FINAL TRANSCRIPT

Thomson StreetEvents℠

AHL1V.HE - Q3 2010 Ahlstrom Corporation Earnings Conference Call

Event Date/Time: Oct. 26. 2010 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jan Lang
Ahlstrom Corporation - President, CEO

Seppo Parvi
Ahlstrom Corporation - CFO

Juho Erkheikki
Ahlstrom Corporation - Corporate Communications

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Interim Report January to September Conference Call. This conference is being recorded. At this time, I'd like to turn the conference over to President and CEO, Jan Lang, and CFO, Seppo Parvi. Please, go ahead.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you. Jan Lang here. I'm going to start with the overview, and Seppo Parvi is going to talk about the financials a bit more specific, and then, we'll wrap up with outlook and then, questions and answers, obviously.

Our July to September, as a whole, is affected by the holiday seasons, and we could also see that impact in our July to September performance, among other things, also. If you look at slide two first, highlights of July to September, strong growth overall. Get back to more details about it in a moment. Strong cash flow, which has been exceptionally good this year, despite that we had a very good year last year also.

We confirmed first step in acquisitive terms, since a few years, and announced the Shandong Puri Filter & Paper acquisition in China.

Cost issues in the quarter, which we'll come back to in a moment, and we also have, based on the intensive investment programs, completed 2009. We do have some challenges in the commercialization of the projects still this quarter.

Rami specified the long-term targets earlier today, and I'll move into that now with slide number three, specified long-term financial targets to drive our profitable growth, as we have indicated the focus to be growth, but got to be profitable over time. Our key measurement is return on capital employed, and it's the same as earlier. We have not made no change here to reach at least 13%. What we have done is that we have said, now, that we're aiming to reach that target for 2012.

It also means that, based on our current balance sheet structure, that we have to reach an EBIT level of 7% or above to get to this return on capital employed of 13%.

We have, as a new target announced, a growth target, and that states a annual net sales growth at least 5%, at constant currencies, including acquisitions. And in acquisition terms, as has been said here for some time now, that our aim is to grow strategically our valuated businesses and do that organically, but also, potentially, with smaller acquisitions, and the thinking here is that this would be incorporated in a target of 5%, at least, growth.

Gearing target is same as earlier, 50% to 80%. So, three long-term targets -- return on capital employed, net sales growth, and gearing.

Then, into following slide, nets quarter three '09 to quarter three 2010. Sales increased by 20%, which is mainly attributable to price increases, which we already indicated as of -- at the time we issued the quarter two results, and second half of 2010 will be mainly driven in sales increases by price increases. But also, currency had an impact on the growth number and volume had also positive impact compared to quarter three 2009.

Then, as a reminder, that typically, as also this year, the demand is seasonally lower in many segments in quarter three, driven by the holiday seasons, and we do -- did also take production downtime during the season -- the holiday seasons, particularly in August, in southern Europe and central -- and in central Europe.

Net sales by region, following slide number five, fastest growth in Asia and South America. Asia showing, in the quarter, stronger growth of 74%, and South America, of 42%, and this is obviously over and above price and any other aspect. It is volume driven, predominantly -- new business. Europe and North America, 15% and 6%, respectively.

If we go into net sales by business area, slide number six, all business areas grew positively, from 15% to 24%, in the quarter against the prior quarter. Each and every of these have somewhat different drivers. Building and energy, increased demand in building and flooring materials in Russia and wall cover materials in China. That's the actual supply out of Europe.

And, on the other hand, the recovery of the windmill industry is still slow. It has improved in Europe somewhat, but North America is not recovering at this point in time. Filtration -- overall, demand improvement the auto industry, and the usage of cars and other transport vehicles have improved markedly and also impacted our performance. In addition to that, higher prices.

Food and medical is driven by price, volume, and currency, so all three. Home and personal device business, volumes and price, and then, label and processing -- price driven by pulp cost increases and also, some favorable currency effects.

Following slide, operating profit/loss, quarter three, '09 and '10. First on here now, by business area, our -- sorry -- I'm sorry. This is total group operating profit, and by quarter -- in the quarter, EUR16.6 million, 2010, driven by volume, compared to prior year, and the streamlining measures started in 2009.

On the other hand, as we have noted here, we have had higher costs from maintenance shutdowns, which was related to facility down timing, in particular, the month of August. We have had a adverse currency impact in the quarter.

And what also needs to be noted is that, in summary, with all the development programs we have within the Company to improve the way we run the business, a number of initiatives have been started, and obviously, these are also costing money to do, and compared to quarter three last year, it has an impact. And then, finally, commenting here, a ramp up of commercialization of new production lines had a negative impact. We'll come to these in a moment.

