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AHL1V.HE - Q1 2014 Ahlstrom Corporation Earnings Conference Call

EVENT DATE/TIME: APRIL 29, 2014 / 11:30AM GMT



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PRESENTATION

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

Thank you and good afternoon from Helsinki. And welcome to our Q1 2014 conference call and audio webcast. My name is Juho Erkheikki. Today's conference call will be hosted by our President and CEO Jan Lang and our CFO Sakari Ahdekivi.

Following the presentation you will have a chance to ask questions. Please note that the links for the webcast and the slides are available on our website at Ahlstrom.com. Jan, please go ahead with your presentation.

Jan Lang - *Ahlstrom Corporation - CEO*

Okay. Thank you, Juho. Welcome from my side. We have a first quarter after the significant restructuring and reworking the company, if you will, during the last two/three years and at the same time the first quarter that we've really been able to fully focus on developing and running the business as effective as possible.

And all in all my view is that we are seeing some good signs of - of progress over our business. Let me go into the presentation here and I can start with the first slide, talk about highlights and lowlights. In terms of profitability we improved, not much, but still improvement, based on a growth of 2.6% in comparable terms in reported terms our growth was minus 2.4%.

But there is an underlying positive development. And particularly pleasing was that our three business areas improved their profitability, advanced (inaudible). We'll come back to this issue in a moment. We had an improved price level supported also by product mix and then we can say that our right sizing program is progressing as we have planned, planned it to be progressing.

On a negative side, clearly lower reported net sales [have] volumes and particularly the medical building and energy business is not performing well, and then we have issues there. From an increased input cost and operating cash flow was negative cyclical. You can say also negative first quarter last year.

Our focus units [want to show our] our side we've been referring to where we made a loss of EUR13 million last year in our focus units is improving but still had a negative impact on our profits in the quarter.

Let's take aside just short of EUR250 million in turnover, as I said, change minus 2.4% and operating profit at EUR7.2 million again EUR6.4 million last year quarter. Full year last year was only EUR13.4 million as [4.3%]. I will come back to these numbers as we go forward.

Quarter net sales development is on the following material showing that we - we have not had significant fluctuations from quarter to quarter in sales terms, but it also represents a trend that is - is demonstrating that we have had two weak product portfolio to be able to grow in the past about ten quarters.

However, view - my view is that we are starting to see improvement of that. that I'm going to talk about a couple of launches in a moment since our new products introduction program is expiring and we have seen already increased activity by having last year 13% of net sales reason by new products.

With a brief look at the quarter operating profits development during last fluctuations and the EUR7.2 million against EUR6.5 million previous. A comparable quarter 2013, the highlights here are comprising one element also cost saving that mainly come into production overheads. Whereas on the negative side, profits and input costs and then lower volumes were also impacted by - by particular issues in certain business and I'll come back to those - those issues.

Key focus units (inaudible) still negative but some improvement compared to last year. When we look at the bridge from EUR6.4 million to EUR7.2 million selling price just short of EUR6 million positive volume impact negative EUR1.8 million, input costs negative just short of EUR5 million and other cost positive meaning overhead cost positive net (inaudible).

(Inaudible) move in to new products. A couple of launches I'd like to highlight here. The first one is about what we call (inaudible) very interesting concept where we have developed biodegradable material for food packaging for fresh foods, for frozen food that is ovenable product. And this product we believe has some significant opportunities in the coming years to come.

It's a product to use as an alternative to molds and trays made from plastic, aluminum in the food industry. Now it's just been launched and its product will be starting to scale up during this year and as said believe that this has a good - a good opportunity [in this] product.

The current industries using very much aluminum, plastics and while having a biodegradable based on [yield with material materials] we believe the - the sustainability aspect will be becoming more and more important and therefore they're in the right spot to come with the market with this type of way, a product.

Also (inaudible) shield is a [scheduled] upgrade for the operating room. A range of products from absorbent to repellent that delivers particular protection; it's waterproof, absorbent and they are designed to eliminate various type of bacteria and virus in the operating theater.

Been launched by our medical business and reason for a couple for a couple of months and again an important step to upgrade our product range in the medical business. We can then move to the business area sort comments on each business era or the transportation business performed in EBIT terms extremely well high - all time high relative profitability at 50.1%, increased comparable net sales by 2.8 percent; whereas operating profit was at EUR3.7 million, also improving absolute terms from last year.

