

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AHL1V.HE - Q1 2012 Ahlstrom Corporation Earnings Conference Call

EVENT DATE/TIME: APRIL 27, 2012 / 10:00AM GMT



CORPORATE PARTICIPANTS

Juho Erkheikki Ahlstrom Corporation - Financial Communications Officer

Jan Lang Ahlstrom Corporation - President & CEO

Seppo Parvi Ahlstrom Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Linus Larsson SEB Enskilda - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ahlstrom Corporation Q1 2012 results presentation.

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

Juho Erkheikki - Ahlstrom Corporation - Financial Communications Officer

Thank you and good afternoon from Helsinki. Welcome to Ahlstrom's first quarter 2012 interim report conference call and audio webcast.

My name is Juho Erkheikki. 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. Please note that the links to the webcast and to the slides are available on our website at ahlstrom.com.

You may also ask questions online. Jan, please go ahead with the presentation.

Jan Lang - Ahlstrom Corporation - President & CEO

Thank you and welcome from my side also. We have had a business environment that has been kind of uncertain, as everybody knows. When we went into the year and then made the plans for 2012, the expectations was that the year will be somewhat uncertain.

However, some -- one could say that it has been somewhat easier than we thought it would be, but still difficult, in particularly Europe, whereas North America, in our business, it has shown some good step- wise process, nothing dramatic, but clearly a better demand development, as the economy overall in North America.

However, the surprising topic has been this time particularly Asia and China, which, in certain segments, has slowed down. We saw that already in quarter 4 and same situation continued in quarter 1, in particularly the building sector and the car industry, which, obviously, is part of a planned slowdown by the government also, and I'm sure that it will be returning back at a reasonable timeframe. But still, fairly significant dip, which has also affected our activity in Asia.

In terms of a January/March brief, then financial performance improved; we'll come to the numbers in a moment. Talked about the market a bit. Sales was below comparison period. However, there are some elements to open up on that topic. And then we introduced a couple of new products into the market during the quarter.

To move onto the key figures, here we see that the sales was down by 3.9%, volume somewhat more at 5.8%, and operating profit at EUR17.4 million compared to EUR19.7 million quarter 1, 2011.



However, quarter 1, 2011, in overall terms was a very strong quarter 1, when we look at the general trend that we have had during the last few years in Ahlstrom. And gearing at a good 38.3% and return on capital employed, 7.4%.

Move onto the next slide, about the net sales development, in the quarter, 3.9% down, whereas the volume was 5.8%. Here, there is a -- about half of the drop is driven by plant closures taking place, particularly in the composite business last year.

Highlights are higher selling prices in certain product family categories and mix was, in general, better than the comparative quarter. But we also had a currency effect here, in some of our businesses.

Lowlights; volume and then, as I referred to, asset closures and closure of a couple of plants.

Moving onto the quarterly operating profit development, down by 11.8% to EUR17.4 million. This is profit excluding non-recurring items. The profit improvement program that we ran through second half of last year boosted somewhat the earnings.

We also have had continuous gains in our supply chain activity that we've been working on. This is about purchasing costs that we have good progress and good initiatives on, as also continuous improvement in the plants that gives benefit.

Product mix positive and lower raw materials, on the highlights side.

On the lowlights, also naturally on the EBIT impact, sales volumes were negative impacting that. But also, energy costs in two or three countries, we had some particularly issues with energy, particularly Brazil, which is a national issue ongoing at the moment there.

And, on the other hand, we have in certain specialty pulp grades prices are higher and they're impacting negatively our sales. And this is particularly in the Filtration business.

Following slide, trend on return on capital employed. We are and maintain the 13% target level and achieved 7.4% in the quarter, and some way to go obviously.

Then into each business area, the four business areas, a brief overview. Building and Energy. Here on the highlights side, demand for flooring materials have picked up and this is particularly a European business. Wallpaper and wall covering, also in Europe, better. Our profit improvement program here improved, also a result. Whereas negative side, lowlights, volume declined due to asset closures, was quite significant affecting our sales here, it was down by 16.4% as you can see. And that was driven by the closures.

