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PRESENTATION

Operator

Good day, and welcome to the Q4 2013 Ahlstrom Conference Call. At this time, I would like to turn the conference over to Mr. Juho Erkheikki. Please go ahead, sir.

Juho Erkheikki - *Ahlstrom Oyj - Manager - Financial Communications & IR*

Thank you and good afternoon from Helsinki. And welcome to our full year and Q4 2013 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 the slides are available on our website at ahlstrom.com. So Jan, please go ahead with your presentation.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you, Juho. Welcome from my side to this conference call. Our year in 2013 was in many ways rather difficult, it was difficult in terms of major transactional efforts that required a lot of attention and management time. But at the end, we have completed all or the majority of the transactions that has been planned.

Secondly, financial of course, unacceptable financial performance that we can see on the bottom line. And we will talk through these topics here during the call here today.

So if we go to the first page on the financial numbers, a EUR13.4 million operating profit excluding non-recurring items against EUR21.1 million, so a clear reduction compared to the previous year.

Gearing 85.5%, somewhat above our bracket that we have, the gearing to be between 50% and 80%.

Our net sales grew by 0.4%, this is a combination of various items. To note, perhaps, is that our volume grew by 1% whereas the currency affected our net sales by minus 2.5%, but overall, a rather modest growth in the year. But many components are in here.

Operating profits is affected by higher sales volumes and increased sale prices. However, raw material prices were significantly affecting our performance in the year, and we can see that on the following page.

Increased SG&A, and particular, relative SG&As of the -- the demerger on label and processing had a negative impact. And also as we focus units altogether, 13 million negative impact on the result in 2013.



If we look at the share, here, we can see the challenge that had. Raw material has been up by EUR0.7 million, in absolute sales and particularly energy costs. So these are mostly energy related. Whereas net-net, our sales price has been flat. We have not gained anything in relative sales price compared to what we lost. And so to compare to what we lost in raw materials, we have a gap that is the most significant issue here.

Other costs include SGAs post LP demerger, and there is also impact from Osnabrück related boiler problems that we had in the -- last year.

We completed several transactions. It was a very, very busy year. And this term, we have the ambition to get these done. And the majority, the closing has also taken place. The big one of course being the label and processing final step where coated specialties in Brazil business was completed.

We also announced that last -- we announced the sale of Paulinia plant which was spending after the deal with Suominen 2.5 years ago. And in combination with this transaction, we have also agreed upon an option for -- some capital to buy our Suominen shares.

So all in all, a transaction that will potentially eliminate [Denosars], the owner of the Suominen shares. And as I said from the beginning, this Suominen ownership is not in any manner strategic. For us, it is a financial investment.

Now going forward here, if we summarize then what's important, there's two things that stands out or a third also that I should mention, but here, first of all, growth through enhanced product portfolio which we have spent a lot of effort and time to get traction on improved product portfolio. We have a target to achieve at least 20% of sales from new product, where we now are at 13%, right now. And this will basically help us drive margins through better product mix going forward.

Secondly, we have a successful implementation of our rightsizing program that we today announced the expansion of with EUR15 million up to EUR50 million annual cost savings to be seen in 2015 numbers.

So there is -- some of the major topics going forward here in the next year or two that will impact financial performance. And then obviously to execute our strategy which is based on the high performance product offering for a clean and healthy environment.

Moving into the quarter, the highlights here, perhaps to note is that our net sales at constant currency rose by 5.1%. So good growth in the quarter. We can also take note of that advanced filtration and the integration of Munktell and has been completed and has worked very well, we're very happy with that transaction whereas the lowlights, is still on the cost side, and particular energy costs, and our focus units at food and medical that have been impacting us negatively.

Quarterly net sales, briefly seeing the trend here, slightly above 1.4% but as constant currency, 5.1%. I won't go into any sort of detail on this slide.

Quarterly operating profit development is better than comparable quarter with EUR1.6 million, but still a negative number of EUR2.5 million. The key lowlights here to note is also that our three focus units, Chirside, Mundra and Longkou, negatively impacted the result rather significantly.

The bridge again here, high raw material spending, cost development relative to our sales price, better ratio in the quarter than for the full year, but still a negative impact of raw material and the cost increases.

Then looking at briefly, each business area, advanced filtration, very profitable business that grew in the year by 28% which includes acquisition in the quarter, 70.2%. And this business is also very profitable with about 13% EBIT number.

Building and energy, flat sales for the full year, quarter, 1.6%, and operating profit for the full year was about EUR2.5 million lower than the previous year. Here, a significant challenge has been in the year the efficiency or the boiler program in Osnabrück.

