, of course, some rather major steps in our strategy execution through the introduction of the deal with Munksjo to demerge label and processing and combine it with the Munksjo business and go public here in Helsinki during the first quarter of 2013. Then we also announced the acquisition of Munktell, which will strengthen our advanced filtration business particularly in the area of life science and laboratory products.

Going to the next page, just briefly, Seppo Parvi will talk about our numbers in more detail. Operating profit 9.3 million against Q3 2011, 8 million. And for year-to-date, first [9] months just shy of 40 million against 48 million last year. And then remembering that we had an extremely poor second half of 2011 where we only achieved an operating profit of 8 million.

Gearing has remained in good shape. I know no change there of significance whereas return on capital employed is at a weak level at 2.6%.

Quarterly net sales development have had an unusually poor Q3. Typically Q3 is our strongest quarter when we look at seasonality patterns over the years. But both last year and this year they have in relative terms been rather poor and growth being only 0.5% as reported here. And I think we talked about the majority of the topics here in terms of highlights and lowlights.

Quarterly operating profits slightly up. In absolute terms only (inaudible) percentage -- 17%. Impact positive price management, property improvement program driven in the latter part of 2011 which was particularly focusing on building and energy.

Continued efficiency gains in supply chain has been positive factor. And then we have worked rather actively on where a short-term cost mitigation actions in the businesses to compensate for in some business (inaudible) and at the same time lower volumes.

(Inaudible) around volumes, of course, but exchange rates have had a negative impact to euro/US dollar, and particularly that's (inaudible) this year especially in Brazil but also Italy's higher energy costs. And then specialty pulp prices have been increasing and an import element in some of our product range.

The bridge we have on the following page is demonstrating the key components of the drivers of operating profit. And in positive terms, in the quarter our selling price has been by far the most important positive generator of earnings whereas volumes are negative by 6 million -- EBIT impact this is.

Then you have the foreign exchange impact being just under -- short of 4 million, which a fairly large part is impacted in the label and processing business. So rather large swings whereas -- components.

Then our return on capital employed trend has not improved here. Same as the level as the quarter two 2012 at 2.6%.

If you got into each business area -- a brief overview, first looking at the building and energy where volumes are down by 26.9%. However, excluding asset closures about 9.1%. And the decline here is volumes particularly driven by wall covering business in China which has not recovered yet and then also wind energy -- overall in Europe particularly where our wind energy business (inaudible).

Highlights in building and energy surround wallpaper and flooring materials business has maintained a good level in Europe and it is particular (inaudible) Eastern Europe. And then also our specialty nonwoven products for [furniture] automotive and building industries.

And the profit improvement program has helped to generate higher earnings which has improved about 2.6 million against last year in operating profits excluding non-recurring items. So the trend is in the right direction here on building and energy business of off some significant work and restructuring of the business.

Filtration business where volume increase is 1.5%, but the net sales increased by 11%. And this increase of net sales is driven by organic growth particularly in advanced filtration where gas turbine and life science applications have generated good growth, but also impacted by a positive product mix.

Again, advanced filtration in overall terms helping here and then a favorable currency effect on net sales also impacted. And this can then also be seen in the operating profit, particularly the concentration performance improvement that we can see on the operating profit line item also.

Lowlights is demand in Europe have been for the most part of the year and certainly in Q3 soft and then we have increased energy costs in Italy impacting this also.

Going to food and medical, here sales here is up by 2.4% whereas volume is down by 10.8%. And the generator of this gap between volume and sales is about higher selling prices in a number of businesses, and then the improved product mix where we have exited some unprofitable businesses during the year earlier.

And then operating profits, on the other hand, is lower than prior year by about 1 million and this is driven particularly by volume. And at the same time the Mundra (inaudible) EBIT wise have not improved to the extent that we would like it to -- have seen it improve.

Label and processing, which is the business that is particularly and always has the highest impact on volume moves in the business -- higher demand and at the same time also exchange rates as it relates to pulp purchases. And this we can see in this business and on this performance during the last quarter and the year as a whole.

But on the other hand, label and processing has also been able to mitigate quite a lot of these negative aspects, and therefore the operating profit line is actually not as bad as it could have been given the circumstances of the demand is giving us today.

So the highlight is about release liners and Acti-V and its developments and new introduction earlier this year. Price increases have been implemented very actively and continuous profit improvement program and particular responsiveness to market conditions by short-term cost actions has been positive aspect.