Wall cover materials in China had a poor demand period. And this is related to the building market activity in China. Wind energy markets were also not in good shape.

Then onto Filtration. Sales was up by 6.3%. However, volumes down by 1.1% comparison period.

Selling prices affecting positive, as also currency effect. The filtration market in North America, driven by the car sales activity was particularly the car owners. The amount of mileage they drive had a positive impact here, given the positive trend in the economy in the US as a whole.

And on the highlights, at also Advanced Filtration, which particularly we have an interesting new business that we have started to build for filtration materials for gas turbine, that is progressing positively. And a positive impact also on the product mix.

On the lowlights side, the demand in Europe has been poor in the Filtration area, despite the fact that people like Volkswagen are making top results. This is more due to the behavior of current car owners and the amount of mileage they drive, meaning how often they change filters.

And we had increased energy costs also here in Filtration. And then, as I mentioned, the specialty pulp costs, which is a particular material, specialty pulp, that has had significant increases due to global demand situation.

Then over to Food and Medical, with a [4.7%] net sales decline. Demand for medical products has been positive overall. We have been able to improve our selling prices in a number of product tier families. And then we have also had successful product trials at Chirnside and Mundra.

This is referring to Chirnside here. It is our BioWeb material, a machine that was built a good three years ago that our challenge is to qualify the products. And Mundra is about medical products for the Asian market particularly.

Lowlights are that demand for tape and food packaging materials have been poorer than comparative period. We also, due to lower volumes, have taken more market-related downturn; that also affects earnings.

Then the final one, Label and Processing. Here, we have a 7.3% decline in sales, and volumes, down by 2.7%. Profit improvement program have given positive benefits here and, of course, pulp material had been down since end of last year and gave a positive contribution also.

Lowlights; lower sales volumes in Europe. Overall demand, not dramatically a problem, but certainly lower than the comparative period here.

Sales prices are lower and we have had to react to prices due to the lower sales, pulp cost. And energy costs, particularly in Brazil, affected this business.

However, despite all these facts, the unit were able to deliver same level of EBIT performance as previous comparative quarter, and that has required a lot of hands-on activity in the business to manage that through.

Seppo, then over to you.

Seppo Parvi - Ahlstrom Corporation - CFO

Okay. Thank you, Jan. So I will review shortly cash flow and debt development as the next step in the presentation.

First, looking at the net cash from operating activities. Quarterly cash from operating activities was at EUR14.6 million during the first quarter of this year. This was slightly below first quarter last year when cash flow was at EUR18.5 million level.

Cash flow has stabilized after we completed our operating working capital project at the end of 2010. But we are quite happy with the development of operating working capital that is shown on the next page.

We have been able to keep turnover days of working capital on 40 days level, the extent of the project that we came down one day compared to end of last year. And operating working capital has remained at the level of EUR180 million.

Looking at gearing ratio, our net debt development at the following page, our net debt was at EUR240 million and gearing at 38.3% at the end of the Q1.

It should be noted that when looking at the net debt development, that we still expect to get EUR25 million for the divestment of Home and Personal business area for the Brazilian part of the deal. And we expect to close that during the Q2 this year. That will reduce the gearing to about 35% level.

Then moving to maturity profile of our loan portfolio. There are no significant changes compared to what we were looking at after Q4. It is quite healthy profile, no major maturities in front of us in the immediate future.

Also, liquidity has remained at a good level. We have about EUR390 million cash and unused committed credit facilities and, on top of that, we had EUR170 million uncommitted credit facilities and cash pool overdraft facilities available for the Group.

Then moving forward and some comments on our income statement and balance sheet. First, on the income statement. Net sales, there is a reflection of lower sales volumes and close of some units end of last year, and net sales was down from EUR422.5 million to EUR405.8 million.

