

FINAL TRANSCRIPT

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AHL1V.HE - Q3 2011 Ahlstrom Oyj Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to today's Q3 2011 results call. I would now like to turn the call over to your host, Juho. Please go ahead, sir.

Juho Erkheikki - *Ahlstrom Oyj - IR*

Thank you, and good afternoon from Helsinki. Welcome to Ahlstrom's third quarter financial results conference call and audio webcast. My name is Juho Erkheikki from our communications team, and I will be your moderator today. Please note that the links to the webcast and the slides are available on our website at ahlstrom.com. Today's conference 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. Jan, please go ahead with the presentation.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you, Juho. Welcome from my side also. We are living in quite turbulent times in the economic terms, certainly, in Europe and [what we see] in North America also, and obviously, the uncertainty here has affected our performance in the third quarter of this year.

If I go to -- talk first about the brief summary, July to September, we had a performance in sales that was below comparison period. Our operating profit, also, clearly weaker at EUR8 million against the comparable period EUR13.8 million.

Our main markets certainly did not recover here after the summer, which typically is a bit uncertain period, but September is certainly very critical in how the year would look like towards the end of the year. The positive note -- food and medical business improved its performance also in the quarter and year on year, and then, we completed the divestments over home and personal.

On the net sales side, for continuing operations, it fell by 5.6% from quarter three 2010. In volumes, the tons decreased by 3.6%, whereas the sales volume, excluding divestments and new assets, were down by 1.9%. So, certainly, a clear reduction here -- also bearing in mind that the -- some of our businesses are quite volume sensitive.

When you break down the net sales, this 5.6%, 2.4% were derived from currency impact, and divestments and new assets were down by 2.9% -- or impacted by 2.9%. So, clearly, those two have the most significant impact on the sales development.



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In terms of operating profit and loss for the continuing operations, the performance in the quarter was impacted, naturally, by the lower sales volumes, but also by the fact that the higher raw material costs were not fully compensated by higher selling prices. We had a -- quite of a trend on that for the first quarters of the year, but in the third one, we did not manage to bring those sales prices -- increases home, so to speak, given the fact that we started to see a weakening demand environment. And we continue to have challenges with some production lines, which I will refer to later in the presentation.

Our return on capital employed was negative after having had a pretty good trend quarter one and quarter two. In that development, obviously, the nonrecurring costs impacted that quite significantly in the month where we wrote down [or took in] nonrecurring costs of EUR25.3 million.

We announced a week ago the -- a profit improvement program at the same time when we indicated that our guidance is changing. This profit improvement program is to address, essentially, underperforming businesses that we have had some of, and the aim here is to get an impact of EUR15 million on -- for 2012 performance. This will affect, potentially, around 400 persons in the Company.

We have announced the -- three initiatives. Firstly, we will end glass fiber and glass fiber mats production in Karhula, Finland, whereas the production of glass fiber tissue will continue. And this is related to, specifically, the competitive environment in the world market of glass fiber, driven by large and significant investments by the Chinese players who have also become very active in the European market and, at the same time, weak demand in the windmill industry, which has been continuing for some time, essentially, started in connection with the recession in 2008.

We have also decided to close a loss making machine making hybrid wall cover in Turin, and it's been one of the problem assets that we have had and could not find a solution that would satisfy a long-term financial performance of this business and therefore, concluded on a closure of that product category.

[And then, we are also] streamlining of our Osnabruck operations, essentially, efficiency improvements in the business. We have booked a nonrecurring cost of EUR25 million in the quarter three, whereas we assume that the cash impact will be neutral. And in addition to these three that we have announced, we are considering some further measures in the business with similar justification on underperforming businesses, and we will refer to these later this autumn.

If you then look at each business area, a couple of comments. First, with building and energy. Sales volumes were up by 3.7%. We saw a continued growth for the wall cover business and markets. The Turin hybrid wall cover that I just referred to continued burdening of the profitability of -- meaning that it's been loss making and closing that business. The lower sales in -- volumes in the wind and energy industry have impacted also the performance, as I referred to here earlier.

In filtration, sales volumes were down by just -- it was just under 7%, of which part is related to the dust filtration business divestment last year. However, the underlying demand has been weaker, derived from auto industry in Europe and part in North America, where the activities of that industry have been down in the quarter, and hence, a lower demand in transportation filtration materials.

