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AHL1V.HE - Q2 2013 Ahlstrom Oyj Earnings Conference Call

EVENT DATE/TIME: AUGUST 07, 2013 / 11:30AM GMT



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PRESENTATION

Juho Erkheikki - *Ahlstrom Oyj - Financial Corporation Officer*

Thank you and good afternoon from Helsinki. And welcome to Ahlstrom's Second Quarter Interim Report Conference Call and Audio Webcast.

My name is Juho Erkheikki from communications. 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 webcast and to the slides are available on our website at Ahlstrom.com.

Jan, please go ahead with your presentation.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you, Juho. Welcome from my side also. I will firstly talk to the overall and brief comment and then talk about our rightsizing program where after I will go into more details about the quarter and then Seppo will continue with detailed P&L and balance sheet topics.

Firstly, before I go into the slides, we have seen during Quarter 2 a market environment that has different profiles depending on the regions. In Europe, continued very difficult environment with recession implications, if you will. Whereas in North America where we have a positive economic growth, although slow, but at the same time, we have seen a rather volatile behavior in the market with relevant segments as far as we are concerned.

Whereas in Asia, in particular China, a market environment that's somewhat uncertain, if you will, despite the fact that we have growth, a strong growth in China, that we're going seven-digit growth of the economy, approximately, it's growing. We have seen volatility there in the behavior also.

I'd be going to highlight on page 3 in the presentation, we had a financial performance that we characterize as slightly improving. Advanced filtration, it's working pretty nicely including integration of Munktell. We've been able to improve our sales prices including product mix and demerger deal that we were executing. The first part was completed and we expect to complete the Brazil demerger in second half of 2013.

Lowlights around volatility in North America. At such, I wouldn't overemphasize that but it has had certain impact on our financial performance. Higher indirect and administration costs, we'll come back those. Then the focus units include medical continued to be a challenge and then gearing ratio developed to be over 80% due to demerger effects. Seppo is also going to talk through that in more detail.

We'll look at the key figures on the following page. Growth 1.3% whereas operating profit improved slightly from EUR7.4 million to EUR7.9 million excluding non-recurring items. Year to date, our operating profit is at 40.4. However, below last year, 17.9 reminding here that last year as far as profile was concerned we had a rather strong in relative terms first half year but a very weak second half of the year. So we seem to have a different profile of the business this year which had been impacted particular by economic activity in the market.



Then we go into the following slides, we have announced earlier this morning a rightstarting program where we are targeting to achieve EUR35 million costs savings -- reduce cost base by the end of 2014. This includes earlier announced EUR15 million programs, of which EUR10 million was raised to costs being transferred to Munksjo. The net effect therefore are estimated to be about EUR25 million for us on a financial benefit terms.

Key actions here are around the completion of demerger related transfers have been planned to complete by end of May next year but then particularly to reduce SG&A costs in various parts of the growth in the organization, i.e. functional cost and optimization and productivity improvements in the supply chain. This will concern about 350 persons globally as we then move ahead but detailed plans will be done here during the coming months.

We've been essentially transforming the company structure in many ways during last three years, of which significant efforts have been taken place to redesign our business processes and the way we work in the company and at the same time we have -- we built our product portfolio by significant drivers (inaudible) and demergers to major program projects we've been completing.

And as a consequence of the fact that we have redesigned our way of working the company we think that the way that this will allow us to make this program successful and implement it but at the same time since we have made Ahlstrom significantly smaller, i.e. from EUR1.9 billion company, we are reduced to EUR800 million in revenue.

Our critical mass is smaller and therefore we need to adjust our cost base going forward to reflect the business' smaller size. So full impact of this, we expect as of 2015 in our P&L.

Then the following slide where we have an overview of our revenue development where last quarter, in absolute terms, was the biggest quarter we ever had since Quarter 2 2011 and growth compared to comparable quarter by 1.3%. This has been impacted by higher selling prices and mix which affected about 2% positive whereas adverse currency effects had had 2% negative impact on the net sales development.

Our quarterly operating profit development on the following page, somewhat positive and bigger than previous quarter and impacted by positive price management (inaudible) but also negative impact due to indirect costs that mainly are related to new units.