Here on a positive side, we have had high sales in several product families but offset by adverse currency effect but also the planning of some - some orders for particular tubing -- gas turbine applications. But, in general, continue to perform well and a good growth business.

Building a LNG on the other side has challenges, comparable itself was down at about 3.7%. Operating profit was down to EUR1.3 million. Here the challenge is particularly lower sales stock over all cover in China, given market conditions in China on one hand, but also where we are in a transition area between starting up our operations in China versus supplying out of - of Europe.

We have a bit of a challenge to make this transfer limitless and customers are waiting for us to get our deliveries going out of [Binzu] the new world cover] machines. We're still a few weeks off in front of us before we're ready for that.

Positives we had tales of wind energy applications, but also some construction related materials sales in Europe despite the fact that the construction industries is not developing positively right now in Europe at large.

Operating profit was offset by lower volumes was offset by lower fixed cost in the business. So cost management being - being actively pursued.

The food business developed nicely in terms of growth and I'm referring here to particular comparable growth where divestment of (inaudible) have an impact on - on - on reported growth comparison. Higher sales of beverage food packaging tape materials was the positive trend here.



Lower fixed cost helped to operate profit and increase clearly from some prior year. The focus units [Lonco] and churn side still negative [EBIT] impact but can report that they're making progress. Also on insurance side we have been able to for the biodegradable tape material that we have had challenges for a long time. We've been able to achieve or get a number of new customers in KeyBank materials to start using this product. So we are making progress here.

Also the nature mold product, which is the lamination of (inaudible) parchment and (inaudible) biodegradable material making churn side it's going to help down the road the churn side plant. So making progress still worth making.

Medical, we have some significant challenges have in the business and that you can see the - the comparable net sales is down by 13.5%, so significant. Operating profit/loss making EUR1.8 million where one impact that we did had was that the - we - a customer reduced orders from us, a large customer that have had some rather significant impact on our business.

We have also chosen to exit from certain grave products that we earlier - earlier traded in our portfolio and have exited from that business. Operating profit impact volume related [Mundra] plant also related although not worse than last year, but improving our situation and then making progress also in the Mundra plant.

Lower fixed cost helped to offset some of the challenge that we had here. But clearly business as we need to address and sort out the issues that we have and have taken actions for - for some time to address the issues in the business.

Finally the business area and the transportation business, good sales growth reported 4.4 comparable 9.5, which is pretty high growth. And operating profits also improved to EUR5 million 4.1 million. So good earnings improvement also. Sales volumes grow off course, the positive trend in operating profit is of particular more value and its products are a better mix. Lower fixed cost that was some - somewhat offset - offset by increased raw material costing.

They'll also increase sales - sales prices in the business that has a positive impact. Then to Sakari Ahdekivi who will talk to the financial numbers a bit more detail.

Sakari Ahdekivi - Ahlstrom Corporation - CFO

Thanks Jan. So let's talk about the P&L balance sheet cash flow, starting with the cash flow from operating activities in Q1, which was negative 6.1. This is seasonal because our - our working capital tends to come down toward the end of the year when the activity comes down, especially December and then speeds up again during Q1 activity is quite high in March and increasing all of the working capital items as we will see in the balance sheet later on.

However, the negative cash flow was left negative in the comparison period in Q1 2013. We then look at the working capital by quarter. One thing to note in all - all of the comparison period quarters you have the impact of also discontinued operations in - in - we primarily focused now on looking at the P&L especially the - only the continuing operations at this point, but especially in the comparisons in cash flow and balance sheet have impact forming.

This continued and you can see the absolute value of working capital coming down significantly from Q1 2013. If we want some comparability we should look at the turnover rate of working capital and that is approximately at the same level as before, as we now have the continued operations in Q1 and as labor and processing had - had a faster turnover rate, and the rest of the business you could say that we've actually slightly improved year on year.

So, then if we move on to the gearing, gearing continues to be on a high level at 87.7%. At year end we were at 85.5% so more or less on the same level as yearend. We had some positive one of - one of effects from the sale of - some of the [Mungsha] shares and also the completion of the [Polyen] divestment in Brazil and the cash receipt from that.

On the negative side impacting gearing was the fact that we had the equity impact of dividends from the cash limit of dividends, the cash out was actually on the (inaudible) that doesn't effect for one year.

So more or less flat gearing however above the - the target range of 52.80, bearing in mind that we do have on our balance sheet this (inaudible) shares to a significant amount, which affects this ratio as well.

