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Q2 2020 Stora Enso Oyj Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q2 2020 Stora Enso Earnings Conference Call. (Operator Instructions) And I must also advise you the conference is being recorded.

I would now like to hand to your speaker today, Ulla Paajanen, Head of Investor Relations at Stora Enso.

Please go ahead.

Ulla Paajanen-Sainio *Stora Enso Oyj - Senior VP of IR & Head of IR*

Thank you, Summer. Good afternoon, everyone, from a sunny Helsinki, and welcome to Stora Enso Q2 2020 Earnings Conference Call. With me today, we have our CEO, Annica Bresky; and our CFO, Seppo Parvi. And we will make a short presentation and followed by a Q&A. Please, Annica. Go ahead.

Annica Bresky *Stora Enso Oyj - President & CEO*

Thank you very much, Ulla, and welcome, everyone. If we move to Slide #3, Ulla, we can see that for the quarter, we delivered a solid profitability and cash flow, driven by a very strong performance within Packaging Materials and Forest divisions. We are experiencing extraordinary times. So a comparison year-over-year is really not very relevant. But if we look at our sales, it decreased by 19% compared to last year from EUR 2.6 billion to EUR 2.1 billion. If we exclude Paper, the decrease was 12%.

Our operational EBIT decreased to EUR 178 million compared to EUR 299 million last year, and excluding Paper from EUR 249 million last year to EUR 217 million. Of course, we have had impact of COVID on our sales prices and lower deliveries impacting our profitability. If we look at our Forest, the fair valuation of our biological assets improved in the second quarter by EUR 272 million and by EUR 990 million

compared to one year ago. And this is primarily by lower WACC levels.

Cash flow from operation amounted to EUR 363 million, down from EUR 550 million. And cash flow after investing activities was EUR 239 million, down from EUR 428 million. This is a solid cash flow and an improvement compared to first quarter. Net debt to operational EBITDA is at 2.5x, above our long-term target of being below 2x. But we have a strong liquidity at EUR 2.1 billion, including cash and committed credit facilities and very good access to funding sources. And this, of course, gives us a flexibility if the recession becomes very long. Operational return on capital employed landed at 6.8%, down from 11.8%, and this is below our strategic target of 13%. But excluding Paper, our return on capital employed was 8.8%, down from 10.7% last year.

Next slide, please. So we have been actively managing our costs, and we have lower variable and fixed costs, which had a positive impact on our profitability. But we could only partly mitigate the impact from lower sales and deliveries. And in terms of the split, the sales prices were down -- were mostly attributed to Paper and Biomaterials, which stood for almost 70% of the impact. And the same goes for the volume decline where Paper was 67% of the impact of EUR 100 million.

Next slide, please. So we are staying resilient as uncertainty continues. Of course, our primary focus is to ensure the health and safety of our employees, and this is our key priority, especially as we enter now in Q3, where we will have more maintenance shutdowns. So we postponed the some of our shuts to be able to take extraordinary precautions to ensure both our own employees' and also contractors' safety in the local communities.

We were very early to take our actions and that has benefited us through the quarter. We could secure business continuity and ability to serve our customers, and we have seen only minor impacts on our operations and supply chain. We continue to adapt our operations according to demand, and we will make sure that our maintenance shuts are carried through in a safe manner for our people and the partners that work with us.

Secured liquidity is a strong foothold for us, and we are executing well on our profit protection programme. And of course, in these times, active management of cash costs and working capital are very high on our agenda.

If we look forward, we expect the uncertainty that we have to continue. There is really very poor visibility on demand development for the rest of the year. And the conditions for our different businesses are very mixed and they value very much on end-use and which country we sell to. We continue to see accelerated structural decline for Paper. We need to remember here that Paper is now only 20% of our total sales and 80% from our growth businesses, thus. So even if after conversion of Oulu, our share of sales from Paper becomes even less. All divisions adapt operations to match demand, if necessary. And for Q3, we see a negative maintenance impact that is estimated to EUR 45 million, which is more than Q2, but on similar levels as Q3 last year.

Let's move to Slide #6, Ulla. Our profit protection programme of EUR 350 million continuous savings and EUR 85 million of onetime off savings is proceeding according to plan. It's comprised by almost 900 different actions, and we keep adding big and small actions in order to make sure that we are strong on executing. 60% of the savings come from variable costs and 40% from fixed costs and the biggest contributor from the divisional point of view is Packaging Materials, but all divisions contribute to improving our cost position.

