

FINAL TRANSCRIPT

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AHL1V.HE - Q1 2011 Ahlstrom Oyj Earnings Conference Call

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CORPORATE PARTICIPANTS

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Juho Erkheikki

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CONFERENCE CALL PARTICIPANTS

Markus Peura

Alandsbanken - Analyst

Mikael Jafs

Cheuvreux Nordic - Analyst

PRESENTATION

Operator

Good day, and welcome to the Interim Report January to March 2011. For your information, this conference call is being recorded.

At this time I would like to turn the conference over to your host for today, Mr. Juho Erkheikki. Please go ahead, sir.

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Thank you. Good afternoon from Helsinki, and welcome to this Ahlstrom first quarter earnings conference 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 Oyj - President and CEO*

Thank you, Juho. Welcome from my side also. I will take an overview of the happenings during January-March and go into a few details by business area. And then, Seppo Parvi will talk more in detail about the financial numbers.

So if we look at the January-March as a whole, overall, a fairly positive environment as far as our own situation is concerned except for the high raw material cost inflation. That certainly was a challenge and then continue to be somewhat a challenge.

Our sales grew nicely by 11.5% and operating profit also improved clearly against a comparable period. We worked on selling prices actively and have announced further price increases into the market.

During the quarter, we renewed our brand identity, an important step of not only externally but also internally. And the particular challenge we had during the beginning of the year, in January, was the flooding in our Louveira plant in Brazil.



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When we look at the net sales by quarter on slide number four, we had a trend here that quarter one against quarter one 2010 was positive, whereas somewhat higher than quarter four 2010.

The 11.5% increase in sales is attributable to price increases and mix volume, on the other hand, 1% up, however, on a comparable note, 3%. So, quite significantly impacted by the price increases that we have been moving ahead with to compensate for the higher raw material price increases.

On net sales by region, similar trend as recent quarters. Our Asian business is particularly growing fast at 28% in the quarter, whereas we saw in all other regions an approximately plus/minus 10% growth during the quarter.

And operating profit improved compared to the previous comparable quarter from EUR14 million to EUR20.8 million EBIT. And here, we have a number of issues that have affected that performance. We improved our efficiency in the manufacturing side.

Supply chain cost management, we were working actively on topics such as cost of raw materials to mitigate the inflationary impact. And then, of course, also, higher volumes had a positive impact on our profitability. We continued to have challenges with new production lines as we have reported earlier, although we certainly see some improvements there also.

Then, on the return of capital employed -- slide number seven -- certainly improved against the quarter one performance, 2010 and also the previous couple of quarters to 8.2%. However, it's still under the long-term of target of 13% that we have communicated that we are aiming to achieve in 2012. So, we have some way to go to that level.

Then, if we move into each business area, firstly, building and energy -- that during 2010 was still struggling below the breakeven levels. However, now we have seen good progress on profitability and then had a operating profit of just above EUR2 million in the quarter.

Net sales grew very strongly. That also was driven by volume, 15.2%. And this growth has been pretty much across most parts of our businesses in this segment. And we do see now a positive development in the wind power markets in Europe that has been very slow to recover from the recession of 2009 and the effected still 2010 quite significantly.

The ramp up of our Turin hybrid wallcover lines continues, although we do make progress there in qualifying the products in the market. Then on the filtration side, growth of 1.5%. However, this is also affected by the divestment of dust filtration that was completed here recently.

And then, the improvement in demand in the transportation industry continued on a global scale although not significantly. And here, we have -- in filtration we have booked a non-recurring item of about EUR1.1 million in the business. So if you look at the EBIT level, it did improve excluding non-recurring items compared to quarter 1, 2010 to EUR8 million.

And the following one, Food and Medical, sales up by just sort of 14%, volumes 9%. EBIT, however, lower than the prior year. Here, we have a positive volume growth in the food packaging materials and medical drapes, certainly. But, we do have a poor product mix and the high raw material cost impacted the earnings here in Food and Medical.

And we still have the impact of Mundra and Chirside facilities, the newly -- started assets earlier 2009 and 2010, but still impacted the earnings negatively.

If we then move on to Home and Personal, where we had very good progress during the first quarter, higher volumes, clearly up by 11%. So demand has been good, and particularly in Europe.

We have also managed to improve our efficiencies in the manufacturing, which is particularly driven by material efficiency, i.e., better utilization of material in the process. Consequence of this, the earnings, i.e., our operating profit improved to just over EUR2 million in this quarter.



