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AHL1V.HE - Full Year 2010 Ahlstrom Corporation Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the financial results 2010 conference call. For your information, this call is being recorded. At this time, I would like to turn the conference over to Juho Erkheikki. Please go ahead, sir.

Juho Erkheikki - *Ahlstrom Corporation - Financial Communications Officer*

Thank you and hello, everybody. Good afternoon from Helsinki. And welcome to this Ahlstrom 2010 financial results call and audio webcast. Please note that the link to the webcast and the slides are available on our website at ahlstrom.com. My name is Juho Erkheikki from our Corporate Communications. And I'll be your moderator today.

Today's conference will be hosted by our President and CEO Jan Lang and our CFO Seppo Parvi. Jan, please go ahead with the presentation.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you. And welcome from my point of view. Apologies for a couple of minutes delay. We had a bit of a technical hitch here. But it has been solved to our understanding.

I will talk through the October-December developments and a summary of 2010 sales and operating profit. Seppo Parvi will then talk in more detail about cash flow, balance sheet, and income statements.

If we go to slide three, highlights of October-December, sales increased by 14.5%. Operating profit, excluding nonrecurring items, was EUR15 million, which is EUR4.5 million lower than quarter four 2009. We had a strong cash flow. Balance sheet strengthened further in the quarter.

We have, on the other hand, projects included in the investment program of 2007 and '08 that impacted profitability negatively. And the Board of Directors is proposing a dividend of EUR0.88 per share.

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If you go to slide number four, net sales for the fourth quarter, quarter four 2009 to 2010, the development here can be seen by quarter. What is in the quarter notable is that volumes were down by 1.4%. This is also -- has to be seen in relation to quarter four 2009, where we had a pretty strong volume growth driven by recover of the market after the worst part of the recession.

Quarter four 2010 sales rose by 14.5% is primarily driven by price increases. And then we did also have in some businesses some customers seasonal adjustment of their inventory that impacted sales.

Moving to slide number five, showing the operating profit for the quarters, as said, EUR15 million in quarter four 2010 compared to EUR19.5 million the prior year. In terms of issues, higher costs from development programs that we have introduced during the year and we will continue here in 2011 and then commercialization of the investments that we have completed during '07 and '08 primarily had a negative impact on the EBIT. We'll come back to that issue in a moment. Positive impact by cost initiatives in 2009.

By business area, slide number six, building and energy, fairly strong volume growth by 18%. This is a business that we have seen a recovery is taking place pretty late. First half of 2010, we are pretty -- quite slow to recover from 2009 levels. But now in the second half, we have seen better volume recovery in that business also.

The wind power markets have improved in Europe but still remain quite depressed in North America in this business. And then the ramp up of a new line in Turin for hybrid wall covers continues to have a negative effect on the results. In the quarter, the operating profit, however, now on the positive side compared to EUR2.5 million negative in quarter four 2009.

Moving to filtration, page seven, volumes up 6% in the quarter, increased demand from primarily the automotive industry in Asia and North America. Asia's been quite strong all through the recession also and now after. But North America has clearly recovered. We increased sales prices as you can see on the difference on volume and net sales, net sales growth being 19.7%. We had a significant impact of sales price increases. And we have announced further price increases in the business to address the increase that raw material prices and particularly chemicals and specialty pulp costs.

Moving to food and medical, page eight, volumes up 7%, net sales 17.5%, so here also price increase impact. But product mix was somewhat poor in the business in the quarter. What is impacting the operating profit results quite significantly is Mundra and Chirside investments that are still on a negative EBIT level.

Home and personal, following slide number nine, there we saw a negative volume compared to prior year by 7%. Prices have been increased here also. The demand for wiping products declined in Europe in the comparable period. And then notice that in quarter four we had a positive impact of materials for swine flu-related products. EBIT level somewhat lower than in comparable quarter in 2009.

And the last business area, label and processing, which contains our biggest part of our paper-related type of products, volumes were down here also by 6.5%. There we have seen some seasonal inventory reductions but again remembering that recovery of the business was quite fast in 2009. And that similar trend, obviously, we haven't seen 2010 quarter four. And as far as La Gere facility is concerned, lower demand continued to challenge the -- to burden the results of that facility, meaning that it's not fully utilized. Operating profit, however, improved in the quarter against quarter 2009.