Next slide, please. As said, we have a strong liquidity of EUR 2.1 billion at the end of the quarter and very good access to funding sources. This gives us, of course, the flexibility to weather out if the recession becomes very long. And here, you can see that we started very early having a lot of sources that can fund our business if necessary. We have limited debt maturities in 2020 and next bond maturity in Q3 2021. There are no financial covenants in Stora Enso Oyj debt, Oyj's debt. And the net debt to operational EBITDA for the last 12 months is at 2.5x and gearing at 45%. Remembering here that we are on this level due to the acquisition of our Swedish forest holdings from Bergvik last year.

And if moving to next slide, on Slide #8. I would like to highlight some of the key events during Q2, because even if we are fighting the pandemic now, we also want to secure that we deliver customer value when the recovery comes. And that we also create new businesses. So our focus on our innovation agenda and strategic project stays strong. So for the quarter, we delivered a new digital marketplace that's called Box Inc, which connects corrugated packaging suppliers and consumers of the packaging directly. And this is a new digital B2B marketplace. We established cooperation with Cordenka to develop bio-based carbon fiber materials for high-performance end uses, such as in transportation, construction and power generation, such as wind mills.

Intelligent packaging introduced sustainable ECO RFID tags for clothing, hand tags for fashion retail, both in Nordics and in Asia. And we have the first live solutions for unmanned new retail stores where customers can buy contact-less different products.

Within Packaging Materials, we launched 2 products, PerformaLight by Stora Enso, a very lightweight board with improved strength and also based on MFC technology that reduces the carbon footprint by 70% compared to competition. And from Oulu, we have our new product, AvantForte, the next-generation of safe kraftliner that will come on stream by end of this year, now available for our customers.

Formed fiber, we commissioned successfully, digitally actually, our production line in Hylte, and this is aimed for products within food packaging, replacing plastics. They are fully recyclable, biodegradable and plastic-free.

And last but not least, even if construction business is not on its full peak, we deliver wooden materials for more than 500 building projects around the world, enabling green and carbon-neutral building.

So with that, I hand over to you, Seppo.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Thank you, Annica. And I start by going through some of the key figures from the report that we have published today. Like Annica already mentioned, sales went down about 19% compared to the quarter a year ago, and operational EBITDA margin was at 15.7% and operational EBIT margin at 8.4%. Earnings per share, EUR 0.19 a share compared to EUR 0.08 a share a year ago. And here, the increase is coming mainly from the fair valuation increase of the forests. Operational return on capital employed was 6.8%, and cash flow from operations, EUR 363 million compared to EUR 550 million a year ago. And net debt to last 12 months' operational EBITDA was 2.5, up from 2.1 a year ago, mainly because of the lower EBITDA level this year.

Moving then to the divisions, and I start by going to Packaging Materials. There Consumer Board had a very strong quarter, while containerboard was weak. Sales decreased 3% and was EUR 821 million. That is a reflection of significantly lower containerboard prices, offset to some extent by higher prices in Consumer Board business.

Operational EBIT increased by EUR 32 million to a record high Q2 of EUR 130 million. That it is mainly due to good cost control in the division. We had clearly lower variable costs, especially pulp and chemicals and also lower fixed costs, thanks to our profit protection program. There was also positive effect of postponed maintenance works moving from Q2 to Q3 this year.

Operational return on capital also improved from 13% a year ago to slightly over 18% this year, and it is only a bit short of 20% targeted level. And conversion of Oulu Mill, paper mill to kraftliner production, is proceeding as planned, and production starts in Q4 this year and ramp-up then to full speed in Q1 or first half of next year.

Then moving to Packaging Solutions, where mixed development was visible in various end uses and there to highlight that especially e-commerce was performing strong. Sales decreased by 22% to EUR 141 million from last year's record high Q2. This is due to lower deliveries mainly in China Packaging operation and lower box prices in Europe. Operational EBIT decreased by EUR 6 million and was EUR 8 million. This is due to lower sales and increased innovation activities. We had also lower fixed costs, thanks to our profit protection programme offsetting the lower sales. Lower variable costs also helped as the containerboard costs were going down. And we had lower volumes in China Packaging due to delays in customer launches. Operational return on capital decreased to 14%, mainly due to lower profitability in the division. And here to note is that in the beginning of July, we have moved biocomposite business including its development costs from Wood Products division to Packaging Solutions division.