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And then, finally, Label and Processing, where the growth was 5.6%. However, volume declined by 5%, also affected by divestments last year. Here, we continue to work well on our manufacturing efficiencies and La Gere also improved profitability. Compared to the previous year, we have been struggling for some time with the La Gere business, but are now also seeing there are also improvements. And all in all, the operating profit improved to about EUR6 million in the quarter.

I will now move over to Seppo Parvi, who will take some items around cash flow and balance sheet, et cetera.

Seppo Parvi - Ahlstrom Oyj - CFO

Thank you, Jan. First, some comments on net cash flow from operating activities for this year, net cash flow operating activities -- and this is before capital expenditure worth EUR18.5 million. That is slightly less than Q4 of last year. And Q1 of 2010, we were at EUR32.1 million less.

Development of operating working capital showed an increase of EUR16.1 million compared to end of last year. Turnover was now 39 days by the end of March of this year. That is an increase of a couple of days compared to the end of the year. There's a clear improvement compared to the first quarter of 2010. And we can see that the a level of working capital (inaudible) the days starts to stabilize.

Working capital, of course, remains on our focus even though that the debt to capital (inaudible) as such is over now and finalized by the end of the year.

And on the following page, on year end and net debt development, we can see that net debt was EUR315 million level end of the quarter. That is a reduction of EUR15 million compared end of the year, an improvement of EUR60 million compared to first quarter of 2010. Our year end was 48.4% and remains below the floor of our target range of 50% to 80% year end ratio.

Looking at the maturity profile of medium and long-term credit facilities, we can see that there has been no changes compared to end of the year. There were no funding transactions taking place during the quarter.

Liquidity remains strong, and we have in total of EUR480 million. Our liquidity, including cash uncommitted credit facilities and cash flow limits. And on top of that, we had also available under our uncommitted credit facilities of about EUR76 million.

Then, some comments on income statements and balance sheet. Net sales for the quarter increased by EUR50 million, and that is thanks to the increased selling prices and higher volumes. Higher prices and volume sales are reflected in the cost of goods sold. Gross profit increased from EUR55.7 million to EUR64.4 million. And operating profit was EUR20.8 million compared to EUR14 million a year earlier.

Net financial expenses was slightly down compared to first quarter last year at EUR5.3 million. And profit [was] before taxes is EUR15.5 million, a return on capital employed 8.2% compared to 5.2% a year earlier.

Then moving to balance sheet, first of all looking at working capital items on asset side (inaudible) are slightly up, due to higher raw material costs and volumes as well as prices.

And then comment on equity, there's a reduction of equity and that is due to the fact that dividends were recorded at the end of the quarter. And that is also seen as an increase and not a payables, on trade and other payables line as dividends are shown there. They are not paid yet at the end of the quarter, but were paid at the beginning of April.

Gross debt was reduced from EUR354.7 million to EUR340 million, hence the positive cash flow. The same was also reflected in the net debt as commented earlier.



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Then cash flow -- net cash from operating activities like I said earlier was EUR18.5 million. And some items to be commented about it, first of all, financial items, showed a positive [EUR7.1 million] impact. And that is due to the (inaudible) currency swaps, and maybe due to the euro/dollar development of some loan arrangements. That was negative EUR16 million in the first quarter last year.

Investment EUR 7.5 million, and net cash after investment activities was EUR13.1 million. And that is compared to Q1 2010, which was at EUR25.1 million level.

Then over to you, Jan.

Jan Lang - *Ahlstrom Oyj - President and CEO*

All right. And then, finishing off with a couple of slides on the future, first of all if you look at what we are working on with our management agenda it is essentially same agenda as I talked about when we announced the 2009 -- oh, I'm sorry, 2010 results.

Key topic is for us continue to be to manage our selling price, also given the fact that during the first quarter, we could not fully compensate for the very strong raw material input cost increases during the quarter. So, we are continue to work on that obviously.

Cost improvements in our supply chain through various contingency improvements program is high on the agenda. And then, in terms of execution of our strategy, we continue to assess growth opportunities in Asia, but at the same also seeking opportunities in the defined growth businesses.

An important topic for us is to leverage the improved organizational strength and to develop our organic growth by strengthening our global processes. That is a continued work, and our key account work which represents a very significant part of our business has high attention. And, all in all, we're going to spend during this year in the range of EUR12 million to support these process improvement developments.

Then to our outlook which basically remains -- or, not basically it remains unchanged from announced in February for the full year. And we expect our net sales to be in the range of EUR1.920 billion to EUR2.80 billion. And our operating profit excluding non-recurring items in the range of EUR90 million to EUR110 million. And we anticipate our investments to be in the range of EUR105 million.

So that's from me and Seppo, so thank you. And then, to you Juho.

