

Transcript

**Metsä Board Interim Report
January–September 2024**

24 October 2024

Mika Joukio

Good afternoon everyone, and welcome to the presentation of Metsä Board's results for January–September 2024. My name is Mika Joukio, and I'm the CEO at Metsä Board. Here with me is CFO Henri Sederholm.

So, let's go through the presentation first and then take the questions.

Let's start with the Q3 summary.

In the paperboard business, the third quarter remained pretty similar to the previous quarter. Our paperboard volumes increased just slightly, and prices remained flat.

Paperboard production volumes increased by over 100,000 tonnes compared to Q3 last year and by almost 60,000 tonnes compared to the previous quarter. Last year, volumes were curtailed by production adjustment measures and major investment shutdowns, and in Q2 this year, the production was impacted by political strikes and the gas explosion at Metsä Fibre's bioproduct mill. However, the past Q3 also included many planned maintenance shutdowns, impacting not only volumes but also profitability.

Delivery volumes in market pulp fell sharply, and the main contributor was weak demand in China. Metsä Board had no deliveries to China during Q3.

The gas explosion at the Kemi bioproduct mill in March led to significant production and sales losses, as well as extra costs in Q2. We have estimated that the negative impact on our operating result totalled 40 million euros, including the impact from Metsä Fibre's result share. In the Q3 operating result, we recorded 23 million euros in insurance compensation, including the impact from Metsä Fibre's result share. Negotiations with the insurance consortium to compensate the remaining estimated financial losses are continuing.

After the review period, we renewed our dividend policy. According to the new policy, our target is to pay a dividend of at least half the result for the financial period over time, taking the company's future investment and development needs into account. There is no major change to the previous policy – dividends will continue to be an essential element of our capital allocation.

After declines in 2022 and 2023, the trend in paperboard delivery volumes has been upwards in 2024. We have witnessed moderate growth in every quarter.

In the third quarter, deliveries were 14 per cent higher than in the same period last year, and 3 per cent compared to the previous quarter.

Year-to-date delivery volumes totalled over 1.1 million tonnes. I think this is a good achievement given the challenges we have faced earlier this year.

Also visible in the graph, the demand growth was rapid in the first quarter, driven by restocking activities. After that, demand growth has slowed, but remained steady.

As a result of the higher cost of living, consumers' purchasing behaviour is still rather cautious, and more consumption is directed at services than products.

And here is the paperboard sales split by region and product.

Folding boxboard sales have strengthened in each market area compared to last year. EMEA especially has performed well, despite the fact that Asian import volumes have continued to grow.

In white kraftliners, deliveries have been stable. The explosion at Metsä Fibre's Kemi bioproduct mill somewhat affected our kraftliner production and deliveries, even though we managed to start the production with dried pulp and by using alternative energy sources quite quickly after the accident.

Now let's move on to market pulp, which has shown a lot of volatility recently.

Metsä Board's year-to-date market pulp delivery volumes increased compared to the corresponding period last year. However, volumes fell sharply in Q3, largely driven by the low activity level in China.

Metsä Fibre's total delivery volumes in 2024 are somewhat behind last year. In September, Metsä Fibre announced that it will adjust the production due to the market conditions.

During 2024, demand for market pulp has been at a good level in Europe, but slower in China. However, buying activity in China has picked up in September. At the same time, pulp demand in Europe has softened slightly, mainly driven by lower activity in printing and writing end uses.

Unlike hardwood pulp, the supply of softwood pulp has been limited for several reasons. First, there have been a lot of planned but also unplanned shutdowns, as well as market-related shutdowns. Earlier this year, the political strikes in Finland limited pulp production. In addition, the global logistical bottlenecks have continued throughout the year.

Softwood pulp price have risen sharply in 2024 in Europe, but has now started to decline. In China, the price changes have been more moderate.

And now for the key sustainability figures and their year-to-date development

Our TRIF, 3.2 has shown an improvement, but has still not reached the target – which is zero accidents.