So, now to the -- by business area, operating profit on slide eight. First time, as I said, we are reporting by business area, so new segmentation. The building and energy area, low profitability loss making last year, same period somewhat positive year-to-date this year, however, on a low level -- unacceptable level at this point in time.

One of the key topics here is that we have streamline operations at that business, but ramp up of hybrid wall cover lines that was started in Turin facility in the spring is still in the ramp up phase, and therefore, generates a impact on the EBIT level -- a negative impact on the EBIT level.

Filtration has been mostly driven by higher volumes, quarter to quarter comparison. Good -- a good improvement. Profitability levels are on, I would say, good levels. Food and medical, operating profit reduced compared to comparable period, and here, we have increased volumes, but on the other hand, we are still in a ramp up phase of the India facility in Mundra. There is making progress.

THOMSON REUTERS

However, where we have continuous challenges is with our biodegradable teabag material line in Chirnside, UK, where we have not been able to commercialize it and get it to the activity level that we have expected it to get it, and we continue to have issues and challenges here with this line.

Home and personal improved also, compared to prior, however, on a quite low level in EBIT terms. Label and processing, on the other hand, improved nicely, compared to prior year, driven by increased volumes, but on the other hand, had higher maintenance costs and negative currency effects impacting the results.

Then, on slide nine, a overview of the return on capital employed, still fluctuating from quarter to quarter, but on average, making improvement on a year-to-date basis. Making improvement and return on capital employed is our key financial measurement of the business.

And then, net cash from operating activities on page ten, where we can see the good, good improvement and strong cash flow, overall, driven by operating net working capital improvement, but also, a improved EBITDA, compared to prior years.

So this was my overview, and then, Seppo is going to continue with some more details. Please, Seppo.

Seppo Parvi - *Ahlstrom Corporation - CFO*

Okay. Thank you, Jan. So, moving to gearing ratio development on page 11. So, gearing came down to 47.7%, being below the bottom of the target range, 60% to 80%. And there has been very positive development of the net debt during the past year. In Q3, 2009, we were at EUR511 million level, and now it came down to EUR333.7 million, there's an improvement of about EUR30 million if you look at net debt during the past quarter.

Then, on page 12, we have development of operative working capital. Positive development has continued. Our working capital project is at the final phase at the moment, and we are going to finalize the project phase by end of the year, and then it will be part of the normal corporate line to continue with the working capital management. So far, we have reduced EUR140.7 million, compared to end of 2008, and turnover of working capital was down to 39 days, end of September this year.

On page 13, we have maturity profile of our medium/long-term credit facilities. No significant changes compared to end of Q2 this year, but I want to highlight that there are no significant repayments during the rest of this year, and also, next year, repayments are in the range of EUR60 million to EUR70 million.

Total liquidity, including cash, undrawn committed credit facilities, and cash pool overdraft limits was EUR337 million at the end of September. And on top of that, we had also uncommitted credit facilities totaling about EUR150 million available.

On page 14, supplements of the income statement. First of all, net sales, compared to Q3 last year, was up 20.4%, mainly driven by price increases. That is the biggest single reason. Additionally, foreign exchange rates, as well as volumes, had positive impact.

Cost of goods sold reflect higher raw material costs and higher volumes as well. Sales and general admin expenses, slightly up. That is a reflection of last year's temporary layoffs. This year, higher incentive accruals and FX rates. And EBIT, EUR16.9 million this year, compared to EUR13.1 million last year, including nonrecurring items, positive EUR0.3 million this year versus EUR 4.4 million negative last year.

[Net] profit before taxes was EUR8.3 million. That is about EUR1 million higher than year during the Q3. And profit for the period, EUR4.1 million compared to EUR4.9 million, Q3 last year.

And next page, page 15, we have balance sheet. First of all, trade and other receivables -- positive development continued there -- reduction of about EUR40 million, thanks to operative working capital management and especially reduction of overdue receivables. Also, inventories were slightly down by some EUR5 million. Our trade and other payables came down about EUR20 million, but that said, the net working capital came down during the quarter.

A positive cash flow is reflected, if you look at interest-bearing debt in the balance sheet, as well as cash leveling the -- in the assets part of the balance sheet.

Then, on page 16, we have cash flow. As mentioned earlier, first of all, change in net working capital was positive by EUR31.3 million, so, additional release from working capital. Financial items during the quarter were EUR3.6 million negative, compared to EUR6.8 million negative a year ago, and there, during this quarter, we had positive effect from loan portfolio currency swaps. You might remember that last quarter, Q2, we had a bigger negative effect coming from the swaps, but now, US dollar rate has been moving the other direction.

Net cash from operating activities, EUR67.5 million, still at the same level with the Q3 last year. Investments -- first of all, there is EUR11.2 million relating to our recent acquisition in China, and then, we have total maintenance CapEx level, EUR60 million this quarter, compared to EUR11 million last year, the same quarter. We have changed the guidance for the maintenance, full year, from EUR60 million to EUR55 million.