Food and medical, we have a negative growth in the full year, also in the quarter. Here, we do have adverse currency impact affecting the development of revenue in this business.



And in the food and medical area, we have particularly challenging -- challenges with the startup activities affecting the operating profit by around 13 million for the full year.

And then the last but not least, transportation filtration which grew by 4.5%, volumes were up by 5.8%. So on the full year basis, good development and profit also improved to a good EUR40 million for the full year. In the quarter, lower net sales whereas volume increased by 7.3%.

Then I would finish here myself. And I would give over to Seppo Parvi to take you through the cash flow and debt development.

Seppo Parvi - Ahlstrom Oyj - CFO

Thank you, Jan. First, looking at the quarterly net cash from operating activities, for the last quarter, income was EUR3.7 million but we note the statistics is affected by the working capital adjustment relating to label and processing demerger of the (inaudible) arrangements. So (inaudible) at around EUR30 million. This is not part of a Q4 2012.

On the [bond] base, we had the development of the operating working capital. If you look at the absolute (inaudible), you see downward trend there, we see a big effect, also part of the demergers and different structural changes, but important to look at the turnover dates, it clearly have come down compared to where we were, end of last year, and also after Q1 2013. We're at 36 days now, while at end of Q1 2013, we were at 45 days.

As you might remember, the two operating working capital under focus after Q1 when we saw the clear increase and getting to the worse levels, and that has clearly take off and we are quite happy with the current (inaudible) as we of course aim to continue to keep the key practice as well as continued growth.

Then moving to gearing, and there is that 85.5% end of the year, we see slight fall, the range we had defined as our target, our target is basically 80%, but it should be noted that if you take into account transactions that have been already announced in the beginning of the year, the setting of some Munksjo ownership as well as arrangement relating to Brazilian operation of all personnel in Paulinia plant that Jan mentioned.

Those two together was finalized with -- with the year end by about some 10 percentage points bringing us back to that range we had defined. And also, I want to remind that we still have in our balance sheet for Munksjo, and Suominen shares of some EUR80 million which is of course part of the reserve that we can use.

Turn on the follow page, we have maturity profile of our medium and long-term credit facilities, notes exchanges there compared to end of the previous quarter.

Just to highlight that 2014, no major maturities in front of us, it's EUR50 million, next big one is 2% of 2015 now EUR100 million domestic bond matures in 2015 and our (inaudible) credit facilities.

Liquidity remains at good level. Total liquidity including cash, unused committed credit facilities was about EUR290 end of the year. On top of that, we have EUR140 million reserved coming from uncommitted credit facilities and cash for overdraft. Then performance on income statement and balance sheet. First of all, the income statement, this is now concise of course this quarter.

Look at the sales like Jan already mentioned, slightly up but following euros, reflecting higher volumes increased selling prices, and improved product mix at those currency rate index.

Operating profit, negative by EUR5.5 million last quarter 2013 compared to EUR1 million gained in Q4 2014. So it's also reflecting the non-recurring items.

Then results from associated companies close of EUR1 million roughly from EUR6 million in Q4 versus EUR4.6 million end of last year.



(Inaudible) in operations, that is positive by 20.6 that is -- about EUR24 million positive demerger effect and gain also from fair valuation of Munksjo shares owned by Ahlstrom.

On the balance sheet, (inaudible) of the Munksjo and Suominen shares, that's the (inaudible) in assets classified as held for sale and distribution to owners, we have the -- Brazilian part of home and personnel, these has been classified as held for sale since the main deal is home and personnel a couple of years ago as Jan already mentioned. And this will disappear now with the Q1, which means that the (inaudible) coming back to normal so to speak when it comes to balancing structure and profit and loss reporting.

Then on the cash flow side, a couple of comments on the cash flow, looking at some key items there, first of all, changes in net working capital, EUR4.9 million positive cash flow last quarter 2013 compared to EUR1.6 million in last quarter of 2012.

Investments, EUR20.3 million versus EUR24.3 million a year ago, that is including wall covering materials, investment in Binzhou, China. That will be starting shortly. As such, filtration materials investment in Turin, Italy. And then we have in the cash flow also, reflections from the renewing of the hybrid bond arrangement -- during the quarter.

And with that, Jan will talk to you on the future prospects.

Jan Lang - Ahlstrom Oyj - President, CEO

All right, thanks, Seppo. Let's talk about updating our rightsizing program. We have, as said earlier, we have boosted our savings programs to EUR50 million from EUR35 million earlier in the process we had the last couple of months, we were able to identify additional savings at the same time to support more strongly our EBIT improvement going forward.