We have had adverse currency effect. Higher selling prices, yes, but not fully covering the cost of raw material increases. Then, food and medical sales volumes were up quite nicely by 7% in that business, driven by food applications. Also, mix has been higher, selling prices higher. We had, on the other hand, adverse currency effects on the sales development. That was 3% up in the quarter against last quarter.

And the Mundra plant is continuing to burden the financial performance. However, a program to address that is in place and should have been -- we are aiming to have that sold by the end of the year when the incremental investment is in place to allow us to manufacture the quality product, as we have assumed to do that. And also, the Chirside business for teabag line is continuing to be a challenge. However, we are making progress with qualification of products here and, step by step, making improvements.



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Finally, label and processing had a very poor quarter, driven by sales volumes down by 6.5%, particularly lower in abrasive business, flexible packaging and release liners, perhaps, the most impacting businesses here. And this business is also very sensitive to price competition, and, given the lower demand, we were not able to generate enough price increases to compensate for the material cost here also.

We introduced a new product in the release liners for the main application here -- what we call Acti-V, which we think, over time, will become an important product in our portfolio that -- a product that improves the performance of customers' labels, and manufacturing labels, particularly. So, that was a -- my first introduction on [topic. Seppo will] continue with cash flow and balance sheet, et cetera.

Seppo Parvi - Ahlstrom Oyj - CFO

Thank you, Jan. So, on next slide we have net cash from operating activities. [Net] in Q3 this year was at EUR26.7 million level, which is about the same level as the previous quarter. Q3 last year was at EUR67.5 million, but when comparing the two quarters, you have to remember that last year, we still were running our working capital reduction approach -- the reduction of working capital continued in the Q3 last year.

On the following page we have the summary of the development of operating working capital, and there, you can see that working capital has actually been, more or less, at the same level since Q3 last year. Also, turnover has been around 40 days -- 41 days in -- at the end of Q3 this year and 39 last year, Q3. And I think we can say that we are happy with the results of the working capital management approach. In fact at end of last year, we have been able to maintain the level that we had reached and also to -- we continue to keep it in focus also in the coming months.

On next page, we have gearing ratio. That was 54.3% at the end of September this year. It is slightly above the range -- or the bottom of the range -- 50% to 80% that we had set as a target for the gearing. Actually, if you take into account the write downs and onetime costs Jan mentioned, in relation to our restructuring program we announced last year, that has an impact of about two percentage points on the gearing. Also, good to keep in mind that when the home and personal divestment to Suominen will be finalized by end of the month and money transferred, all gearing will drop to 31.5% level, which is clearly below the low end of the range.

On following slide we have maturity profile of our medium and long-term credit facilities. No big changes there [from September] the previous quarter. However, it's worth to notice in the current situation of the financial markets that are in quite a turbulence, as we all know, that we have renewed our EUR200 million revolving credit facility in June earlier this year with a new EUR250 million five year arrangement. So, from that point of view our financial position is strong and continues to be so.

Then, a couple comments on income statement and balance sheet. First, on income statement, like Jan was earlier referring to net sales suffered from lower sales volumes. Gross profit was EUR30.7 million, Q3 this year and 52 -- EUR55.2 million, Q3 last year.

Operating loss for the quarter was EUR17.3 million. However, it's worth to note that this includes EUR25 million nonrecurring costs related to restructuring programs and also, of course, affected by lower sales volumes. Profit before taxes was a loss -- EUR24.4 million this year. Actually, if you take into account the nonrecurring items, it would be break even. Last year we were at EUR5.7 million level.

And then, just a comment on reporting on home and personal as discontinued operation. Result is shown on one line at the end of the profit and loss. So, EUR1.8 million positive for this year in Q3, as compared to EUR2.6 million in the Q3 [year ago].

Then, moving to balance sheet, there, again, [we are to] notice that divestment of home and personal is shown there. [Total on] one separate line in assets and liabilities -- or assets and liabilities as held for sale. Otherwise, total equity down from EUR703.8

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million level to EUR613.2 million. That is affected by dividend and impairment. Provisions affected by restructuring costs of EUR25 million [sorry, EUR16 million], as mentioned previously. And gearing was at EUR54.3 million, like mentioned earlier.