And we can see it up on the following page where we have a [breach] from Quarter 2 '12 to Quarter 2 '13 where selling prices had a EUR3.4 million positive impact whereas input costs have increased as raw material and energy is concerned by about equivalent amount. And then some other plusses and minuses. SGA, other costs and FX were significant part of these indirect and administrative costs all related new business acquired.

Then a few words about our business area performance starting with the advanced filtration, strong performance continued with an underlying net sales growth of 15.7% excluding the acquisition we did and all in all 39% growth. This has been driven essentially by higher sales of gas turbine and laboratory and life science applications, all the product families.

On the year earnings operating profit improvement, from EUR2.9 million to EUR3.7 million in the business.

Building and energy, the following slide, had a declining sales of 1.9%, flooring materials that we manufacture of (inaudible) materials primary needs in Europe, good performance whereas the wallpaper, wallcover business was stable in terms of volume and value development.

The lowlights and impacts on the four months here are driven by sales of wind energy applications but also, an adverse product mix which affects particularly the operating profit performance. We have lower sales of construction and consumer-related applications in Europe driven by very weak market environment and these are products that have rather decent margins.

Following, the food and medical performed in revenue terms slightly lower than prior year where food packaging and beverage and tape materials developed okay in North America. We are okay in terms of sales price in this business but the lowlights have been of medical products and adverse currency effects that have a rather important impact here in this business.



The issues of Mundra plant and Chirside production line are still there and underperforming and then we have a startup of the new joint venture in Longkou that also has an impact on the P&L in negative terms.

Finally, transportation filtration had a rather stable financial performance, slightly up in operating profit terms, volume growth in Asia where we have invested quite an effort in recent times to drive that business and at the same time, sales in Europe was quite okay despite the difficult market that we have in Europe.

Lowlights have been sales of heavy duty filtration in North America which is, when you look at the economic development, a bit surprising that we have had this productivity in the business but it's not of big significance but it is an impact that we have noted and recognized. So, growth and operating profits improvement. Turn over to Seppo.

Seppo Parvi - Ahlstrom Oyj - CFO

Okay, thank you, Jan. So, first look at the quarterly net cash flow from operating activities that was EUR35.5 million for the quarter up from negative cash flow of EUR21.4 million the quarter before and this is thanks to release of operative working capital that we focused in, like I mentioned, in the previous call to bring it down after negative development doing that cost.

At the following page we see the development of operative working capital and the positive (inaudible), the turnover rate that was 39 days at the end of Q2 this year that is down two days compared to end of the last year, 41 days, and some five days down compared to end of Q1 this year when we were at some 39 days. In total, working capital came down from EUR198 million to EUR155 million. Partly also due to the release of working capital the demerge.

On the following page, we have development of the gearing ratio and net debt came down from about EUR349 million debt level to EUR295 million thanks to the first demerger and the effects there. However, our gearing went up to 83.7% by end of the quarter driven by some (inaudible) to that demerge that took place in the quarter.

It was negatively affected by about EUR30.9 million net of tax impairment loss and costs to sell related to Coated Specialties demerger that is Brazil and that is to happen during the second half of the year.

Then there was EUR67.6 million recognition of Coated Specialties distribution liability that is relating to the fact that our shareholders are having shares aspect and expect that the demerge takes place and that is recognized already in the balance sheet.

Also take note, (inaudible) through the profit and loss that is booked equity increase into the other liabilities variables. And then there is the Munksjo shares. Our owners in the Munksjo have caused EUR28.6 million write-down.

On top of that, it's not mentioned here but there was about EUR100 million positive affect in equity from the group equity calculation. After the demerge they came to account also the moneys, EUR150 million we see.

Then moving to next page, 18, I don't have to lecture the profile of our medium and long term credit facilities. There are no really any significant changes to any direction like (inaudible) rest of the year. Our repayment (inaudible) was very limited, only about EUR25 million repayment and in 2014, slightly below EUR50 million. The next peak of maturity is in 2015, that is domestic EUR100 million (inaudible) mature.

Liquidity remains good. Our cash and unused committed credit facilities are EUR326 million and on top of that, we have uncommitted credit facilities and cash pool overdraft about EUR143 million available.