This will affect about 400 persons globally in the next year and two. And we'll -- it's estimated to cost in the range of about EUR15 million to be booked as a non-recurring items in '14 and '15.

And we have, by the end of 2013, achieve about EUR12 million in cost savings of which 5 million have been transferred to Munksjo and are reported in discontinued operations.

Then the board -- dividend proposal, the board has, today, prepared a proposal to the AGM to pay a dividend of EUR14 million or EUR0.30 in two portions, one is payable in -- paid in kind by Munksjo shares, for each 26 Ahlstrom shares, one is entitled to receive one Munksjo share as dividend. And altogether, we would distribute 1.795 million shares on behalf of Munksjo.

Secondly, we would pay a cash portion which EUR0.09 that will be paid from the retained earnings. And this portion would be approximately 4.3 million. And we're also saying that in the future, we intend to pay dividends in cash of Munksjo shares when we are due for dividend distribution in the coming year and years.

Finally, our outlook for 2014 is -- we are estimating net sales to grow. And the range we are giving is EUR930 million to EUR1,090 million -- billion, sorry, and our operating profit margin excluding non-recurring items, is expected to be 2% to 5% on net sales.

Investments, we are going to do less of and we are forecasting a 50 million investment for the full year.

That finished my part. And I give over to Juho.

Juho Erkheikki - Ahlstrom Oyj - Manager - Financial Communications & IR

Thank you very much Jan and Seppo. We have now conclude the first part of this conference call and are ready for your potential questions.



Please note that you can also ask questions by sending them through internet. So operator, if you could please go ahead with the questions from the telephone lines and we'll pause here for a couple of minutes.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). And we will take a question from Linus Larsson of SEB. Please go ahead.

Linus Larsson - SEB Enskilda - Analyst

Thank you very much and a very good afternoon to everyone. I'd like to ask about the Munksjo shareholdings as of now, if I'm not mistaken, you are owning 6.8 million shares of Munksjo, and you will distribute 1.8 million of those as part of your dividend for 2013.

Now my question is relating to the remaining 5 million of shares in Munksjo. Could you talk about them for a moment, what your long term plans are for those, please?

Jan Lang - Ahlstrom Oyj - President, CEO

As part of our -- Jan here, hi Linus. As part of the dividend proposal, you heard earlier today, where we are distributing shares, we have also said that we intend in the future also to use cash and Munksjo shares for dividend distribution. So the intention is to use these shares for dividend distribution in the future.

Linus Larsson - SEB Enskilda - Analyst

And does that mean that you will not -- does that rule out the possibility of you selling shares in Munksjo?

Jan Lang - Ahlstrom Oyj - President, CEO

Well, the message is that, I think we're clear that we are intending to use this for dividend distribution.

Linus Larsson - SEB Enskilda - Analyst

Okay. Thank you. That's very clear. And also just as a clarification when it comes to the 2013 dividend, are you now saying that the 0.30 dividend is guaranteed total, or might there be variations depending on the Munksjo share price?

Jan Lang - Ahlstrom Oyj - President, CEO

It is based on year end -- at year end value of the shares. Of course, depending how share will move, the rates speak like you saw in the proposal, so for a certain [number] of partnerships, you get one Munksjo share that this speaks as the cash portion is being fixed.

Linus Larsson - SEB Enskilda - Analyst

Okay.



Jan Lang - *Ahlstrom Oyj - President, CEO*

It's based on the year end situation.

Linus Larsson - *SEB Enskilda - Analyst*

Excellent.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Let's say, what might turn on how the share will develop going forward.

Linus Larsson - *SEB Enskilda - Analyst*

No, that's fine. Then I understand your calculation, that's very good. And then also, on the non-recurring items, you did comment upon that. Do we understand it right that it's from all of what you're doing within the company, what we have ahead of us, based on what has been announced so far is the EUR15 million of non-recurring costs over the P&L, or is there something that I'm missing?

Jan Lang - *Ahlstrom Oyj - President, CEO*

No, that is the total for both P&L '15 when it comes to (inaudible) that we expect to book.

Linus Larsson - *SEB Enskilda - Analyst*

Perfect. And so that's the P&L effect. And cash flow-wise, any deviation there?

Jan Lang - *Ahlstrom Oyj - President, CEO*

No, no. Because these are not (inaudible) are relating to expected personnel programs. The restructuring program of -- on any major scale, any supply structural, i.e. plant closures, et cetera on top of [issues]. This is to address our particular SGA cost structure from supply also, but more efficiency related, rather than structure who is using the supply of [significance].