The share of certified wood fibre was at 92 per cent, which is above our target of over 90 per cent.

Fossil-based CO2 emissions, Scope 1, totalled 138 000 tonnes. Very much in line compared to the last year's development.

Energy efficiency and water use are moving in the right direction, but lagging behind the targets.

And now, I will hand over to Henri to present the financials.

Henri Sederholm

Thank you, Mika, and good afternoon.

Our quarterly sales have remained fairly stable, landing at 499 million euros in Q3. Year-to-date sales were just under 1.5 billion euros, while in the comparison period, they were slightly above this. The positive impact from increased paperboard volumes was offset by lower prices.

The operating result for January–September, 73 million euros, was well behind the corresponding period last year, 121 million euros. The operating margin for the review period was 4.9 per cent.

And now let's take a closer look at the items that affected the result, starting from July–September, compared to the same quarter last year.

Our paperboard deliveries increased by almost 50,000 tonnes and supported the operating result.

Higher pulp prices had a positive overall impact on profitability, even though the cost of purchased pulp was higher.

In other variable costs, energy and chemicals became cheaper, whereas wood costs remained stable.

The result share from Metsä Fibre was higher.

And as already mentioned, Metsä Board's Q3 operating result includes a total of 23 million euros in insurance compensation. This includes the impact from Metsä Fibre's result share, which accounted for almost half the compensation.

On the negative side, the main contributor was the lower folding boxboard price. Also, FX had a negative impact.

Q3 maintenance costs and employee costs were higher.

And finally, depreciation has increased due to major investments completed last year.

Moving on to the whole review period, January–September, we have a lot of the same result elements as in the quarterly comparison.

The main positives were increased delivery volumes, higher pulp prices, and lower energy and chemical costs.

On the negative side, we had lower folding boxboard prices, with increased wood costs and more maintenance. And higher depreciation.

The sale of unused emission allowances was 20 million euros lower than in the previous year.

Metsä Fibre's profitability was weakened by lower pulp volumes and higher wood costs, among other things.

And finally, both the Kemi mill explosion and political strikes in Finland had substantial impacts on our results. The losses caused by the explosion were partly offset by insurance claims received in Q3, although negotiations with insurance consortium are ongoing.

In Q3, the comparable return on capital employed jumped to 7.3 per cent. For January–September, it was at 4.3 per cent.

Rolling 12 months was at 3.4 per cent. These are still low percentages – and clearly below our target of over 12 per cent.

Capital employed at the end of the period totaled roughly 2.5 billion euros.

Our cash flow has been unsatisfactory and has declined. This year, working capital has been growing from a very low level at last year end due to an increase in operational activity and the completion of major investments last year.

In addition, dividend payments from Metsä Fibre dropped clearly: 10 million euros this year, compared to 83 million euros from last year.

Combined with low profitability, this has kept operating cash flow negative for almost the whole year.

The rolling 12 month operating cash flow was 112 million euros, and free cash flow was 25 million euros negative.

Our net debt rose to roughly 350 million euros, the highest level in the last five years.

In 2024, liquidity has decreased due to unsatisfactory cash flow and dividend payments of roughly 90 million euros. In addition, interest-bearing debt has increased somewhat since the end of 2023.

Our leverage is now at 2.0, which is still below our maximum target level of less than 2.5.

And that's all from financials, so now I'll hand over 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. Both projects are still in their ramp-up phases.

In Husum, we have increased the folding boxboard capacity by 200,000 tonnes, which we expect to be fully available on the market in 2026.

In Kemi, we increased annual kraftliner capacity by 40,000 tonnes which we expect to be fully available on the market in 2025.

Next summer, there will be a longer shutdown at the Kemi integrated mill, when the new evaporator units in Metsä Fibre's bioproduct will be installed. During the installation, which is expected to last two months, we can utilise the same special arrangements we did this year, to keep production running and ensure our customer deliveries.