Operating profit was at EUR17 million, compared to EUR19.5 million a year ago. This reflects, of course, on negative side, lower sales volumes, but on positive side, the effects of profit improvement programs from last year, as well as lower raw material costs, especially pulp.

Profit for the period from continuing operations was at EUR7.8 million, compared to EUR8.3 million during the first quarter last year.

When looking at the profit for the period from discontinued operations, that was EUR0.1 million for Q1 this year. It should be noted that this is Brazilian part of Home and Personal only. Comparative period included Home and Personal [business at year-end].

Next page, then looking at the balance sheet. Just a couple of comments here, there are no major changes to the balance sheet. You see on assets classified as held for sale, as well as on liabilities, the same. That relates to Brazilian part of the Home and Personal business.

In equity, just to remind, that includes EUR80 million hybrid loans and, as said, gearing was at 38.3%, which is more or less the same level as we had at the end of last year.

Then cash flow. Net cash from operating activities was EUR14.6 million, as already mentioned previously, compared to EUR18.5 million last year.

Investment level was EUR21.4 million. That is quite a lot higher than a year ago during the first quarter, EUR7.5 million. And that is a reflection of the capital expenditure projects. Here, especially in Turin, for Filtration and crepe paper joint venture in China, where projects are moving ahead. And also, in general, CapEx level for this year is estimated to be at EUR100 million, compared to slightly -- it was EUR70 million last year. And net cash after investing activities was minus EUR4.6 million compared to EUR13.1 million positive a year ago.

Over to you, Jan, then on for future prospects.

Jan Lang - Ahlstrom Corporation - President & CEO

Thank you. So, on the following slide, a picture of our what we call high priority programs. As we have communicated consistently around our key strategic direction, growth to be around naturally organic growth, but also M&A activity, Asia being the high priority geographical area. Our strategy is very much built on a technology know-how that we are and want continuously to enhance and a global presence.

These five programs that we have identified are built to enable us to execute our strategy. And if you go onto the following page, a couple of words about each of these programs.

Winning in Asia is naturally evident an important area right now. We are investing in a number of projects that we have also announced and communicated. We are also evaluating future and next initiatives to be taken in the region, the same time, also investing in people capabilities.

Typically, Asia is a region that requires a specific attention to people issues, since the cultural differences are very large compared to the western world.

Anticipating and delivering on customer expectations meaning, for us, to be able to build a strong loyalty, high attention level. We have, during the last couple of years to help this process, built and done a number of things, including a stronger operating model and a more focused sales organization. But also, a key account management process has been globalized, supported with lots of activities and education. And now we are looking at next steps topics to become a world class service provider to our customers.

Growing through differentiation is about to continuously enhance the uniqueness of high performance materials with the current technology base at the core, and to be able to add features to that technology base, through where a type of add-ons that one can do and we will do continuously to be able to do even more unique products.

And high performance culture is a core element of being able to run a business of this -- of any nature, and particularly when you have a global reach and a rather complex environment to manage.

Supply chain. Since a majority of our cost base sits in the supply chain structure, it is natural that increasing efficiency and the performance of it is essential. Key topics here are about being able to do more with less.

Then to the outlook. Very briefly, it is and we have kept that unchanged as we communicated in beginning of February. Both in sales and operating profit terms, our operating profit is guided to be between EUR60 million and EUR80 million, and this is a non-recurring operating profit.

I'll finish here and then I give over to questions. Thank you.

Juho Erkheikki - *Ahlstrom Corporation - Financial Communications 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 questions by writing them online.

So, operator, if would please go ahead with the questions from the telephone lines.

QUESTIONS AND ANSWERS

Operator

Absolutely, Thank you very much. (Operator Instructions). Linus Larsson of SEB Enskilda.

Linus Larsson - *SEB Enskilda - Analyst*

You have a pretty strong balance sheet by now, 35% net debt to equity compared to your target of 58%. I wonder if you could maybe share with us some thoughts on how you intend to maybe change this gearing ratio into your gearing range target, and what your priorities will be going forward. Thank you.