Lowlights is in addition to demand our currencies are product mix, so we have compensated with lower margin business to maintain the volumes. And then particularly negative has been energy costs in Brazil during the year which is driven by the prices of natural gas imported from Bolivia into Brazil, which has a rather significant hit on our P&L.

And then I give over to Seppo to talk about the numbers in more specific terms. Seppo?

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**Seppo Parvi - Ahlstrom Corporation - CFO**

Thank you, Jan. So I will start with net cash from operating activities -- [matter of] fact has been rather stable since Q3 2010 when our working capital project ended. Q3 2012 we have net cash flow of \$21.2 million, which is down about \$5.5 million from Q3 2011.

On following page we have a graph showing the development of our operating working capital and that has been rather stable, like I said. Since the working capital project and they're rather trending down if you look at the turnover days. Turnover was 39 days end of Q3 which is down 2 days since the end of last year.

Then looking at the gearing ratio which is at 50.4% at the lower end of our target range from 50% to 80%. Net debt came down during the quarter from \$290.2 million end of the previous quarter to \$279.8 million end of Q3 this year.

Then looking at the maturity profile of our medium and long-term credit facilities, first of all, I can say that there has been no major changes. We have been active on the (inaudible) market since summer 2011 when we renewed our reward and credit facility.

Next, big maturities we have are then in next year -- in total 100 million maturing [through] our loan arrangement and undrawn credit facilities. Our first really one is then in 2015 when our EUR100 million bond matures. At 2016 revolving credit facility that I mentioned we -- would be mature.

In capital liquidity, that does remain at a good level. And we have some EUR330 million available including cash and unused committed credit facilities at the end of the quarter. In addition, we have uncommitted undrawn credit facilities and cash flow overdrafts of EUR151 million available.

Then moving to income statement and balance sheet, first of all, a couple comments on income statement. Net sales, like Jan said earlier, stalled rather flat effected positive by higher selling prices and currency effects, however their mobile volumes of course pulling down the sales.

Operating profit, 9.4 million compared to loss of 17.3. A year ago in Q3 we had non-recurring items of EUR25.3 million which was the gross write-offs relating to our divestment of HP. Net financial expenses, 5.1 million compared to 6 million a year ago. And share of loss of equity accounted investments 4 million, compared to [1.1 million] a year ago.

Income taxes for the quarter were 6.6 million, but I'd like to highlight that this reflects large share revenues in countries with high tax rate, countries like Brazil, US and Italy. And conservative booking of tax revenues, we have not recognized tax benefits on certain startups where we have been creating losses.

But [of particularly] note that cash based taxes -- cash outflow for taxes has been only 0.5 million, some (inaudible) when we look at the cash flow.

Then on the following page balance sheet, no major changes there. It still reflects (inaudible) total assets [particularly] for were held for sale as well as liabilities classified as held for sale. And gearing, like said, was at 50.4% compared to 38.2% at the end of the last year. This reflects our dividend distribution earlier this year.

Then on the following page we have cash flow statement. First of all, we can see that working capital came down 2.9 million compared to 10.8 a year ago and income taxes paid, like I said, were 0.5 million for the quarter.

Then investments, EUR21 million for the quarter. That is up from EUR12.5 million for Q3 last year and this include [flowing] expense investments in our joint venture for crepe paper production in Longkou, China that is coming to start-up phase very shortly and filtration material investments in Turin, Italy. They actually start-up -- took place already a couple months ago and it's moving ahead at full speed.

Net cash for investing activities in total was 11.6 million for the quarter including 9.4 million positive cash flow from some divestments and smaller selling of assets relating to some other closed assets that we have.

Okay, back to you Jan on future prospects.

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**Jan Lang** - Ahlstrom Corporation - President, CEO

Okay. Thank you. Before outlook, just a general comment of activities. Right now in Ahlstrom we are continuing to work on the initiatives we have with high intensity we have on -- particularly develop highly differentiated fiber-based materials -- good traction on that investment development work. In terms of improving the performance, continued efforts on continuous improvement and actually also intensifying that.

The big topic we have ongoing, of course, is the issue of combining label and processing and Munksjo where we will -- they will be issuing the prospectus for the listing by November 20. And that's the preparation work that is ongoing for completing that deal and everything there is going great at this point in time.

In terms of the outlook then on this page show that we did revise our outlook October 16, Tuesday last week, based on the fact that end of the quarter we saw a clear directional change in activity level. And compared to what we have expected for the remainder of the year with particular then Europe is clearly weak and to some extent has been weakening.

