

**Transcript**

**Metsä Board Half-year Financial Report  
January–June 2024**

1 August 2024

## Mika Joukio

Good afternoon everyone and welcome to the presentation of Metsä Board's results for January–June 2024. My name is **Mika Joukio**, and I'm the CEO at Metsä Board. Here with me are CFO **Henri Sederholm** and the Head of IR, **Kati Sundström**. So, let's go through the presentation first and then take the questions.

Let's start with the Q2 summary.

The positive trend in paperboard demand that we already saw in the first quarter continued in the second. Our paperboard delivery volumes increased slightly from Q1, and average sales prices in both folding boxboard and white kraftliners remained stable.

Market prices for pulp increased, both in Europe and in China, compared to the previous quarter. Especially in Europe, demand has been strong throughout the year.

As always, the second quarter included more planned maintenance than the first, which is practically a maintenance-free quarter.

The improved business momentum was disrupted by unfortunate events.

During March–April, the political strikes in Finland stopped raw material transports to the mills and closed the ports – thus preventing our customer deliveries. We had to shut all our mills in Finland for two to three weeks. This led to production losses of 50,000 tonnes in paperboards and 30,000 tonnes in BCTMP.

In addition, the gas explosion at the Kemi bioproduct mill at the end of March stopped the integrated mill's pulp production for almost the whole quarter, which also impacted our kraftliner production.

The financial impacts of these events were significant. We will return to this during the presentation.

In Q1, we announced that we would not proceed with our planned folding boxboard investment in Kaskinen. Instead, we will improve the efficiency of our current mills and accelerate our target to be fossil-free in production by the end of 2030. As part of these plans, we made an investment decision to renew the Simpele board machine.

And finally, our sustainability work was recognised by EcoVadis, as we once again achieved the platinum level in their rating, with excellent scores.

And here is the paperboard sales split by region and product

Overall, volumes were fairly similar to the corresponding period last year.

In March, a bridge collapsed in Baltimore, US, where our main North American warehouse is located. The good news is that we managed to re-route our deliveries, and our customer deliveries were hardly affected.

The explosion at the Metsä Fibre's Kemi bioproduct mill also affected our kraftliner production. However, we managed to start the production of kraftliner with dried pulp and at a lower-than-normal production level quite quickly after the accident. The impacts on our delivery volumes were rather limited, but the negative impact on production costs was remarkable.

Market pulp delivery volumes increased clearly compared to the corresponding period last year. Metsä Fibre's delivery volumes were limited by the long shutdown in Kemi.

In Europe, the demand for market pulp has clearly increased due to the higher operating rates of paper and paperboard producers. The improved market situation has also been reflected in European market pulp prices, which have experienced a sharp upward trend.

In China, buying activity has been lower, as pulp demand has been limited by the shutdowns in paperboard and paper production.

During the first half, the supply in long-fibre pulp was reduced for several reasons: the Finnish political strikes; global logistics bottlenecks; several planned maintenance works among pulp producers; and the long shutdown at Metsä Fibre's Kemi mill.

## Henri Sederholm

Thank you, Mika, and good afternoon.

Let's start with the top-line. In Q2, sales amounted to 510 million euros, which was slightly higher than in the same period last year. In January–June, sales were 994 million euros, four per cent down from the corresponding period last year. The main contributor was lower paperboard sales prices.

The operating result in the second quarter was in the red due to the unfortunate one-off events we've already mentioned. In the review period, the operating result was at 31 million euros, or 3.1 per cent of sales.

And now let's take a closer look at the items that affected the result. First, we'll look at April–June compared to the same quarter last year, starting with the positives:

Both paperboard and market pulp volumes increased. In addition, market pulp prices were higher than in the same quarter last year. FX also had a small positive impact on results.

Total costs remained fairly stable. Chemical and energy costs decreased, but wood and logistics costs increased.

And now the negatives, where lower sales price of folding boxboard had a major impact. Sales of carbon emission allowances were some 10 million euros lower. The negative impact on results from the political strikes in Finland was around 15 million euros. From the Kemi mill explosion, it was around 40 million euros. These include the impacts from Metsä Fibre's result share. And finally, the result share from Metsä Fibre in Metsä Board's operating result was 13 million euros negative. Now the comparison for the January–June review period.

Profitability was supported by lower variable costs. Chemical and energy costs especially decreased. The total cost deflation, excluding pulp costs, was around three per cent compared to H1 last year.

Delivery volumes of market pulp and paperboard increased, and FX also had positive impact on results.

The main negative contributor was again the lower sales price of folding boxboard. In addition, the sale of unused emission allowances was clearly less than a year ago.