2010 then full year on page number 12, net sales up by 18.7% in 2010, of which volumes is 8.7%. So we have a 10% price and mix impact in the full year 2010. And the growth has been impacted in the first half by primarily sales volumes and in the second half by price increases. Those are the significant impacts here.

Slide number 13 by region, strong growth continued in -- we had a strong growth for the full year of 2010 of 47% that is attributed to quite strong initiatives to double up the business in Asia. And it's a mix of various businesses that have benefited from this growth, also supported by stronger sales organization in the countries related to Asia.



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And then on slide 14, a summary of operating profit development, where we have started to see a recovery from poor levels in '08 and '09, 2008 and 2009, to EUR74.2 million, excluding nonrecurring items, compared to a -- just about EUR40 million in 2009.

Here we have noted that of the investment programs completed in essentially before 2009, we have four projects and initiatives that have a negative impact on our results. And all in all, these are impacting the EBIT by approximately EUR19 million negatively. So certainly some work there still to get benefits out of these investments.

Slide number 15 is a summary of M&A activity in 2009. We acquired a transportation filtration materials business in Binzhou, China. That is in our hands since autumn of last year. And we are progressing on developing that business. We also announced an establishment of a joint venture for manufacturing of medical papers and masking tape. That will be starting up a facility in the second half of 2012. So preparation work is ongoing for that.

Then we divested two business units, Sealing & Shielding and Dust Filtration that we assessed that that doesn't fit our strategic portfolio of products. For these, we also booked all in all negative cost in the last quarter.

Then slide number 16, sales by business area, all business areas reported higher volumes. And then the net sales for the full year, lowest was home and personal, 9.7%. But on the other hand, this business did not suffer from the recession that significantly either. And now we have seen stronger growth recovery in building and energy than we saw first half of the year.

And then same for operating profit, page number 17, where the improvements have been fairly strong in building and energy, although it is still poor at EUR1.3 million. Filtration is at rather good levels, EUR27.8 million. Food and medical declined compared to prior year.

And this is primarily attributable to the two investments in Chirside and Mundra, as I referred to earlier. (inaudible) business, home and personal improved, although at the low levels still in relative performance. And label and processing had a strong performance improvement in the year from EUR10 million to about EUR30 million. I will now hand over to Seppo Parvi, who will talk to some more details about the cash and cash flow and then P&L balance sheet. Seppo?

Seppo Parvi - Ahlstrom Corporation - CFO

Okay. Thank you, Jan. On page 19, we have a picture of net cash from operating activities. It was positive about EUR23 million in the last quarter of 2010. Full-year net cash from operating activities was positive by EUR167.5 million compared to EUR210 million level a year ago.

2010 cash flow was somewhat below the previous year because big part of the cash flow improvement through lower working capital was coming to (inaudible) already 2009, about EUR100 million. And it is about EUR50 million in 2010. Both of course improved profitability was shown in the cash flow.

On following page 20, we have a picture of the operating working capital development. The project, it has been completed now at the end of the year. And we managed to reduce working capital in total by almost EUR155 million, clearly above the set target of EUR100 million.

Turnover was improve by 39 days and was at 37 days at the end of the year. Now that the project phase is over, it doesn't of course mean that we would not continue to focus on working capital. But now it is part of the normal management activities. And based on the activities, based on the program we have gone through now, we are confident that we can keep the turnover rates where they are at the moment.



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On page 31, you can see the development of the gearing ratio through the year. And as you can see, it has continued to come down during the year. And we were at the level of 46.9% at the end of the year. Net debt was EUR330.1 million. And we are below the target range, 50% to 80%, as you can see.

On the following page, you can see return on capital employed. That was 5% for the full year. But the last quarter, it was negative at 2.5% after the nonrecurring items that were booked in the quarter. That's a clear improvement compared to 2009. But we are still behind the target of 13%. But we are going the right direction.