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Thank you very much, Jan, and Seppo. We have now concluded the first part of the conference call, and are ready for your potential questions. Please note that you can also pose questions by writing them online.

Operator, please go ahead with the questions from the telephone lines. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, gentlemen.

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(Operator Instructions)

We will take our first question from Markus Peura of Alandsbanken. Please go ahead, sir.

Markus Peura - *Alandsbanken - Analyst*

Thank you and -- thank you, and hello, gentlemen. I have a couple of questions. First, let's start with the -- with your pricing and label processing. I noticed that there were some decline in average selling prices compared to Q4 2010. So, is this due to some seasonal changes, or what is the reason for this?

Jan Lang - *Ahlstrom Oyj - President and CEO*

Okay, Jan here. This is more related to mix that I referred to. We do not have a negative impact on average selling prices as such. I mean, the overall -- progress has been made overall in most of our businesses. We have increased sales prices, but to some extent we are short compared to what the impact of the raw material has been.

And these are particularly driven in overall material cost increases in synthetic fibers and chemicals. They have been the key topics here.

Markus Peura - *Alandsbanken - Analyst*

Okay, thank you. And then, second question, can you shed some light on what is the impact of this problematic unit Turin, Chirnside, Mundra and La Gere on the first quarter profit?

Jan Lang - *Ahlstrom Oyj - President and CEO*

Well, we have not for the quarter itself separated the numbers of that. If you recall in -- during 2010, we had a negative impact of about EUR20 million. And we have made some improvements during 2011 at the quarter, but we -- the magnitude of the problem is still similar. So, some improvement but not significant.

Markus Peura - *Alandsbanken - Analyst*

Okay, thank you. And then, did your brand renewable result in any significant cost in first quarter, or would it lead to extra cost in further quarters to come?

Jan Lang - *Ahlstrom Oyj - President and CEO*

No, the cost of the brand initiative were primarily taken in 2010, and there were some costs but they also are of no significance in the quarter one 2011.

Markus Peura - *Alandsbanken - Analyst*

Okay, thank you. And then, my final question, what is currently the level of impact of euro/US dollar rate on EBIT?

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Seppo Parvi - *Ahlstrom Oyj - CFO*

Like we have said earlier, we are quite neutral when it comes to currency -- currency changes, so no significant effect.

Markus Peura - *Alandsbanken - Analyst*

Okay. Thank you, very much.

(Operator Instructions)

Operator

We will take our next question from Mikael Jafs of Cheuvreux Nordic. Please, go ahead.

Mikael Jafs - *Cheuvreux Nordic - Analyst*

Yes. Hello, gentlemen. I have a question regarding your sensitivity to pound prices and the weakening dollar. And I assume that as the dollar now becomes weaker, and this must be offsetting part of the increase we have seen in US dollar-based pulp prices. Is that correct?

Jan Lang - *Ahlstrom Oyj - President and CEO*

Yes, that is correct. Like I say (inaudible) so thanks US dollar/euro exchange rate. If you look at the price of pulp in euros, it has been rather flat or even coming slightly down, even though the dollar prices have been going up.

Mikael Jafs - *Cheuvreux Nordic - Analyst*

Okay. What is your sort of -- can you speak of your general view on pulp prices going forward for the coming year? Do you have sort of a base case scenario?

Jan Lang - *Ahlstrom Oyj - President and CEO*

No. We, of course, follow the developments carefully. And there has been increases now for some months and market situation has remained similar. So, it's some small increases probably.

Mikael Jafs - *Cheuvreux Nordic - Analyst*

Okay. Thank you, very much.

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Thank you, Mikael.

Operator

We have no further questions in the queue at this point.

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Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Operator?

Operator

Yes?

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

We have one more question from our web audience, so I'll just read it out loud here. And the question is, how confident are you that the price increases announced for the second quarter will be successful? And, are you also planning to increase prices in other business areas than Food and Medical and Home and Personal, which you have notified in the report?

Jan Lang - *Ahlstrom Oyj - President and CEO*

We are quite confident that we can continue to adjust prices upwards as we go forward. And the issue here in quarter one has been a quite rapid increase that we have not been able to react to as fast as one, of course, would have hoped, but we have made progress and we will continue to adjust prices as needed.

And this goes also for other business areas than these two mentioned that we will also increase the prices as needed for other business areas.

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Operator, would there be any further questions from the telephone lines?

Operator

Not at this point.

Juho Erkheikki - *Ahlstrom Oyj - Financial Communications Officer*

Well, thank you, ladies and gentlemen. And this concludes our first quarter earnings conference call and webcast. And we hope to hear you again in August when we report our second quarter results. 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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