The combined negative impact from strikes and the explosion, including the impacts from Metsä Fibre's result share, was around 65 million euros.

The result share from Metsä Fibre was also clearly negative, at -18 million euros. In addition to strikes and the explosion, Metsä Fibre's profitability was burdened by the lower sales price of market pulp, increased wood costs and higher depreciation.

In Q2, the comparable return on capital employed was close to zero. For the whole review period, January–June, it was at 2.9 per cent.

Rolling 12 months was at 1.9 per cent. These are very low percentages – and clearly below our target of over 12 per cent.

Capital employed at the end of the period totalled 2.4 billion euros.

Low profitability combined with increased working capital kept cash flows negative. During the first half of the year, the operating cash flow was around 17 million euros negative, and free cash flow around 65 million euros negative.

It is noteworthy that in the corresponding period last year, cash flow was supported by production adjustment measures to prevent an increase in inventory levels. In addition, cash flow this year included a dividend from Metsä Fibre of only 10 million euros versus last year's 83 million euros.

Now let's look at the financial position.

As we see here, our leverage has risen sharply during 2024. At the end of June, we were at 2.2, which is still below our maximum target level of less than 2.5.

The main contributor here is the poor development of EBITDA during the last 12 months.

Since the beginning of this year, our net debt has increased by 150 million euros, mainly due to poor cash flow including an increase in net working capital of 100 million euros, and dividend payments of close to 90 million euros.

However, it's fair to assume that once the profit level normalises, leverage will also improve.

And now I'll hand back to Mika.

## **Mika Joukio**

Thanks Henri.

So let's look at investments.

Before turning to ongoing and future investments, let's recall two major investments we completed last year at Husum and Kemi.

We're now focusing on making full use of these investments – and the additional capacity they are bringing: 200,000 tonnes of folding boxboard and 40,000 tonnes of white kraftliner. This will further strengthen our leading position in our main markets Europe and North America.

However, the gas explosion at the Metsä Fibre's bioproduct mill's evaporation plant in March may somewhat delay our target of having Kemi's increased kraftliner capacity fully available on the market in 2025.

The evaporator units have now been renovated, but there will be another long shutdown in Q2 2025, when the new evaporator units will be installed. During the installation, which is expected to last two months, we will utilise the same special arrangements that we did during the renovation works – to keep production running and ensure our customer deliveries.

Our annual investments are temporarily more moderate before decisions are taken on planned new investments. During the first half of the year, our total investments were 53 million euros.

Total investments in 2024 will be lower than in 2023. We have slightly lowered our previous estimate due to the transfer of some ongoing or completed investment payments to next year.

Now for our upcoming and ongoing investments.

In April, we decided to renew Simpele's paperboard machine. This is the first part of a broader investment programme planned for the Simpele mill over the next ten years.

The investment will improve the quality and performance of Simpele's folding boxboard, which is mainly used in food and pharma packaging. It will slightly increase the mill's annual capacity and improve production efficiency.

With new technology, we can replace the use of fossil fuels in paperboard production, which in turn will take us closer to our 2030 fossil free target.

The estimated completion is in the second half of 2025, and the value of the investment is expected to be 60 million euros.

We are also planning other investments at our current mills, which will support our strategy to grow in fibre-based packaging materials and renew our industrial operations.

The next steps in Simpele will be the renewals of the paperboard finishing area and mechanical pulp production, as well as a new power plant.

At the Kyro board mill, we will launch a programme to improve the performance of the current barrier board and expand its end use areas.

In Husum, the second phase of pulp mill renewal will include a new pulp drying machine. I should remind you that we completed the first phase of the renewal in 2022, with the start-up of the new recovery boiler and a turbine.

And finally in Husum, we have started a programme for new products on the current white kraftliner production line, BM 2. The aim is to find innovative solutions for the growing food and food service packaging segment.

And now for the near-term outlook.

The solid demand situation for fresh fibre paperboards is expected to continue in the third quarter. Overall demand for consumer products is determined by consumers' purchasing power and their general purchasing behaviour.

We expect our paperboard delivery volumes to increase slightly from Q2, and average sales prices to remain stable.

Total costs, excluding pulp, are expected to remain stable. However, there will be more planned maintenance in the third quarter than in the second, with an estimated negative result impact of around 10 million euros.

For softwood pulp, we expect to see stable demand in Europe and North America. In China, the demand continues to be weak.

Also, FX will have a negative impact on Q3 results.

Regarding the losses caused by the explosion at the Kemi bioproduct mill, the claim settlement process with the insurance consortium have been initiated and is ongoing. We will keep you updated on this in our interim reports and in separate releases if necessary.