Then looking at the Biomaterials, where uncertainty in the pulp market continues. Sales decreased by 27% and were at EUR 288 million. This is due to significantly lower pulp prices. There was weak demand, especially for graphical paper end uses, and global market pulp inventory levels were also high. Operational EBIT decreased by EUR 84 million compared to a year ago and was EUR 19 million. Lower sales were partly offset by positive net FX effect and slightly lower variable costs. And operational return

on capital decreased to 3%.

Then look at the Wood Products division. We have better-than-expected market conditions visible and takes good traction in Building Solutions market. Sales decreased by 16% due to lower deliveries and lower classic sawn prices. Sales were also lower due to structural changes at Pfarrkirchen, Uimaharju and Kitee sawmills. Operational EBIT decreased by EUR 9 million and was EUR 26 million due to lower sales, partly offset by lower fixed costs, supported and thanks to our profit protection program. Operational return on capital decreased to 16.7% and is slightly below the 20% targeted level.

Then in Forest, our new division, where there we can clearly see that Forest brings stability during the uncertain times. Sales decreased by 14% and was EUR 519 million, that is due to lower deliveries due to lower production volumes. And wood prices were lower, especially in Sweden and Finland. Operational EBIT increased by EUR 30 million to record high Q2 level of EUR 41 million despite the lower sales. And this is, thanks to improved profitability from our own forest holdings and wood supply, Finland. Operational return on capital increased to 3.9% from 1.5% a year ago. That is thanks to higher profitability, and that was then also more than offset clearly high operational capital after Bergvik Skog restructuring. And fair value of biological assets, including our plantations and Tornator as well, which are not included in the Forest division itself, increased by EUR 990 million compared to a year ago, and this is mainly due to the lower discount rate, meaning what. And total biological assets fair value was EUR 4.6 billion at the end of June.

Then Paper, where we saw a significant drop in demand due to COVID-19. Sales decreased by 37% to all-time low level of EUR 445 million. Actually, the structural demand decline was visible in all paper grades. On top of that, divestment of Dawang paper lowered sales by EUR 24 million. Operational EBIT decreased by EUR 89 million and was negative EUR 39 million. This is reflection of lower sales that were partly offset by lower fiber cost and good fixed cost management in the division. Cash flow after investing activities to sales ratio also decreased to negative 7.4% due to lower profitability. A year ago, it was positive 6.6%. And Paper division's share of the group sales will be below 20% after the Oulu Mill conversion that is going ahead as planned. And this will reduce our coated fine paper capacity by some 1.1 million tonnes.

Then moving to strategic financial targets table and to highlight a couple of those.

Net debt to operational EBITDA, like I mentioned, was at 2.5% and a fixed cost of sales at 26.3%. Despite the fact that our profit protection programme is moving ahead as planned, and results are visible in the figures, the sales line has been coming down faster in relative terms.

So we are confident that we will be moving in the right direction when the market volumes start to normalize. Net debt-to-equity at 45%, which also shows that the debt level, as such, is not the problem. It's more issue of EBITDA development of the debt ratios.

[ROCE], operational return on capital employed, 6.8%, and excluding forest, 7.8%. Traditional financial

targets, I commented already when going through various divisions, so I don't go into details there.

And now I hand back to you, Annica.

Annica Bresky Stora Enso Oyj - President & CEO

Thank you, Seppo. And let's move to the next slide, please. We see that these exceptional uncertainties regarding how the macroeconomics develop and how demand develops, it will continue for the second half of this year. So therefore, we will not give any guidance also for the coming quarters until situation is becoming better to predict and visibility improves. What we can say is that we move into a period where we have our maintenance shutdowns in the third quarter. We have 6 mill maintenance shutdowns. So that, of course, has an impact on our profitability moving forward by EUR 45 million more compared to Q2 this year but on similar levels as last year Q3.

So finally, on Slide 18, if we move to the summary, we see that we are resilient in the headwinds, and we are well prepared for recovery. We have been proactive and have taken extension -- extensive precautions, and that has protected the health of our employees and also secured business continuity to serve our customers. We delivered a solid profitability for the quarter and cash flow under current circumstances. And I have to say that it is a satisfactory result considering all. Strong performance by Packaging Material and Forest, also Wood Products was better than expected, and we can see an accelerated structural decline for Paper business.