Then a couple of comments on the income statement and balance sheet, net sales here Jan already commented on it and there is much to that. Operating profit, profit for the quarter, it is including non-recurring items for EUR6.4 million compared to EUR4 million a year as well. Non-recurring item has (inaudible) Q2 EUR1.5 million compared to EUR3.4 million in Q2 last year.



Maybe even note on operating profit and net financial expenses, share of profit and loss of equity accounted investments, EUR5 million, related to Suominen Oyj, Jujo Thermal. That thing is mainly coming from Suominen non-recurring items. I think on a positive note that Suominen performance has been improving and resulting (inaudible) in here on how the operations are running.

Then maybe the last comment on this page is the profit for the period from discontinued operations EUR66.7 million that includes EUR90.6 million income recognized from the demerger as well as operative results for the discontinued operations as well as EUR30.9 million net of tax impairment loss and costs to sell related to the Coated Specialties demerger that I also mentioned earlier in correction to the gearing development.

On the following page, comment on the balance sheet. First of all, look at the total non-recurring assets. Important to note is that that includes two major positions relating to shareholdings. We have the Munksjo Oyj, first of all, where about EUR50 million with the current market value share price and Suominen, EUR35.3 million.

Share at the Munksjo are booked on the upper investment as it's for sale. To clarify, that is of course a different position and assets classified as held for sale and distribution to owners that we see there at the last line for a the total assets EUR151.8 million.

That is including Coated Specialties, that is the Brazilian operations of Label and Processing as well as Brazilian part of Home and Personal as mentioned already earlier, as well as the production lines in all (inaudible) that are under divestment process as the next step of the requirements set by EU Commission relating to demerge and merge and including the Munksjo of Label and Processign things.

Total equity has been affected by the demerger effects of Label and Processing as mentioned already earlier during the presentation and as a reminder, that includes EUR80 million hybrid bond and as was communicated earlier they are looking at the alternatives we have to requirements.

Then looking at trade and other payables, that includes, earlier mentioned EUR67.6 million recognition of Coated Specialties distribution reliability and the other side of (inaudible). So (inaudible) reduced and other payables increased.

Liabilities classified as held for sale and distribution to owners includes the (inaudible) as mentioned earlier (inaudible) position on the other side.

Then cash flow. Changes in net working capital, positive EUR19.9 million. (inaudible) other investing activities with the slowing investment of EUR77 million for the quarter. That is of course including also EUR78.5 million equity investment we have made in Munksjo Oyj as part of demerge and merge that we made in Munksjo.

Investment on the line of purchases of intangible and tangible assets, EUR23.5. Includes our investment in terms of China, in the wallcover materials from Binzhou as well as filtration materials investment in Turin, Italy.

Then over to you, Jan, on the future prospects.

Jan Lang - Ahlstrom Oyj - President, CEO

Okay. Thank you. As we all agreed since our outlook for 2013 is unchanged we expect our net sales from continuing operations to be between on EUR980 million and EUR1.140 billion and operating margin excluding non-recurring items to be between 2% and 5% of net sales for continuing operations. And our investments excluding acquisitions are estimated to amount to approximately EUR75 million.

So then over to the question, Juho.



QUESTIONS AND ANSWERS

Juho Erkheikki - *Ahlstrom Oyj - Financial Corporation 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 ask question by writing them online.

So operator, if you would please go ahead with the questions from telephone lines, we'll pause here for a couple of minutes.

Operator

Okay, thank you. (Operator Instructions). We will now take our first question today from Linus Larsson from SEB. Please go ahead.

Linus Larsson - *SEB Enskilda - Analyst*

Thank you very much and good afternoon to all of you and my first question is relating to your guidance which implies a stronger second half of the year in terms of operating profit and I wonder if you could just spend some time on describing what is driving that improvement in the second compared to the first half of the year, please.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Linus, Jan Here. Thanks for the question. I think the key topic here is that last year, firstly, we had a very weak second half of the year and that was particularly driven by poor activity in Europe where the slow down on the economy impacted us quite significantly. So, for second half of last year, we had an operating profit of only EUR3.5 million. So, extremely, weak and one could argue, unusual also.

So, I think the simple answer to this question is that we're having more a normal quarter of the year into 2013 and that is where we estimate it to be for the second half of the year also.