And we expect our Q3 operating result to improve from Q2.

To summarise: the paperboard market has picked up from last year's very low levels.

However, the strengthening of overall consumer product demand has been somewhat slower than expected, as consumers' purchasing power continues to be negatively impacted by higher living costs and persistently high interest rates.

The positive market momentum was interrupted by unfortunate events that had significant negative impacts on our first half results and especially on the second quarter results. The good thing is that these are now mainly behind us, and we can fully focus on growth with our customers by utilising the recently increased capacity in high-quality fresh fibre paperboards.

We will also continue to implement our strategy to grow in fibre-based packaging materials and to renew our industrial operations. We have announced plans for new investments at our current mills. With these investments, we are improving our competitiveness, accelerating our target of being fully fossil free in production and developing future products to replace plastics. We will keep you updated with both our ongoing and upcoming investments as soon as plans are finalised.

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

## Q&A

*Moderator:* If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Robin Santavirta from Carnegie. Please go ahead.

*Robin Santavirta:* Yes. Good afternoon and hello everybody. Now, can I ask about the outlook? You expected the paperboard delivery volumes to increase slightly in Q3. However, also you stated that the increase that we have seen recently has been driven partly by restocking in the supply chain. Is it not also that you expect restocking in the supply chain to continue in Q3, or do you expect the underlying demand to improve? Regarding paperboard, another question I have is related to pricing. You expect prices to remain roughly unchanged in Q3, so does that mean that there are no price increases in containerboard, for example, for you guys, or in pricing in the US, or are all paperboard grades with the same price for Q3 versus Q2 is that your expectation. Is that correct? Those two, thanks.

*Mika Joukio:* Okay, Mika here. Starting from the prices, yes your assumption is right. We estimate that the prices will remain fairly stable during Q3 versus Q2. You know that a big share of folding boxboard prices or deals are annual deals. Of course, that plays a certain role here, but that is our assumption at the moment. Then,

concerning this restocking and consumer behavior, our understanding is that the restocking is about to come to an end, not necessarily fully, but anyway, it's not as strong as it was at the beginning of the year. Then the recovery of the demand has been a bit slower than we originally estimated. However, having said that, still our estimation is that the volumes will be higher in Q3 compared to Q2. Of course, the strikes played a certain role there in Q2, but anyway, we had a nice growth in Q2 compared to Q1. Now estimation for Q3 is also set to grow.

*Robin Santavirta:* I understand, thanks. Can I ask, is there a difference between the demand situation of paperboard overall in Europe versus what you see in North America?

*Mika Joukio:* North America is slightly stronger, which has been the case also, if not for several years, but at least for the last two or three years.

*Robin Santavirta:* All right, I understand. Then the final question from my side is regarding your costs. I was a bit surprised to see you guys guiding flat cost in Q3 versus Q2. I can see wood costs have gone up. I know there is a bit of a lag in the P&L impact, but still, I was expecting the cost overall to go up in Q1, Q2 and Q3, and now you go for flat. Could you just separate a little bit what is going on with wood cost what is going on with the other end of the key input costs at this stage?

*Henri Sederholm:* Yes, as we got it, flat cost Q on Q. There are different elements there. We still expect the wood cost that we are looking at the mills will go up. On the other hand, some elements, like chemicals, are likely to come down a bit. However, the overall net impact is close to a flat position.

*Robin Santavirta:* All right. One more if I may and it's related to the insurance payment. Should we expect that to be booked already this year related to the Kemi explosion? Could you give some guidelines about what percentage of the 40 million that could be recovered?

*Henri Sederholm:* The process is ongoing and we can't confirm an exact timetable on that. It is quite possible that we will get at least part of the compensation during this year, but I cannot confirm exact timing at this time. Of course, it's good to remember that, it's both Metsä Board and then also Metsä Fibre who are claiming this. We'll keep you informed when we know more exactly, but now proceeding is ongoing.

*Robin Santavirta:* All right. Thank you very much.

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



*Joni Sandvall:* Thanks for the presentation it's Joni Sandvall from Nordea. Maybe one question related to the Kemi pulp mill and the kraftliner operations there. Can you run with your desired capacity now until the installation of new evaporation units there?

*Mika Joukio:* Yes. Very simple answer. Yes, we can.

*Joni Sandvall:* Okay. That's clear. Then for the CapEx guidance, you lowered it for '24 and said that there is some timing shift for '25. Is it correct to assume now that in '25 we will see higher CapEx needs?