Jan Lang - *Ahlstrom Corporation - President & CEO*

We indeed have that guidance on the range -- or target, I'm sorry, target on our range of equity. This lower and strong balance sheet is obviously driven by a good balance sheet work and the sale of the Suominen business last year.

I have to say that we don't have a particular plan and strong need as such in itself to move up on the gearing side, even if we are not within the range.

However, we do have and have indicated that there are potential M&A steps that we may take if we find such appropriate solutions. And therefore, obviously this balance sheet gives us opportunity to make steps as and when that would be the case.

It is, therefore, if you will, as a reserve for growing and developing the business, as far as I am looking at it. So to re-engineer the balance sheet for the sake of a better or a higher gearing, that's not something that we would do.



Linus Larsson - *SEB Enskilda - Analyst*

Excellent. And the CapEx level that you're guiding for, the EUR100 million for 2012, do you find it pretty representative of your CapEx policy also beyond 2012, that this would cover organic growth as well as maintenance CapEx in the Company?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Think about the levels, it should be noted that our depreciation is in the region of EUR70-plus million and that is, of course, a typical level for the investments and CapEx going forward.

Of course, this year, you should notice that we have those projects that I mentioned earlier in China for instance and Italy. That is increasing CapEx for this year. Of course, I don't -- really, I cannot comment on additional bigger CapEx, major projects going forward, but if you look at for the level to use and to analyze this, so I would advise to use depreciation level going forward.

Linus Larsson - *SEB Enskilda - Analyst*

Okay, thank you. Excellent. And looking at raw material price trends recently, any thoughts around the near-term margin developments? Pulp prices will be, on average, higher in the second quarter, at least in the market and there has been some oil price volatility as well.

Do you expect to keep the margin that you achieved in the first quarter also in the second quarter? Or should we expect some margin pressure?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Well, like you know, Linus, there is always pressure on market and margins because it would be too easy otherwise, but as you know, margin management has been very much in our focus the last couple of years and that continues to be the case.

Of course, like mentioned in the report with the Q1, we did get some benefit from lower raw material prices, especially pulp, but you are right that there has been gradual increases of pulp prices and also some other raw materials at the beginning of the year and, of course, that's something we have to watch and see and we, of course, like earlier, are doing our best to manage the margins.

But, of course, a challenge sometimes in the environment when there is a little bit challenges in some areas in the market.

Linus Larsson - *SEB Enskilda - Analyst*

And looking ahead, what's your assessment of pulp markets where -- do you find the pulp availability good? What's your pulp price prediction for the rest of the year?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Well, like all there, Linus, we don't speculate on pulp or other raw material prices, but like said earlier, we have never really had problems to have access to pulp. So, in that sense, our sourcing is doing always an excellent job and we have good relations with our pulp suppliers.

But on the other hand, you could say that we see it rather as a positive thing now if the pulp demand is there and the prices gradually go up because it's a signal of positive market development and volume development, which is always good for all of us. Of course, the sudden movements up and down are always difficult to manage.

Jan Lang - Ahlstrom Corporation - President & CEO

If you have -- for the next two years, if we have a decent economic environment in the world, that prediction is not that difficult to make that pulp prices will then remain on fairly high levels, for the reason that there is not capacity in the pipeline to be built for any significant growth of -- to compensate for demand. But it's always a question of where the economic activity level is in the end.

Linus Larsson - SEB Enskilda - Analyst

That's excellent. Thank you very much.

Operator

(Operator Instructions). We have no further questions at this point.

Juho Erkheikki - Ahlstrom Corporation - Financial Communications Officer

Well, as there seem to be no further questions at this time, I think we are, therefore, ready to conclude this conference call.

Thank you again, ladies and gentlemen. We hope to hear from you again in August, when we are scheduled to report our second quarter interim report. Thank you.

Jan Lang - Ahlstrom Corporation - President & CEO

Thank you.

Seppo Parvi - Ahlstrom Corporation - CFO

Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.