Linus Larsson - *SEB Enskilda - Analyst*

Is it mainly margins or is it mainly on the top line? Do you foresee any price improvement in the second half and any details on that?

Seppo Parvi - *Ahlstrom Oyj - CFO*

Well, like if you have followed the news flow, we have announced some price increases right the summer months and also volume development. We have the startups from last year and beginning of the year. There, also ramp up is continuing and that is expected of course to bring some additional revenue.

Linus Larsson - *SEB Enskilda - Analyst*

Okay, that's fine. And then on your balance sheet, your gearing has risen over the past one and a half years and now you have a gearing ratio of 83.7%. In the next couple of quarters if you could maybe spend some time on discussing how you expect net debts and equity to develop.

Are there any technicalities relating to Brazil or to the transaction that you just made or is it pretty straightforward? Are we seeing a normalized development driven by the cash flow that you generate in the next couple of quarters?



Seppo Parvi - *Ahlstrom Oyj - CFO*

Yes, thank you. It's a good, good question. I think if you look at the neck of this relating to demerger process, those have been booked now, like you noticed that we have booked distribution liability related to Brazilian part of the demerger and also impairment charges related to that. So those are in and those would be sort of demerger itself.

Second step is (inaudible) but then of course we are in the process as you know, to divest part of those metric relating to (inaudible) of the demerge that the EU Commission required some divestment because of those what we call antitrust reasons and ultimately, that of course can have some effect in the (inaudible) development term once we come to final agreement with the purchasing candidate.

And then of course, otherwise, sort of new position or new things which have an effect in the equity going forward is of course is our shareholding in Munksjo Oyj, which is like I said booked as added for sale. It is marked to market every month and quarter. Depending on the share price development of Munksjo, that is of course been reflective in our -- right now, it's booked in the discontinued operations but going forward of course, it will (inaudible).

Linus Larsson - *SEB Enskilda - Analyst*

That's very --

Seppo Parvi - *Ahlstrom Oyj - CFO*

(Inaudible). It's exactly like you said. One of that would be reflecting more the cash flow generated from the business at the investment levels.

Linus Larsson - *SEB Enskilda - Analyst*

That's very helpful. And when you say that demergers, both phase 1 and phase 2, are fully reflected and pretty neutral going forward with the exception of (inaudible), as you said. Then you are referring to both the net debt and the equity?

Seppo Parvi - *Ahlstrom Oyj - CFO*

Yes.

Linus Larsson - *SEB Enskilda - Analyst*

Yes, great. That's excellent. Thank you very much.

Seppo Parvi - *Ahlstrom Oyj - CFO*

Thank you.

Operator

Thank you. There are no further questions over the audio at this time. (Operator Instructions). Okay, there are no questions in the queue.

Juho Erkheikki - *Ahlstrom Oyj - Financial Corporation Officer*

All right, (inaudible) we do have a question online so I'll read it out loud and then (inaudible). So, the question is, how do you see the development of sales for wallcover and tape in Asia and what is your position against local competitors?

Jan Lang - *Ahlstrom Oyj - President, CEO*

I think both (inaudible). Both relating to wallcover and tape, those are of course affected by the construction activities in Asia and China and that I think it's -- both markets are developing positively and that activities are (inaudible) the growth rate in China are down.

The thing is of course in tapes, as you know, we have the local startup. We are ramping up the operation and of course how we can then (inaudible) the market depends how successful and fast we are to ramp up but at the same, going forward with [world] government. Maybe we're going to have a startup towards the end of the year.

Of course, competition is fair and also moving fast so that's important so we can be up and running.

Juho Erkheikki - *Ahlstrom Oyj - Financial Corporation Officer*

Okay, thanks so back to operator. Do we have any further questions from the telephones?

Operator

No, there are no questions.

Juho Erkheikki - *Ahlstrom Oyj - Financial Corporation Officer*

Okay, thank you. So there seems to be no further questions at this point so we are ready to conclude this conference call.

Thank you ladies and gentlemen and we hope to hear from you again in October when we are scheduled to report our Q3 2013 financial results. Thank you.

Jan Lang - *Ahlstrom Oyj - President, CEO*

Thank you.

Seppo Parvi - *Ahlstrom Oyj - CFO*

Thanks.



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