Thus, Paper is now a smaller part of our total sales, and we will continue to manage the division as we've done before. We manage capacity according to demand. We make sure that we have a strong cost competitive position and can run our mills with high operational excellence. And then we maximise cash flow. The challenging market conditions for Biomaterials continue for the coming two quarters as well. Exceptional uncertainty and -- for visibility continues. So we see continued mix demand for our different products, and we will adjust our operations to fit demand.

And as I said, the upcoming maintenance shutdowns are very well prepared to minimise any impact from the pandemic in the local communities and for our people. So all in all, we stay resilient and well prepared for when the market turns. Strong liquidity, active management of cash costs and capex, and of course, we continue our innovation and our strategic projects.

And with that, moving to the last slide before Q&A, I would also like to invite you all to our Virtual Capital Markets Day, which we will have on November 11 this year. Thank you very much.

Ulla Paajanen-Sainio Stora Enso Oyj - Senior VP of IR & Head of IR

Okay. Thank you, Annica. And now Summer, we are ready for Q&A.

QUESTIONS AND ANSWERS

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Operator

(Operator Instructions) Your first question comes from Alexander Berglund from Bank of America.

Alexander Berglund BofA Merrill Lynch, Research Division - Analyst

I have a couple of questions, specifically on graphic paper. First of all, I wonder if you can comment anything on the price development you're seeing into the third quarter? Secondly, do you expect any recovery in the demand as the economy reopens? Or do you see this demand more as gone similar to as we saw after the financial crisis? And then finally, a third question, which is, you made a point of excluding paper in your presentation and then also highlighted that it would only represent 20% of sales post-Oulu. My question is, if we should look at graphic paper like this in isolation or if we should consider any potential knock-on effect from the collapse in graphic paper in the medium-term or other grades? For example, both on pulp demand, but also on the supply side for pulp and potentially on containerboard as integrated graphic paper producers look to sell more pulp or convert to, for example, containerboard in the coming years, similar to what you're doing at Oulu. Those were my questions.

Annica Bresky Stora Enso Oyj - President & CEO

Thank you very much. If I start on price development, we do not comment on price development. But if demand goes down and there is a surplus in overcapacity, generally, there is competition out there. So therefore, it's important to have cost-competitive assets and make sure that you run them as efficiently as possible, and that is what we are doing to maximise cash flow.

In terms of expecting a recovery, it's very hard to say what the long-term level will be for Paper, what business might come back or not. But we prepare for how the situation is now, and then we follow quarter-by-quarter and make the necessary decisions as we go along. So we adapt our operational rates according to the demand that we see. But you are right, in the last financial crisis, the volumes were lost. And if we look at kind of digitalisation trends, I think that they have accelerated changes in consumer behavior, moving more to digital newsprint and magazines. But also advertising has moved from traditional printed media to digital tools.

So I expect that the structural demand decline will continue. And then regarding that we excluded paper was in our report here, actually already now before Oulu Paper is 20% of our sales. And after Oulu, the level will be even lower, around 17% to 18% of our sales. And I'm just saying this because if we go back to 2006, Paper business was 70% of our sales. So this is part of our long-term transformation that we have been doing over several years, and we'll continue to do. So if we see that there is possibilities to convert into something else like Oulu, we will do that, exit or close down mills, if that is necessary or divest if it's possible. So this has been the strategy that we have had and that we will continue with.

And then you mentioned that others are perhaps converting into, for instance, testliner and so, we have seen some examples of that. That is normally done for the sites that have, can get a good kind of position into the new area of interest. So probably that will continue. And you are right with the fact that this has spillover effects also for market of pulp, where a lot of pulp goes towards graphical end uses.

So that, of course, is impacted by the decline in Paper. I don't know if you -- if I answered all your questions?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Seppo here. Maybe if I can add on paper and the pulp market, that it's good to note that it was, of course, already disciplined Q2 on the pulp market, the negative effect of dropping paper demand. And assuming that the paper market recovers, that should be somewhat positive for the pulp market going forward.