And we have not seen the recovery of Asia as we expected it to start to happen towards the end of the year, and we don't think now that that is going to happen as far as -- certainly as far as our business is concerned.

The [US] has been and having been quite okay during the year where there has been from an economic activity point of view anyway slow but step-wise improvement [but] certainly volatility seems there seem to be on a high level and I would argue even increasing somewhat. So -- for whatever reason -- could be the uncertainty around election, et cetera, what is going to happen after that.

So we (inaudible) our outlook in terms of sales down to 1.550 in terms of minimum level and then max 1.630 billion max, so within that range. And operating profit we expect to be between EUR48 million to EUR58 million. That is then excluding our non-recurring items and investments at EUR85 million.

So that was the overview and then over to you Juho. Thank you.

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**Juho Erkheikki** - Ahlstrom Corporation - Financial Corporation Officer

Thank you very much, Jan and Seppo. We have now concluded the first part of this conference call and are ready for your potential questions. Please note that you can also ask questions by writing them online.

So, operator, if you'd please go ahead with the questions from the telephone lines and we'll pause here for a couple of minutes.

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## QUESTIONS AND ANSWERS

### Operator

Okay. Thank you. The question and answer session will be conducted electronically.

(Operator Instructions)

We will take our first question now from Linus Larsson from SEB Enskilda. Please, go ahead.

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**Linus Larsson** - SEB Enskilda - Analyst

Yes. Good afternoon to you all. A question regarding currency. I can see the year-on-year earnings bridge. It's on slide number 8. And I wonder if you could on the FX component also give a quarter-on-quarter bridge, or basically what was the FX impact on EBIT in Q3 versus Q2. Thank you.

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**Seppo Parvi** - Ahlstrom Corporation - CFO

Well, it's Seppo here, in our Q2 presentation we have the FX of 4.4 million, FX compared to previous year; now it's 3.7. But I don't have the briefs with me comparing quarter to quarter, but roughly on average basis I think it's rather flat, so it's not such a big change in the FX if you compare Q2 to Q3.

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**Linus Larsson** - SEB Enskilda - Analyst

Okay. That's great. And then also I wonder -- you're referring to market weakness in the third quarter, and do I understand it rightly that that is very much an end of the quarter surprise, so it's rather something that has happened in September rather than July and August? And if so, does that go for most of your end use areas?

**Jan Lang** - Ahlstrom Corporation - President, CEO

Linus, it's Jan here. We have seen particularly towards the end of the quarter a markedly difference compared to what our expectations have been and it is you can say rather broadly of our segment -- not all, but broad enough to say that it impacts most of our business. And the thing of it is that we are receiving that and reading that reminder the year is going to be rather tough.

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**Linus Larsson** - SEB Enskilda - Analyst

Yes. And do you see is it so that if you look week by week now when you follow the developments in your broad portfolio of end-use areas and geographies, do you sense that the demand is still falling? Or, do you have any confidence in that we've found a new level like a new level was established late in Q3 and then it would be more stable? Could you give any color on that, please?

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**Jan Lang** - Ahlstrom Corporation - President, CEO

I'm not sure I can give that. Firstly, I wouldn't like to comment specifically on what is going on right now this month, October, and it's still bit of an early days. So to get a good sense we need the full October and as such I won't be able to comment on that.

But the development that we have seen happening during Q3 and expectations for Q4 is that it is going to be an overall lower level than anticipated. I'm not -- and we are not saying that we are seeing a continuous downward trend as such, but Europe is particularly -- given the situation here in Europe -- particularly soft and expected to remain soft for the remainder of the year.

And that's where the biggest issue in overall terms is and resides in terms of the business activity. So, that's all I can really say today --.

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**Linus Larsson** - SEB Enskilda - Analyst

No, that's fine. And when it comes to inventory levels, what kind of a transparency is there? Do you have any feel for where there may be destocking that explains part of the demand weakness right now?

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**Jan Lang** - Ahlstrom Corporation - President, CEO

Yes. That's a good question. We think and the assumption we have and the reading we have is also based on discussions of course with the market and customers is that in general in Europe the inventory levels are and have been on lower levels. That is not a question of large destocking of orders -- there's always some of that because the value chain is [right along].

So that is not the fundamental driver here being destocking. It's underlying demand that is more the issue. And what we have seen is rather high volatility. I talk about this in the analyst meeting here and a good hour ago. We see [a lot of] volatility in the months.