Moving to cash flow, [there worth to] notice that EBITDA includes those nonrecurring items, like mentioned earlier. [The counter] affected adjustments -- of course, it's cash neutral. From that point of view at least in the provisions at the moment. Changes in net working capital, EUR10.8 million positive, compared to EUR31.3 million in Q3 last year, and financial items, minus EUR13 million. That's about EUR10 million more than a year ago. That is impacted by currency swaps from the loan portfolio.

Net cash from operating activities was EUR26.7 million, compared to EUR67.5 million a year ago. Investments, EUR12 million, compared to EUR27.1 million a year ago. And net cash after investing activities was EUR15.4 million, compared to EUR40.2 million in Q3 last year. Then, over to you, Jan.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you, Seppo. Firstly, a summary of our current priorities. Firstly here, the profit improvement program that we have indicated we will continue to work on and -- during the autumn. Some more initiatives will be announced. We continue to work actively on our cost structure, particularly in the supply chain. A number of initiatives to mention here, specifically, manufacturing waste, but also, other topics on the agenda.

Execution of our strategy. Nothing new here compared to previous comments. Continue to drive and find profitable growth opportunities and then, investing in those and expand our position in Asia, which has been ongoing here for some time with a few investments that we also have confirmed that we are in the process of implementing.

Then, to the outlook, where we made a change here in -- last week, October 18, given the slowdown of the business, and we expect that lower activity level to continue here rest of the year. Clearly, we have a situation here that has some resemblance of the 2008 recession, where we saw companies pulling down inventory levels in the supply chain, and, certainly, in some businesses, we have seen lower demand, as I referred to here earlier. For instance, in the auto industry and windmill industry, we have seen slower demand affecting the performance.

Because of this, we have then updated our guidance for the full year for the continuing operations here, and sales expected to be between EUR1.565 billion and EUR1.645 billion for the full year, and the operating profit, excluding nonrecurring items, to be between EUR46 million and EUR56 million. So, clearly, on a lower level than our previous guidance. And we expect to finalize the year with approximately EUR85 million in investments, excluding acquisitions. So, that was the overview. Then, to questions.

QUESTIONS AND ANSWERS

Juho Erkheikki - *Ahlstrom Oyj - IR*

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

Operator

(Operator Instructions)

We will take our first question from Mikael Jafs. Go ahead, sir.

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Mikael Jafs - *Cheuvreux Nordic - Analyst*

Yes, hello. Mikael Jafs from Cheuvreux in Stockholm. I've got two questions. First, you are sort of indicating that you will do additional restructuring actions now, to be announced during the autumn. Could you give us some sort of flavor? I mean, are these as big as the ones that we have seen already now? Or just some kind of flavor so we understand the magnitude of these indications.

And then, the second question is there was some pulp statistics out during the weekend, showing that the global pulp inventories came down a bit. Do you see a risk here with pulps prices? What's your view on pulp? Those are my two questions. Thank you.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you, Mikael, and then, hi to you. First of all, on your first question, what we have stated is that we are looking at other initiatives and that the total program will affect about 400 persons, meaning that the announced initiatives will affect in the range of less than 250 people, meaning that there is some more to come and -- in the magnitude of 150 or 170 persons, approximately. So, the magnitude is somewhat smaller than we have announced, but still, from our internal perspective, certainly, quite significant.

Seppo Parvi - *Ahlstrom Oyj - CFO*

It's Seppo. I can take the pulp question. I think it's -- like you refer, it's quite an interesting situation -- the pulp market at the moment and difficult to say where they are heading, and I don't want to speculate on that. However, I guess you know pulp prices have been slightly coming down, according to recent [marks]. Nothing traumatic so far, but let's see how the demand in Asia and China develops and how that market, in general, continues to move.

Mikael Jafs - *Cheuvreux Nordic - Analyst*

Okay. Thank you very much.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thanks, Mikael.

Operator

(Operator Instructions)

We will pause for just a moment to allow everyone to signal. There are no further questions in the queue.

Juho Erkheikki - *Ahlstrom Oyj - IR*

Well, as there seem to be no further questions this time, I think we are therefore ready to conclude this conference call. So, thank you once again, ladies and gentlemen, and we hope to hear from you again at the beginning of February when we report our full year 2011 end quarter four financial results. Thank you.



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Operator

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

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