Alexander Berglund BofA Merrill Lynch, Research Division - Analyst

That's very clear. Just a little follow-up on -- specifically on graphic paper producers that are integrated, specifically in the fine paper segment, have you seen any more competition from integrated fine paper producers now looking to sell to customers within the Packaging division -- Packaging demand or tissue demand. So basically, more competition in the pulp markets from graphic paper producers that were integrated.

Annica Bresky Stora Enso Oyj - President & CEO

I cannot see that we have experienced that in any major degree.

Operator

And your next question comes from Robin Santavirta from Carnegie.

Robin Santavirta Carnegie Investment Bank AB, Research Division - Head of Materials Research & Financial Analyst

Just to continue on graphic papers. Now obviously, a quite significant operating loss in Q2, weak demand, of course. But I was just wondering if you could shed some light on the performance of Oulu. It must be quite difficult now when you're closing that mill down. What capacity utilisation is Oulu running on now? What kind of losses are you experiencing there? And how should we see now Q3 and Q4? I guess you will close now in Q3, will you book that as discontinued operations? Or could you just clarify sort of the situation with Oulu?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Robin, we do not comment on a single mill's capacity utilisation rates or financial performance. And when it comes to reporting technically, we will not market anyway, so the discontinued operation, this part of the Paper division until paper production is stopped at the end of September. Then obviously, there will be some sales from the stock inventory towards the end of the year before it sort of disappears totally volume-wise from the market.

Annica Bresky Stora Enso Oyj - President & CEO

And regarding the project as such is -- as Seppo said before is proceeding according to plan. We have done all the civil works. And in Q3, Q4, the final kind of rebuilds are being done, and the production is starting up and ramped up during end of Q4 and Q1 next year.

Robin Santavirta Carnegie Investment Bank AB, Research Division - Head of Materials Research & Financial Analyst

Okay. I understand. Is it fair though to assume that Oulu has been a major drag on the division? Or is it in -- performing in line with the other mills?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

We do not comment single mill's performance.

Robin Santavirta Carnegie Investment Bank AB, Research Division - Head of Materials Research & Financial Analyst

Okay. Fair enough, Seppo. In terms of the Packaging Materials division, very good profitability now in H1. When we look at H2, obviously, you have maintenance, which will burden earnings or results somewhat. But if you exclude maintenance, how should we look at the performance? Is there anything sort of particular that made H1 or especially Q2 very strong compared to what you see ahead? Some destocking or restocking among customers. So how should we look at the underlying performance in H2 versus H1?

Annica Bresky Stora Enso Oyj - President & CEO

Let me kind of elaborate a little bit on the end uses if that sheds some light. Because as Seppo said, we were strong on Consumer Board and particularly within liquid board and food packaging, that we see continues to be strong as people stay at home and consume kind of food packaging and liquid packaging there. Whilst, for instance, the fast -- the food service board that goes to fast food industry and on the go, that is weak because not all restaurants and fast food places have opened up. And for coming H2, the speed of recovery of that sector is still quite slow. If we look at e-commerce, that has been a major driver for containerboard and also corrugated packaging, that has been strong. Whilst, for instance, industrial packaging, agricultural, electronics consumption is still not strong, and it's still weak, impacting, of course, the containerboard side.

So the uncertainties really come on how do these end uses kind of develop during the second half of this year. So if we stay on that, then it is hard for us to predict exactly how this is going to develop. And it all depends how countries are able to open up if there are new hotspots in the pandemic affecting the demand. There has not been any major kind of destocking or restocking of customers. And as I said, I think we are over the initial challenging Q1 really when supply chain and logistics was an issue as many countries were closing down, and many customers rushed to increase their inventory levels to be on the safe side. So this is how we see it.

Robin Santavirta Carnegie Investment Bank AB, Research Division - Head of Materials Research & Financial Analyst

I understand. And then finally, on the Forest business and division, clearly improved profitability compared to last year. Obviously, you book it in a different way in the first 6 -- compared to the first 6 months last year. Is this the run rate, the normalised run rate? Or do you still see room to improve profitability of that division?

Annica Bresky Stora Enso Oyj - President & CEO

We see room for improvement. We need to remember that Forest is not running on its maximum capacity, if I may put it like that, because we are adapting our harvesting to the needs of the different businesses and how the environment looks. So yes, we do see room for improvement.

Operator

And your next question comes from Justin Jordan from Exane.