Linus Larsson - *SEB Enskilda - Analyst*

Great. And you were saying in the report that you are now after the downsizing and restructuring, streamlining, focusing of the company, you are ready to focus more on growth again while at the same time, you're guiding for a fairly [conservative] CapEx number. Could you talk about that for a bit? In what way will you and can you accelerate growth?

Jan Lang - *Ahlstrom Oyj - President, CEO*

Okay, thanks. We, you know, if you look at what we've done for quite many years before I joined here also, but if we look at the longer term trend here, we have invested significantly in capital here for quite many years.



And in specific terms, during the last three years, we have invested about 100 million in China alone. So we have made some significant commitments, and we now believe and feel from an asset stand point of view that we have a setup that we can grow as we have indicated here in the near future, and therefore does require a significant asset investment.

In addition to that, what we have also stated here, improving continuously our product pipeline which can be done on current assets and some of those are on the newer assets that we have invested in. But essentially, our product pipeline that we have in play and aiming for at 20% of net sales, and in the future, now been 13, is well placed to be right on the structure that we have today in the company.

So we've done a lot of ground work here in the last few years to really be able to start to shape up the company in the way we are kind of indicating here now. (Inaudible) has been done, and now, it's a question of strong execution to bring revenue home and at the same time, address the cost structure to be -- to reflect our new size, if you will.

Linus Larsson - *SEB Enskilda - Analyst*

That's great. Then just finally, any guidance on the tax rate for you? I know we have a low corporate tax rate in Finland, do you have any guidance for the group as a whole for 2014?

Jan Lang - *Ahlstrom Oyj - President, CEO*

Well, as you know and as we stated earlier, the challenge of course is that we are making typically profit in high tax countries like US, Brazil, et cetera and making some losses in some emerging markets where we are not having any sort of history yet. With FX (inaudible) but I think it's fair to say consistent -- also looking back a couple of years before the big structural changes that we are making now, sort of -- for the modeling purposes, I think what you can do, you would say something around 35% as a sort of normalized level for the tax rate.

Linus Larsson - *SEB Enskilda - Analyst*

Excellent. That's very helpful. Thank you very much.

Operator

We have no further question at this time. (Operator instructions). And our next question comes from Mikael Jafs of Kepler Cheuvreux. Please go ahead.

Mikael Jafs - *Kepler Cheuvreux - Analyst*

Yes. Hello, everybody. I listened to most of your presentation, but I missed a part of it. But it's sort of -- if we put the quarter aside, you have now, for a long period of time been hovering at very low margins. And I see that you are announcing a cost cut, an additional cost cutting effort. Going forward, if you envisage, let's say a normalized Ahlstrom in a longer period of time, what would be an achievable margin? And no, I'm not thinking about the next year, I'm thinking more when you are done with all of your things.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Right. Mikael, hi. It's Jan. Well we are aiming, Mikael for a EBIT of 7% by 2016. And the steps that we have taken are the ones I have been mentioning to you, the two -- by growth through new product introductions and raising the new product ratio to 20%.

Second is, of course is cost program that we'll, if you will, normalize our cost structure back to where we were five years ago and before the crisis, if you will, and before we demerged our label and processing business. So we are aiming to get to between 10% and 11% in -- SGA costs into 2015.

The third element is about our focus units, that's many times have -- related to it -- we do have a number of startups, three particularly in this case now, that we have negative financial impact in the numbers of 2013, that had a negative impact of about 13 million, and obviously our task and objective is to eliminate those and then make profit. And therefore, we are saying that we are able to get the 7% EBIT with [fee] particular initiatives, i.e., the ones I have mentioned.

And we feel a lot confident about that. That's now possible. Now there are many reasons why our financial are -- been poor in the last two, three years, longer if you look at that for a longer period of time, but the last two or three years, but let's not go into that. We have a platform now that we are ready to start to build further on and then make this company sustainable, profitable, going forward. And all the bits and pieces are [advised] to do that.

Mikael Jafs - *Kepler Cheuvreux - Analyst*

Okay. Many thanks. Many thanks.

Operator

And we have no further question at this time.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Well it seems like we do not have any further questions at this time. So therefore we would like to thank you for listening, and joining us today. And we hope to hear again from you in April when we are scheduled to report our Q1 2014 interim results.

So thank you.

Seppo Parvi - *Ahlstrom Oyj - CFO*

Thank you.

Operator

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



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