On page 23, we can see the maturity profile of our medium- and long-term credit facility portfolio with the quarter. We issued a five-year EUR100 million bond in November. That is a five-year arrangement. Additionally, we signed in December a seven-year arrangement with the European Investment Bank. So the maturity structure of our loan portfolio was significantly prolonged through the quarter.

Total liquidity continues to be on a good level. Our liquidity, including cash, undrawn committed credit facilities, and cash pool limits, totaled 100 -- or excuse me, totaled EUR382 million. And on top of that, we have undrawn uncommitted credit facilities totaling almost EUR170 million.

On page 24, you can see the investment levels between 2005 and 2011. In 2010, investments were about EUR51 million, excluding acquisitions. And for the year that has just started, we anticipate that our investment level would be about EUR105 million, excluding acquisitions. To put that into perspective, our depreciation has been around EUR105 million for the past two years.

Then our performance on income statement and balance sheet of the quarter, looking at the net sales for the quarter, EUR481 million, there you can see the reflection of higher selling prices. Volumes were flat more or less between the two quarters. Higher raw material prices are reflected in the cost of goods sold. And look at the sales and general admin expenses, there's an increase of some EUR5.5 million that is coming from the fact that in 2009, we still had some temporary layoffs. And this year, we have been spending some money on the development programs.

Operating profit/loss, including nonrecurring items, was EUR7 million negative in the last quarter this year compared to EUR27 million level the quarter year before. And nonrecurring items in total for the quarter booked in 2010 were EUR22 million compared to EUR46 million level in 2009. And loss before taxes for the quarter, EUR12.6 million compared to EUR33.4 million year before.

Then moving to balance sheet on page 27, where we can see, first of all, positive effects from our working capital project looking forward at the receivables and payables, reflecting better management of receivables, also payment terms, in the both cases. And also interest-bearing cost debt was coming down, thanks to positive cash flow, as mentioned earlier. The balance sheet strengthened further. At the end of 2009, we were at the level of 57.7% and now at the end of 2010 at 46.9% in terms of the gearing ratio.

Cash flow on page 28, I've mentioned already a couple times we still have some positive impact from working capital reduction, EUR12.6 million with the last quarter compared to EUR34 million a year before. Net cash from operating activities was EUR23 million for the last quarter last year. And investments booked purchase of assets about EUR20 million. That is double compared to last quarter in 2009. In 2010 last quarter included not only maintenance level but also some growth capital expenditures. And we can also see some other investment activities positive of EUR11 million relating to divestments announced at the end of the year. And you can also see hybrid bond in Q4 2009, EUR80 million that was issued and then interest payment for that in Q4 this year. Then over to you, Jan.

Jan Lang - Ahlstrom Corporation - President, CEO

Okay. Two slides left, management 2011 agenda, basically a continuation of what we have been developing in terms of activities during 2010 and to continue with many of these initiatives. What we are looking for now with governance also is to develop



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our top line. And we think that will be improved on organizational strength overall that we have put in place that this can be achieved.

Then obviously, as we have had a pretty hard year 2010 in terms of fluctuation of raw materials or increases of raw materials pretty much over the year, we need to be naturally vigilant in terms of continuing to manage margins through potential price management. And that will be -- continue to be high on the agenda.

Executing our strategic agenda, we -- as we have indicated, Asia is a strong growth platform for us. And in the coming years, we've done some steps there recently. And we will continue to assess how to grow and develop a supply in Asia in the future but also to seek strategic growth opportunities in the defined growth businesses, as we have communicated. Clearly, that's three business areas are -- find that strategic growth areas are building and energy, food and medical, and filtration. And we will continue to seek how to find opportunities to grow that.

Cost improvements are primarily a question here of continuous improvements of both within the plants, obviously, in our logistics structure, but also in sourcing. And we have a number of initiatives going on there to manage costs.

And then we will continue to work on the development initiatives that we have indicated earlier to be working on. We have a clear ambition to build a stronger one Ahlstrom. One of those aspects to achieve that is to strengthen to build our global processes. And a number of topics are ongoing there now and in the coming couple of years, certainly.