As part of the 110 million-euro investment in Kemi, we bought an unbleached pulp production line from Metsä Fibre. This transaction was closed in September.

During January–September, our total investments were 121 million euros.

For the whole year, we estimate the total investments to be 175-200 million euros. The estimate has increased from the previous estimate of around EUR 150 million, due to the purchase of unbleached pulp production line from Metsä Fibre.

And now, our ongoing and planned investments.

Earlier this year, we made an investment decision to renew the paperboard machine in Simpele. This is now ongoing, with an estimated investment value of 60 million euros.

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. The first phase included the new recovery boiler and a turbine, completed in 2022.

And finally in Husum, we have started a programme for new products on the current BM2 white kraftliner production line. The aim is to find innovative solutions for the growing food and food service packaging segment.

And now for the near-term outlook.

Overall demand for consumer products continues to be impacted by consumers' purchasing power and their general purchasing behaviour.

Seasonally slower December may have some impact on demand, and we therefore expect our paperboard delivery volumes to decrease slightly from Q3, but average sales prices to remain stable.

Total costs, excluding pulp costs, are expected to increase. In particular wood costs and fixed costs are rising.

Maintenance costs will be clearly lower than in Q3, and the positive impact from this will be at least 10 million euros.

Sales prices of market pulp fell in October, so the average price in Q4 is likely to be lower than in Q3. However, demand for softwood pulp is expected to remain stable in Europe and North America. In China, demand is normalising after a very slow Q3.

The claim settlement process regarding the explosion at Kemi bioproduct mill will continue.

And we expect our Q4 operating result to weaken from Q3.

The guidance does not take into account the insurance compensation included in the July–September operating result, nor possible insurance compensation for Q4.

So, 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 slower than expected, as consumers' purchasing power continues to be negatively impacted by the high cost of living. Consumption has been focused more on services than on products.

The trend in variable costs has been mainly downward during 2024, with the exception of wood costs, which increased by 7 per cent from the comparison period. Fixed costs have remained more stable.

Our strategy is to grow in fibre-based packaging materials and to renew our industrial operations. We implement this strategy with investments, which are

improving our competitiveness, accelerating our target of being fully fossil free in production and developing future products to replace plastics.

We have renewed our dividend policy to better reflect our future investment and development needs. At the same time, dividends remain an essential part of our capital allocation, and we aim to continue to distribute dividends of at least half the result for the financial year over time.

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 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 thank you for taking my questions. First of all, I have a question relating to the pricing of paper boards in Q3. When I do your numbers, I end up with a setup where you would have had mid-single-digit sales price declines on average in Q3 versus Q2 in your paperboard business. First of all, is that correct? Secondly, what is the reason, where have prices and why have prices declined on paper boards and what is the outlook for Q4?

Mika Joukio: The prices have not declined. The kind of difference is coming from the mix pretty much. Concerning, Q4 our estimation is that prices remain stable.

Robin Santavirta: Right. So weaker mix in Q3 versus Q2. What should we expect going into Q4 in terms of mix? Is it similar to Q3 or is it better or worse?

Mika Joukio: Similar to Q3 pretty much.

Robin Santavirta: All right. The second question I have is related to capacity utilization. You have expanded capacity in Husum. You have expanded capacity in Kemi as well as in paper boards. Deliveries are in a market. Demand is quite soft. What is the current capacity utilization of paper boards? How do you plan to manage it in Q4, and in the winter, it seems that EBITDA in the paperboard business is coming quite close to breaking even. Do you plan to curtail production due to market reasons or what is the outlook in terms of production?

Mika Joukio: Okay. The capacity utilization rate at the mills that you mentioned, I mean, Husum BM1 one. I mean, the folding boxboard line and then the Kemi kraftliner, they are running full because they are in the ramp-up phase. Of course, they do not have the full capacity yet, but as far as the operating rate as such is concerned, they are running pretty full. However, then in the other mills, the situation is worse. During the first quarter, we were very close to full capacity utilization as you may remember, but then in Q2 and Q3, then the

order inflow got weaker. For that reason, we have taken already downtime to curtail production. Now we will do so also during Q4 if the order inflow remains weak. We take downtime and possible also is that we have temporary layoffs. We have negotiated this. It's possible to have these layoffs still during Q4. But, that is pretty much the situation.