*Mika Joukio:* Well, it's too early to say or give guidance on '25 CapEx. That depends also on projects that will be decided later on. However, what we wanted to confirm is that this year will be lower than earlier guided. There will be a shift to '25 of some tens of millions.

*Joni Sandvall:* Okay. Then the last one from my side is on the net working capital, which has increased now. How should we view the situation now going into H2? Should we still see an increase in the working capital?

*Henri Sederholm:* Well, the net working capital has obviously reflected the higher activity level of production and deliveries as well. We have seen not so much inventory increase but receivables have been increasing also the payables but to less extent. Typically there's a seasonal pattern. The first half we'll see more accumulation of net working capital and there will be less or even some release on the second half. However, let's see. Of course, it depends on on the activity level, which we obviously hope to see improve. However, typically there will be less accumulation of net working capital in the second half.

*Joni Sandvall:* Okay, that's clear. Maybe one follow-up then. Still on the on the order book situation. When looking now into Q3, you are guiding for slightly higher delivery volumes. Could you give any indication of how order flows have moved during Q2?

*Mika Joukio:* Let's say at the beginning of the year, the order books or the inflows were slightly stronger than what we have seen now in May and June, but no remarkable changes, but it's still something. However, we still believe that the volume of deliveries will be higher in Q3, but we are not running full. That's clear.

*Joni Sandvall:* Yes, thanks, That's clear. That's all from me. Thanks.

*Moderator:* The next question comes from Johannes Grunselius from DNB Markets. Please go ahead.

*Johannes Grunselius:* Hello, everyone. It's Johannes here. I have two questions. My first one is on your pulp business, because of the Kemi situation in March affecting Q2, it's a little bit difficult to analyze the Q2 period. However, could you give us some help there, please, on how you see volumes and costs developing, especially volumes, would be helpful if you could give comments on that? Perhaps on your own business, Metsä Board's expected pulp volumes for Q3?

*Mika Joukio:* Okay, Mika here. Yes, the demand for the pulp market in Europe as well as in North America, we estimate that they will be quite stable in Q3, comparing Q2, but then the situation in China is worse there. There we see that the demand is not as strong. Concerning our deliveries, Metsä Fibre and Metsä Board, we need to understand that in Q2, due to this explosion at Kemi, Metsä Board helped Metsä Fibre in deliveries, especially to China. That then resulted in good volumes for Metsä Board, which is not a typical situation, because Metsä Fibre Kemi was down. Now the situation is normalized, and that means that probably the volumes will be lower in Q3 compared to Q2.

*Johannes Grunselius:* You mean Metsä Board if I understand it right?

*Mika Joukio:* Yes Metsä Board.

*Johannes Grunselius:* Yes, because I looked at Metsä Fibre's volumes and production or deliveries it's like 600 or so for Q2, which is a very, very low number. It's the lowest I've seen. It's of course, explained by the incident in Kemi. It would just be helpful if you could indicate what kind of volume uplift we should expect from that Q2 base, if you expect an uplift, of course.

*Mika Joukio:* It's very difficult to estimate. Of course, now when Kemi is up and running, that will have certain role but I wouldn't give any estimation on this.

*Johannes Grunselius:* Okay. Now, how you read the pulp market, many of your peers are more cautious about China. Of course, we've seen negative news stuff from China in the statistics. However, have you seen incremental more negative stuff in China, or is it more a general feeling, or could you share anything if you have seen anything tangible in China?

*Mika Joukio:* We have seen that paperboard and paper production in China is lower than it was, for example, at the beginning of the year. That's a clear thing.

*Johannes Grunselius:* Okay. Very clear. Thank you very much.

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

*Linus Larsson:* Thank you very much and good day to everyone. Just coming back to the CapEx question previously, and I understand if you don't want to give a very detailed or specific number to 2025. However, on a maybe general note could give some framework for how to think around CapEx going forward. We're coming from three heavy CapEx years. Now you're bringing down CapEx a bit for 2024. However, compared to 2024 what's the reference going forward? Some of the investments that you are doing at your paperboard mills will take place over a very extended period of time. How should we think about the rough levels of total CapEx beyond 2024, please?

*Mika Joukio:* Okay. Henri. Take this.

*Henri Sederholm:* I'd like to refer to the ongoing and planned investment slide that Mika presented. We have these elements that have partly been decided when it comes to Simpele €60 million investment there, which will be realized mostly next year, some part already this year. Kyro Mill Board investment hasn't been decided yet. Also, what comes to the new projects in Husum, the renewal of the pulp mill, and then the BM2 research on what to do with that one? Those will be quite decisive on the future CapEx level. I won't be able to give any exact guidance on that one. It depends on the timing of these investments and if they are decided or not. It's very difficult to say we'll be giving some guidance on '25 a bit later this year so I just hope you bear with us.