Then, if we move to the maturity profile, which is more of a refresh to memory, this year we don't have any significant refinancing needs, but around the corner in 2015, specifically in November of 2015, [EUR100 million bond] matures and then we have revolving credit facilities, which mature in 2016. So '15 and '16 are big years for refinancing, '14 is not.

Okay. Then moving on to the income statement. Jan already talked here about the topline so I'm not going to dwell on that too much. Those profit positive development you can see there, part of that is coming from lower production overheads from our rightsizing program. Where as in the SGA that's not so visible yet, especially as been reported SGA you also have nonrecurring items.

But excluding those SG&A was at the same level as in Q1 last year. The operating profit, including the - the non-recurring items was 4.4%. Jan presented earlier that excluding those it was 7.2%. In the comparison period we actually have some positive nonrecurring items and this year we have the structured items of EUR2.8 million negative impact none, reported figure.

Our financial expense was zero. This had to do with the fact that, as you can see in the cash flow statement, we, of course, had finance expenses of new cash terms of about EUR4.8 million, however, this was mitigated by the mark-to-market valuation amongst your shareholders bringing the total number to zero on the P&L.

So this brings our profit before taxes to 5.2%; our income taxes at a rate of 40%, subtract it from that and the profit for the period for the continuing operations was 3.1. And we do have in the profit for the period for the total company, 1.9% due to the negative impact from the elements relating to our discontinuing business.

Okay then moving on to the balance sheet a few things to note, yeah first of all on the inventories receivable and payables, there you see the movements that you have expansion in all of the working capital items from year end to the end of Q1.

Other things to note on the balance sheet is that our total non current assets include shareholdings (inaudible) to the value stated there in the presentation. On the equity side, the equity includes the 100 million hybrid bond we issued last year.

Okay. Then, finally, on the cash flow statement, one thing to note there is the - in the EBITDA figure, in the comparison period you have a significant impact from the discontinued operations where as that is no longer there in Q1 of 2014.

Exchange of working capital is adverse EUR18 million but less than last year. Financial life is [4.8], as I said before and cash tax is only [EUR0.7 million], bringing the net cash from operating activities to minus [6.1], which I show in my first slide.

We have investments in Q1 cash wise EUR18.7 million. The largest single investment CapEx whether or not is related to the wall covering investment in China. The rest is more or less run of the mill maintenance CapEx.

In the other investment activities we have a positive EUR33 million from two sources. One is the sale of some of our homestretch shares in January. And then there is the divestment of the (inaudible) in Brazil, bringing the net cash from investment activities to a positive and finally resulting in a cash position of EUR62 million, which is somewhat higher than we would carry due to some repatriation items relating to the (inaudible) divestment. So this is temporary and will be lower going forward.

This completes my section of numbers back to Jan.



Jan Lang - Ahlstrom Corporation - CEO

Okay. Thank you Sakari. Then a couple of more slides before we finish the presentation. First update on rightsizing program that is moving ahead to plan. We have a target to achieve a EUR50 million saving in both SG&A and production overhead. And it includes a EUR10 million cost transfer of Mungsha that can for the most part have completed. Therefore we talk here about a net amount of EUR40 million.

The impact will be on 400 individuals of which we have approximately reduced but to a 30 by now, and the action take and has a EUR90 million cost savings impact achieved, of which about EUR7 million have been transferred to Mungsha. So net EUR12 million if you will.

And the running rate is right now is on annualized basis is about EUR25 million of the actions achieved. Nonrecurring costs EUR6.3 million of which EUR3.1 million were recorded in the quarter one's report.

Then in terms of -- in terms of what started implementation, we have what we call near term focus areas, high priority topics for us in terms of how we're going to make - make plans and its very much about growing and developing our market position. So winning business by newly better win rates. Stronger customer loyalty, there is initiatives on-going on that, including to improve our margins.

We have vowed to strengthen our sales organization to get particularly more face time with customers and then broaden our - our sales force in - in certain high growth opportunity areas also. Employer margin is critical. Price management, et cetera mix improvement important here. New products and bring at the market is the lifeblood our business and there we have put high priority on both developing products, generating ideas, developing for us but also succeeding and bringing them to market and scale them up.

While in the industry that is fairly slow in terms of bringing - in terms of - of scaling up our new product sales and before that we need to quality them for many, many businesses we have some 30 extensive qualification times, even after we have developed the product quickly a year and a half or plus/minus.

So commercial success in new products is a critical part and the final high focus area is about high performance where we focus to - to keep our promises and to each or exceed our targets so it's a cultural issue, which we've been working very hard to be able to meet to a high performance company that is continuously performing at expected levels.