Robin Santavirta: I understand.

Mika Joukio: Husum and Kemi are speeding up and then the other mills and production lines are taking downtime.

Robin Santavirta: If I may ask a question related to the pricing again related to paper boards. I read that one of your continental European competitors, the largest one, said last quarter that there's essentially a price war when it comes to consumer boards in Europe at the moment. Eventually, somebody needs to shut production in order with the current demand situation to get prices up. Would you subscribe to that sort of comment that it's a bit of a price war set up in virgin fibre consumer boards or is that sort of something you don't see or you believe simply it's a soft market?

Mika Joukio: Yes, I wouldn't say so. At least we are not at war with anybody. We said that our prices will be stable during Q3 and also the same statement for Q4. So I don't underline that statement.

Robin Santavirta: I understand. Thank you very much, Mika. Thanks.

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

Andrew Jones: Hi, gents. A bit of a follow-up to the last question about what's needed to actually stabilize the market. I mean, this situation clearly isn't sustainable. We thought we were on a bit of a recovery track earlier in the year. Now we're sort of seeing that go the other way. Clearly capacity needs to come out in this market given how low operating rates are and looking at RISI cost curve. It appears that you generally have a number of assets close to the top end of that mill, including Tako and Aankoski, and in Kyrö as well. They're all above the 80th percentile according to that. Now, first of all, do you think that's accurate? Secondly, if it's not a lot of large players like yourselves taking out capacity, how can you rely on anyone else to do so? I mean, clearly, something has to change. I mean, are you cognizant of that and do you think that you would have to be the player to take that action?

Mika Joukio: Yes, you're right that we have curtailed production capacity. If the situation continues to be as today or during Q3, we will continue to do so at the mills, not necessarily in Husum or Kemi, but other mills in Finland. At the moment, of course, we don't have any plans to close down any production lines. We take these temporary layoffs knowing that the situation in the market is not normal. I mean, the purchasing power of the consumers is still weak or it's uncertain. People are not using that kind of money for products as much as earlier. They are using it for services and so on. That probably will change when the purchasing power is getting better remains to be seen. Then of course, the Chinese are still quite strongly in, for example, Turkey, the Middle East, and that kind of market.

Mika Joukio: When the situation in China is getting better, I mean, the purchasing power of the Chinese people is getting better, and the economy is getting better in China, that probably will change the situation. However, at the moment we don't have any plans to close any capacity.

Andrew Jones: Just observing those trends you've talked about, I mean, clearly, we could do with the improvement in consumer demand, but the structural issues of higher wood costs, I don't think are going away. I think also looking for an improvement in China, might be optimistic, given we might have a Trump presidency coming down the road to work tariffs on the country. I mean, those large Chinese mills are still ramping. We should be seeing more capacity going into next year. I mean, it doesn't feel like any of this is changing. I mean, someone's got to close something. Again, you've got a number of mills there taking out some fixed cost. I would imagine that probably improves your margins and I guess would also help the shape of the industry. However, I guess there's no question in there, but I think it's good for thought at least.

Andrew Jones: Just one follow-up on the financials, just for 4Q guidance, can you just talk us through the moving parts in terms of the delta for the FX move, for the additional maintenance, for any sort of I mean, you said there's no real mix effect, but you just put some numbers around some of those factors you call that.

Mika Joukio: Okay, Henri will take this.