We are continuing to develop on our capabilities in managing global key accounts, which are critical for our success and represent a significant portion of our business and then obviously also to strengthen our leadership competencies in the various areas. And that work will continue. We have here indicated also that to run these exercises, we have planned to spend approximately EUR12 million during 2011.

Then finally, to the outlook for the year, what we have done here and in this page 31, we have made a change on how to formulate our guidance to be more informative and transparent at the same time. And the intention here now is, as going forward, that we will give a range of both net sales and operating profit for the full year. And this range will be then verified at each quarterly report timeframe. And for 2011, we are indicating that and expecting that our net sales will be within the range of EUR1.92 billion and EUR2.08 billion. So this is the range we are giving as a guidance for the full year 2011.

Here, we talk about drivers being higher sales volumes. And we assume to manage potential increases in rising raw materials with further price, sales price increases. Operating profit, excluding nonrecurring items would be between EUR90 million and EUR110 million, so clearly a higher level than achieved in 2010. Support this in addition to the sales price, a more efficient cost base and then continuous improvement of various aspects of operations.

And then we have indicated that our investments will be approximately EUR105 million, which is in line with your current depreciation levels after having had a very low level of good EUR50 million level for the last couple years to tackle the recession on one hand but at the same time take a bit of breath after the very intensive program we had in the recent years. This concludes our overview. And I'll give over to Juho then to manage questions. Thank you.

QUESTIONS AND ANSWERS

Juho Erkheikki - Ahlstrom Corporation - Financial Communications 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 pose questions by writing them online. We have the audio webcast platform. Operator, please go ahead with the questions from the telephone lines. Thank you.



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Operator

Thank you.

(Operator Instructions)

We will now take our first question, Mikael Jafs, Cheuvreux. Please go ahead.

Mikael Jafs - Cheuvreux Nordic AB - Analyst

Yes, hello, gentlemen. I have a question regarding your sort of ongoing development projects and the restructuring process that you have been in. I mean, you are to some extent very clear in explaining what you have done and what you are doing. But could you please give us some more color? Are we sort of in the middle or towards the end of this period of, let's say, closing production plants, et cetera? I know it's a difficult question. But some color and some flavor would be nice to have. Thank you.

Jan Lang - Ahlstrom Corporation - President, CEO

Hi, Mikael. This is Jan now. I'll comment on this. Now firstly, in terms of measuring initiatives, we completed those during last year. And since then, we have announced a couple of smaller steps in terms of making adjustments in our machine structure, if you will, i.e. taking down a couple of machines.

And in general, what I would say here is that the big steps as far as restructuring has been taken and, on the other hand, I cannot exclude that we will fine-tune them going forward in the year, coming year, as needs arise. However, in terms of any bigger steps, we don't feel there is a need to do anything major. But you always have, of course, errors and issues that you need to fine-tune and then improve.

So probably not a clear answer still, but certainly a question of major restructuring has been done. We have a few smaller things going on right now and, of course, a business always of this nature with many assets might have other topics to be addressed in the future. But I don't see any significant topics.

In terms of what we're doing particularly is working on continuous improvement and managing efficiencies within the facilities, logistics, and sourcing. And that's probably a more important element overall in terms of benefits. Seppo, you want to -- ?

Seppo Parvi - Ahlstrom Corporation - CFO

Yes, just to clarify that this EUR55 million program that we started in 2009, restructuring program, that was finalized by end of the year successfully. And the need programs that Jan mentioned, they will be all spanning from EUR12 million. And so (inaudible) small for the development of the Company and processes and training.

Mikael Jafs - Cheuvreux Nordic AB - Analyst

Okay. Thank you for that. And then a question on what tax rate should we analysts use going forward in our estimates.

Seppo Parvi - Ahlstrom Corporation - CFO

I think 35% is a good estimate for modeling.

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Mikael Jafs - *Cheuvreux Nordic AB - Analyst*

Okay. Thank you, gentlemen.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you, Mikael.

Operator

(Operator Instructions)

We will now take our next question, Linus Larsson from SEB. Please go ahead, sir.