And cash flow after investing activities this year, Q3, EUR40.2 million, a loss, compared to last year's EUR56 million.

I turn it over to you, Jan.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you. And here are a couple of final slides. Our -- the management agenda, slide number 17 -- high, intensive effort on improving performance in the business, including the underperforming units that I mentioned earlier. We are working actively on implementing our new organization operating model. A number of things going on there.

One key topic that we are continuing to work intensively on is development of global key accounts and our sales processes, including intensive training will raise the level of managing customer service, and we also -- strengthening and harmonizing our corporate culture to develop a strength in the leadership culture in the Company.

We are continuing to work actively on assessing growth strategies in Asia and also the Ahlstrom Binzhou acquisition in China, and when asked a few weeks ago, integration on that has started. And then, we have (inaudible) specific project to reduce production waste that is in pilot phasing and starting to roll out to different facilities here, as we speak.

Then, on the outlook side, when we look at the economic activities in the general regard, we can say that, despite the fact that the first phase of the economic recovery seems to be over, particularly, driven by US and partly Europe -- on the other hand, Asia is keeping up, and South America is keeping up, we are reiterating our outlook and therefore, our 2010 sales -- net sales are expected to be above '08 levels, and this is driven by sales price increases that we have and, if need be, arise -- to continue to raise the sales prices, we'll do so.

EBIT, excluding nonrecurring items, expected to increase from 2009 levels, and these are exactly the same as earlier, in quarter two, communicated. In addition to that, we have indicated that our capital spend, excluding acquisitions, will be EUR55 million -- in the EUR55 million area for the full year of this year.

So, this was now the overview, and then we will move into questions.

QUESTIONS AND ANSWERS

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Yes, this is also Juho Erkheikki from Corporate Communications, and we have now concluded the first part of the conference call and ready for your potential questions. Please note that you can also post questions by writing them online, we have the audio webcast platform. So, Operator, please go ahead with the questions from the telephone lines.

Operator

Thank you. (Operator Instructions) There are no questions in the queue at this time.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Can you hear us?

Operator

Hello?

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Can you hear us?

Operator

Yes, we can.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Okay. Good. We'll take, then, one question from our internet viewers. There's a question here -- to what extent were you able to lift prices to cover higher POV costs in the quarter?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Well, like we already said during the Q2, we have been able to cover increase of raw material prices with higher selling prices, and that is also valid for the Q3.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

There's another one asking about your gearing ratio. You're now a bit below your target range. Do you have any near-term plans for capital structure?

Seppo Parvi - *Ahlstrom Corporation - CFO*

No, no specific plans. Of course, we need to access our hybrid bond that matures in 2013.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Operator, are there further questions from the telephone lines at this time?

Operator

At this time, there are no questions in the queue.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Okay, we got another one here from online viewers. Can you please elaborate on the development program costs related to operating model?

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you for the question. We have a number of initiatives that is going on within the Company that we have also indicated. I -- we have, as far as our global processes are concerned, the support -- supported by SAP and other IT tools, some significant things in the pipeline. We have a program to address and improve our demand and supply planning process.

We have also a brand exercise ongoing and a couple of other things, and in absolute terms, we have not specified and communicated a absolute number. However, we certainly talk about here a impact -- that it is of significance on the EBIT line. So, fairly significant costs that I would not, at this point in time, specify in any absolute numbers.

However, what I have said earlier is that, assuming that we make a comment on a development, be it, then, a currency impact or any other impact operating model or program cost impact, we certainly wouldn't do that for the few hundred thousand impact. I will talk about something more than that EUR 1 million plus as a cost effect on our P&L.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

The next question is about our new financial targets here. Can you -- 5% growth target, including acquisitions. Is that going to be self financed?

Jan Lang - *Ahlstrom Corporation - President, CEO*

We have, at this point, indicated that we will eventually make smaller acquisitive steps, and in doing that, given the good cash flow levels that we have had here, I would assume that if that is still the actual steps that potential we would be doing, then that would be predominantly, then, financed with our own resources.

Seppo Parvi - *Ahlstrom Corporation - CFO*

And also, we had said earlier that whatever we do, we will look at the financial structure also and make sure that we don't weaken the balance sheet too much.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Operator, do we have any questions from the telephone lines?

THOMSON REUTERS

Operator

(Operator Instructions). We don't have any questions in the queue.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Well, thank you, ladies and gentlemen. This concludes our third quarter financial results conference call.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you very much for joining.

Juho Erkheikki - *Ahlstrom Corporation - Corporate Communications*

Thank you. Bye-bye.

Operator

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