So this is about cultural and behavioral, leadership behavior in the organization at large.

Finally, our near term outlook is unchanged so our bracket for net sales, and operating profits, operating profit of 2 -- I'm sorry two to 5% of net sales is - we confirmed and we believe that that is to be achieved at year end this year. And we will spend something around EUR50 million in capital expenditures in the year.

Thank you for that and I'll give over to Juho Erkheikki.

QUESTIONS AND ANSWERS

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

Thank you very much Jan and Sakari. We have now concluded the first part of this conference call and are ready for your potential questions. Please make that -- you can also ask questions by sending them through internet or via email.

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



Operator

Thank you. (Operator Instructions)

Our first question comes from Harri Taittonen of Nordea. Please go ahead.

Harri Taittonen - Nordea - Analyst

Yes, very good afternoon. A couple of questions. First of all the on the presentation you showed the positive prize dealt on a year on year basis, but if you look at the sales prices on a quarter on quarter basis what do you see there. And also related to that there's been some announcements made by you on - on sort of price increases and how you sort of see the average pricing going forward on sequential basis please?

Unidentified Company Representative

Harri could you actually repeat the question please?

Harri Taittonen - Nordea - Analyst

Yes. On - on just because you have the bridge or sort of earnings bridge and there you show the positive contribution on a year on year basis coming from prices or price improvement.

And the question is like if you made the same graph on a quarter on quarter basis on the sequential basis had there been sort of a move in sales pricing on average and then Comment on sort of an outlook given the announcements you have made recently.

Unidentified Company Representative

If I take this one. The graph we have shown here is quarter on quarter in terms of comparable. So Q1 versus Q1. But if you mean the Q1 versus Q1 ---

Harri Taittonen - Nordea - Analyst

That's right.

Unidentified Company Representative

-- we don't have a graph for you on that one. However we have been executing price increases as we have also made announcements on especially in food and in the filtration areas, primarily transportation. But, but it is true across the board, but especially in those - those areas. But unfortunately I don't have a number to offer you.

Harri Taittonen - Nordea - Analyst

Sure - sure -sure. Okay. On the restructuring items, its - is true there is some 9 million sort of non-recurring items to be booked and is that sort of the timing of those - is there any kind of guidance for that please?



Unidentified Company Representative

Well yeah. The rest of the nonrecurring items, except for what was booked already in Q1 ---

Harri Taittonen - *Nordea - Analyst*

Yeah.

Unidentified Company Representative

--- will be during '14 and '15, but - but there is no - no more granular or more detailed quarter by quarter number that we've given up.

Harri Taittonen - *Nordea - Analyst*

Sure, sure. Well maybe sort of last, last question on them. Sort of a general question because earlier - in earlier years we have seen quite heavy sort of an impact from customer restocking and destocking cycles. And just as an overall question where do you - where do you see the customer or the supply chain inventory levels at the moment if you look at your - your sort of customer base compared to this sort of typical - typical levels for this time of the year.

Jan Lang - *Ahlstrom Corporation - CEO*

Yeah. Harri it's Jan here. I'll answer that question. And I think - I think we've been reaching a more stable and normalized situation overall in - in generally the pipeline our customers and their behavior, I mean [entry] levels.

I think, however, they are running on everybody's running in general at global level than we used to be in the past, to be more sensitive to- to fluctuations. But I don't see being such that people would be jumping up and down. At this point and time I'm going forward I don't expect an economic development is - is - no reasonable, it's to - I wouldn't say it's great, but it's reasonable in the US.

Europe is finally stabilized and a bit of a hiccup if you will, but nothing exciting. You know, it's kind of okay and I don't - I don't see a lot of [terrible ending] in that respect. And not even going forward. At least I can't - we can't foresee that.

Harri Taittonen - *Nordea - Analyst*

Okay. So they still there. Thanks very much.

Jan Lang - *Ahlstrom Corporation - CEO*

[They still there]. Thanks, Harri.

Operator

(Operator Instructions).

Okay at this time we have no further questions over the audio.



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

All right, well. It seems like we have no further questions at this time. So therefore it's time to thank you for listening and joining us today. And we'll hope to hear you again in August when we are scheduled to report our Q2 2014 interim results.

So thank you.

Jan Lang - *Ahlstrom Corporation - CEO*

Thanks everybody, bye-bye.

Unidentified Company Representative

Thank you. Bye bye.

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