*Linus Larsson:* Okay, I understand. What's the current maintenance CapEx level? What's the updated number on the current CapEx base?

*Henri Sederholm:* It remains at 50 to €60 million per year.

*Linus Larsson:* Great. Then, regarding Kemi, you already said on the call that you are now able to run the linerboard mill fully. What to expect in 2025? I know you have this big stop coming up at the pulp mill. What impact should we be expecting from the pulp mill repairs and the linerboard production in 2025?

*Mika Joukio:* If and when these evaporators are renewed, then it will take roughly two months. During that time when the pulp mill was down, we learned how to produce white kraftliners by utilizing dried pulp and then some special arrangements

concerning the energy arrangements. Our estimation is that we will be able to produce during that shutdown, but of course, then, the production costs will be higher due to these obvious reasons. Capacity is pretty close to full capacity. Not 100 percent, but let's say somewhere around 80, 90 percent during that time.

*Linus Larsson:* Right. If you were to put it into perspective compared with the impact that we now saw in the second quarter, I understand the market can take various turns before we're there, but do you have any rough idea if we were to just give any kind of magnitude to what to expect.

*Mika Joukio:* Yes. As you said, it's too early to say because we do not know what market situation we have and how much we will be able to then produce in advance before the shutdown and increase the inventory level. However, my wild guess is that the impact won't be as high as this year, but as I said it's too early to say.

*Linus Larsson:* Well, that's very helpful. Thank you very much.

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

*Andrew Jones:* Good afternoon from my side, I have a question about the state of the market. Obviously, last year you were calling out the fact that there was pressure from Asian imports into some of your export markets, which was limiting your volumes then. I guess those machines in China have still been ramping up. That threat probably hasn't gone away. If pulp prices fall, a lot of people are forecasting that the competitiveness of some of those mills that might buy some market pulp will probably improve. Do you see that as a looming threat to come back or to see additional import pressure in the second half of the year? Also just big picture, where do you assess the industry operating rate in Europe and the US right now? Not just for yourselves, but for the industry as a whole. Thank you.

*Mika Joukio:* Yeah. This year, we have seen increasing volumes from Asia, especially from China to markets like Turkey, Russia, and the Middle East. Volumes are or the run rate is higher than last year. I think there is no reason to believe that that situation would change remarkably. Our estimation is that they continue to sell to these markets. Also, to Latin America markets in the second half of this year.

*Andrew Jones:* Where do you think industry operating rates are in both Europe and the US now? On that point that you made, if import pressure is still going up, your volumes have gone up too. It suggests the actual markets probably recovered more than your volumes imply. How do you assess the year-on-year demand growth to be in paperboard in the first half versus this time last year?

*Mika Joukio:* As I said already in the presentation and then in the previous questions, it's very difficult. We see that the restocking has come or is just about to come to an end, probably. Then, the purchasing power of the consumers has not been as good as at the beginning of the year we estimated. It's very difficult to say what kind of operating rates or growth figures we will see during this year. Then, concerning the operating rates in the US, I don't want to speculate on those.

*Andrew Jones:* Do you have a ballpark number for you? Like in obviously many machines operating in Europe, where are we approximately?

*Mika Joukio:* Of course, it's quite easy to calculate. If our quarter capacity is half a million tons, now our deliveries were 377. It's quite easy to calculate what kind of operating rate level we are talking about. It's around 80 percent or something.

*Andrew Jones:* Do you think that's higher or lower than your peer group at the moment?

*Mika Joukio:* It's difficult to say. I don't have the figures for you.

*Andrew Jones:* Okay.

*Mika Joukio:* Probably same level I could imagine, it's but difficult to say, at least in Europe.

*Andrew Jones:* Okay. Thank you.

*Moderator:* As a reminder, if you wish to ask a question please dial pound key five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

*Mika Joukio:* I think there is still one question. Am I right?

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

*Andrew Jones:* Just one follow-up. I think in the past you've talked about sensitivity to the pulp exposure. With your net pulp position including the share Metsä Fibre now. Where would you assess the sensitivity to a certain move in the pulp price today?

*Mika Joukio:* Okay, Henry, we'll take this.

*Henri Sederholm:* Yes, so a 10 percent change in pulp prices is roughly €50 million on an annual basis.

*Andrew Jones:* Okay. Yes, that makes sense. That's clear. Thank you.

*Mika Joukio:* Okay, that was it. Thank you very much for your active participation. I wish you a nice continuation of the summer. See you next time. Bye for now.