And particularly what has happened during the last few months is that towards the end of the month we make or we don't make a significant part of the business here in the last few days -- even last 2 or 3 days. We have a rather large part of our revenue coming in or then it doesn't come in. And it's kind of indicator that there is a lot of uncertain people just watching whatever they watch and then make a decision to (inaudible) inventory or they don't. So volatility is rather high particularly in Europe.

But then on the US side, we think that given the fact that there has been certainly some industries a rather positive progress on demand. And if you look at -- just as an example, the car industry has done really well in the US this year so far and -- which would indicate that the supply chain has been clocking up and building some inventory.

Typically that's what happens, and we think that's the case whereas -- and this is now going into politics and I shouldn't do that, but I'll comment it anyway. The uncertainty around the election and what's going to happen after election particularly January 2013 is creating uncertainty in the



businesses in the US right now and increasing volatility in businesses. So there is in general a reasonable development of the economic environment, but uncertainty has increased due to what may happen after the election.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Great. Thank you very much.

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Thanks.

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**Operator**

We will now take our next question from Mikael Jafs from Cheuvreux Stockholm. Please, go ahead.

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**Mikael Jafs** - *Cheuvreux Stockholm - Analyst*

Yes, thank you. Good afternoon, everybody. And I have two questions. Now post the combination of Munktell in your label and processing business, can you say a couple of word on how should we think about the growth in terms of organic growth for the remaining part of Ahlstrom? What would be a sensible level to think about?

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Mikael, it's Jan here. Thanks for the question. We have so far as far as post (inaudible) direction is concerned, we have outlined that, if you will, our priorities and general kind of thinking. That is not at this point in time very detailed yet.

And you may have already looked at the material that we have on the webpage in that respect and basically stating that we are and will increase the intensity in working on differentiation and then high performance fiber materials and focus our attention on growing there.

And typically -- a typical example of that -- what our thinking is there is certainly the Munktell acquisition which is a -- it's not a large business, but it's very successful and a high profitable business. So growth, yes, organic but also to potential M&A activity in higher margin type of businesses.

We have not at this point given any new indication on growth ambitions. We may come back to that topic then later, but right now I don't have anything else agreed and communicated that our ambition is to grow in the range of 5%, but that may or may not change as we work our strategic agenda here in the next few months as to going forward.

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**Mikael Jafs** - *Cheuvreux Stockholm - Analyst*

Okay. Thank you. That's clear. And then a general question, since you are such an important and large buyer of pulp, what is your view on the pulp market right now going into the end of the year?

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**Seppo Parvi** - *Ahlstrom Corporation - CFO*

Well, like the Jan already said, we don't like to speculate with pulp prices. Like you know when it comes to raw materials and cost drivers, it's very much dependable on demand in China. And that, of course, remains to be seen what happens there, for instance, [after] political changes [that guide] the pipeline.

**Jan Lang** - Ahlstrom Corporation - President, CEO

I have another perspective on it -- a bit longer term perspective. Not being speculative, but when you look at what is going on in the pulp industry, particularly in South America right now, you're going to see about depending on with how they execute them but up to 3 larger investments coming on stream here starting late this year, the first on El Dorado and then a couple of others within the next certainly one other next year and even a third early 2014.

Given where the economic environment is overall, the logic says, Mikael, that there should be an oversupply of pulp in the world for the next about 18, 24 months.

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**Mikael Jafs** - Cheuvreux Stockholm - Analyst

Okay.

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**Jan Lang** - Ahlstrom Corporation - President, CEO

That's what the logic says. And that would mean that there will be and [must be] for price pressure on pulp, but again other factors may play and then, of course, the key question is how high the demand this is and when is it starting the recovery.

If the situation would be like it is right now, low demand throughout next year in pulp on a rather low level, then we will have most likely a price pressure on pulp going forward for the next 24 months.

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**Mikael Jafs** - Cheuvreux Stockholm - Analyst

Okay. Many thanks.

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**Operator**

(Operator Instructions)

We have no further questions over the telephone.

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**Juho Erkheikki** - Ahlstrom Corporation - Financial Corporation Officer

All right. Thank you. [Since that] we have no further questions at this time, so I think we are therefore conclude this conference call. Thank you, ladies and gentlemen, and we hope to hear from you again in January when we are scheduled to report our full year 2012 financial results. Thank you.

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**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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**Seppo Parvi** - Ahlstrom Corporation - CFO

Thank you.

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