Henri Sederholm: What we commented on the paperboard delivery volumes, they are expected to decrease slightly on a seasonal basis compared to the last quarter. As Mika already referred to, the prices are expected to remain stable. Costs are expected to increase somewhat, mainly based on wood and fixed cost increases. There's sort of the annual maintenance shutdowns at the mills are less than in the previous quarter. Then, of course, the market pulp situation, sales prices dropped in October. We expect that the demand will stay stable in Europe and North America. However, then in China, the kind of low demand level started to normalize at the end of Q3. That remains to be seen. However, I think those are the main elements. FX I forgot to mention that will be slightly negative.

Andrew Jones: Okay. Thank you.

Operator: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. [silence 00:27:44-00:28:02] The next question comes from Andrew Jones from UBS. Please go ahead.

Andrew Jones: I'll have one if no one else is asking. On the CapEx for next year, any changes to your plans in light of declining profitability, could we see a lower CapEx spend in 2025?

Mika Joukio: Well, we are always sort of critical in all our CapEx decisions. Obviously no sort

of material changes. We have certain plans in place that we are looking at, but obviously, we have no major projects decided at this stage. Of course, next year, CapEx level unless there are new decisions, looks like it could stay lower than this year anyhow. However, that, of course, remains subject to the new project decisions.

Andrew Jones: Okay. Thank you.

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

Robin Santavirta: Yes, thanks. This is Robin again. Just a quick one related to the insurance repayment you receive now in Q3. Do you mind splitting it? How much was Metsä Board and how much was Metsä Fibre? It might be in the report but there's a large number of reports out today, so that split would be helpful. Then what is the outlook for Q4 in terms of insurance payment? I do understand you don't have the exact number or what should we expect more repayment to be booked in Q4.

Mika Joukio: Okay, Henri, will take this also.

Henri Sederholm: Robin, the split is about 50/50, you can assume, between Metsä Board and Metsä Fibre. Unfortunately, we cannot indicate anything relating to the timing of the remaining claims. What we can say is that while you remember that the damages totalled about €40 million and now we have received €23 million you get a ballpark of what we are talking about. Also, remember that we have a certain own risk period from the total damages. It's fair to assume that more than half has been already received. However, what comes to the remaining part and the timing of that? Unfortunately, we don't have that information and I don't want to really speculate on the timing.

Robin Santavirta: All right. Could you comment on this next year, the two-month production curtailment when you replace the damaged part? I assume that will also be repaid by insurance. Is that then expected that we should expect to be paid next year, I would assume.

Henri Sederholm: Our understanding is that also that period will be covered by the business interruption insurance. Obviously, then the damages will remain to be seen at that time so we cannot anticipate. However, our expectation is that the insurance will cover that period as well.

Robin Santavirta: All right. Thanks. If I may, a final one perhaps a bit of a tricky one related to pulp demand and pricing. What is it that you see now in China and Europe, with the prices starting to increase already in softwood pulp in China? What do you experience in Europe? Is it still price pressure that you see here?

Mika Joukio: Probably. We have seen the kind of bottom in China. We haven't seen any clear increase, but they are not declining. and in Europe, they still have declined as you probably know. Let's see then the price difference of our pulp or the type of pulp comparing

China and Europe, there is still a difference. That might create some pressure on European prices. However, in China, they are not declining anymore.

Robin Santavirta: Mika, can I ask this if you compare your softwood pulp platform, which on the whole I mean, you have a few very efficient pulp mills, or Metsä Fibre has all those competitive on a global scale in softwood pulp. Are there a lot of places in the world where they produce clearly lower-cost softwood pulp? However, that then be.

Mika Joukio: I think as far as efficiency is concerned Aanekoski and Kemi are the best ones.

Robin Santavirta: And also when it comes to the wood raw material cost.

Mika Joukio: That's another story, of course. Then you need to check what the pulpwood price is in other areas. However, as far as the production efficiency is concerned, no doubt these two mills are really top.

Robin Santavirta: For sure, I understand. Thank you.

Mika Joukio: Thank you.

Operator: There are no more questions at this time. I hand the conference back to the speakers for any closing comments.

Mika Joukio: Okay. Thank you everybody for your active participation and I wish you a good continuation for the day. Thank you.