Linus Larsson - *SEB Enskilda - Analyst*

Yes, thank you very much. A couple of more questions on the restructuring of the Company and the change in your setup, you've taken -- I appreciate that you guide on EBIT adjusted for nonrecurring items. But if you could also give just an initial view at this early stage of the year what you expect in terms of nonrecurring items, I mean, you've had four years now in a row with quite significant nonrecurring costs. Have we seen the end of that? Or should we expect quite significant nonrecurring costs also in the year ahead?

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you, Linus. Firstly, we don't have a guidance for the -- in specific terms on potential nonrecurring items in 2011. However, to my earlier point, the major initiatives have been done. We have a couple of smaller steps going on right now that we'll not have any further nonrecurring items. But as I said, always in the nature of this type of business, you might have something coming up in the coming periods and years. However, we do not have any specific plans of such nature that would be of any significance that would call for nonrecurring items at this point in time. So I don't have a better assessment to give you at this point than this.

Linus Larsson - *SEB Enskilda - Analyst*

That's fine. And then when it comes to the sold, the recently sold units, were they significantly loss making? Or is there any earnings impact from the deconsolidation of these assets, which are no longer part of the group?

Jan Lang - *Ahlstrom Corporation - President, CEO*

Linus, like said earlier, we don't comment normally on profitability of single units. But it has no significant effect on our capacity (inaudible).

Linus Larsson - *SEB Enskilda - Analyst*

That's excellent. And do I also understand you correctly that there is not much further asset disposal to be expected?

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Jan Lang - Ahlstrom Corporation - President, CEO

At this point in time, the only statement I can make and will make is that, according to whatever announced earlier, we have an assumption within the business that all businesses can contribute to the performance of the Company. And that means that the loss making situations that you have or low-performance situations that we have that over time they have to perform as planned and agreed target levels.

If we -- if they don't do that, then we have to do some other things with them, either restructure or sell or close. But at this point in time, no specific plans to this nature that I can comment and indicate on. We are working on primarily working -- improving the performance of the business that we have.

Linus Larsson - SEB Enskilda - Analyst

Great. And then just finally and specifically on the filtration business area, the earnings have clearly -- I mean, the profitability was at an EBIT margin of close to 11% as late as the second quarter. Now we're down at below 5% in the fourth quarter. And you did shed some light on that. But I wonder about what is a normalized level going forward. And also, when we look into the first quarter, the net of the cost escalation that you're seeing and the price hikes that you expect to lead into your P&L in the first quarter, what would that be do you think at this stage?

Jan Lang - Ahlstrom Corporation - President, CEO

Well, firstly, on your second topic, we don't have a number to give you on that. We have in certain businesses -- we are addressing prices by further increases to compensate for the raw materials. But I can't give you a detail on that for quarter four -- for quarter one, I'm sorry.

Now then in terms of -- back to your first question, within filtration, there are certainly elements of seasonality in the business that is impacting it and the level of revenue in the -- compared to each quarter. And there is no underlying, if you will, weakening of the filtration business as a whole in -- when you compare it quarter to quarter.

Did you, Seppo, have anything further on that yourself, too?

Seppo Parvi - Ahlstrom Corporation - CFO

No, no.

Jan Lang - Ahlstrom Corporation - President, CEO

Okay. So no underlying weakening of the filtration business overall.

Linus Larsson - SEB Enskilda - Analyst

Okay. And what's the seasonality like in the first quarter if you talk about filtration earnings seasonality?

Jan Lang - Ahlstrom Corporation - President, CEO

Well, we don't guide quarterly. But like we also mentioned, the capital markets, normally second quarter is the strongest quarter for the Group.

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Linus Larsson - *SEB Enskilda - Analyst*

Okay. Thank you very much.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you, Linus.

Operator

(Operator Instructions)

Mr. Erkheikki, there are no further questions in the queue.

Juho Erkheikki - *Ahlstrom Corporation - Financial Communications Officer*

Well, thank you, ladies and gentlemen. And this concludes our 2010 financial results conference call. And we'll hope to hear from you in April when we report our first quarter results.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Okay. Thank you from my side also.

Seppo Parvi - *Ahlstrom Corporation - CFO*

Thank you.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Bye, bye.

Operator

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

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