Justin Joseph Jordan Exane BNP Paribas, Research Division - Analyst

I just want to follow-up a little bit on Packaging Materials, if I could, it was just clearly a very, very strong Q2 performance. And you've called out 3 different factors in terms of lower variable costs and lower fixed costs from the profit protection programme and then clearly no maintenance in Q2. But can you give us some sense as to the breakdown as it were of the EUR 32 million of extra operational EBIT in Q2 '20 versus Q2 '19? I'm trying to understand which 1 of these 3 factors are -- shall we say, will be sustained in future quarters because potentially, clearly, the profit protection programme will be long-term savings that the Group will enjoy forever as it were, and which ones might be the maintenance, which is just clearly, as (inaudible) said, a temporary impact. Can I start there, please?

Annica Bresky Stora Enso Oyj - President & CEO

Well, if we look at kind of long-term impacts and we go to the sales, if we take that as an area, we closed our multiyear contracts on the liquid accounts last year. So those will stay with us for a while. Then if we look at, for instance, the cost savings, 60% of them are roughly variable costs that might kind of change if the market recovers and becomes stronger, and we might lose some of the benefits, but the others are fixed cost savings, and these are likely more under our control and that we can keep for longer term.

And as said, Packaging stands for 25% of the savings within the profit protection programme. I don't know if you have more that you would like to elaborate, Seppo, on this?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Yes. like you said, Annica, important part of the improvement is, of course, coming from fixed cost savings, thanks to our profit protection programme, like mentioned also in the comments on the slides. And then, obviously, fiber cost, pulp, recycled paper cost are also down in the quarter.

Justin Joseph Jordan Exane BNP Paribas, Research Division - Analyst

Sure. Okay. And just one small follow-up. Just within the containerboard portion of Packaging Materials, one of your Swedish peers alluded potential softening in virgin containerboard or kraftliner prices in August, September. Is that something that you're expecting in Q3 also?

Annica Bresky Stora Enso Oyj - President & CEO

We are not commenting on pricing.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

We don't comment on pricing.

Justin Joseph Jordan Exane BNP Paribas, Research Division - Analyst

Okay. Fine. Just one final thing then. The Capital Markets Day that you announced this morning on November 11, what should we expect from that? Is this essentially your vision for Stora Enso over the next 3 to 5 years? Or are there any particular areas that we should be expecting you to focus on?

Annica Bresky Stora Enso Oyj - President & CEO

It is an opportunity to have a discussion about our strategic approach for the company for the coming years. And also, of course, to ask more question on how I and the team in Stora Enso sees our development and opportunities, so yes.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Justin, just to add on your comment or question on Q3 versus Q2, just to remind that there's more maintenance cost in Packaging Materials in Q3 than in Q2.

Operator

And your next question comes from Lars Kjellberg from Crédit Suisse.

Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst

I appreciate the difficulties of giving any guidance. And of course, visibility is comparatively low. But can you give us any sense of what you can see today, albeit being 2, 3 weeks out maybe only, how this compared to your general performance during the second quarter? And also, if you kind of look at the maintenance cost, as you mentioned, it would be similar to what you had in 2019. I think in 2019, as a whole, you had about EUR 150 million. You've had literally nothing thus far, only Heinola down in the second quarter. How should we think full year maintenance activities? And again, I guess, lower margins today would lessen the number. If I start there, please, with those 2 questions.

Annica Bresky Stora Enso Oyj - President & CEO

Yes. I think it's -- the macroeconomic recovery, looking for the Q3, Q4, there are a lot of uncommon uncertainties. The trade wars between U.S. and China and the discussions there, we do not really see kind of positive notes there. And also, the countries are potentially going through second waves of Covid-19 that might impact. Even though I do not believe that many of the countries will shut down totally like it was in the beginnings of the pandemic, still, there are quite big disturbances. So it is really hard to predict what's going to happen in Q3. I do not expect a quick recovery during this year. It will probably be a prolonged kind of period where we need to, as we have done, kind of work with what we can impact, like we've done in Q1 and in Q2. So I'm sorry I can't give any more light to that. It is exceptional uncertainties.

And then if we look at the maintenance shuts, what we can say there is that what we mentioned here are the major pulp mill shutdowns. And of course, as I said, a lot of the -- we have postponed

maintenance shuts in our mills in order to make sure that we can perform them in a safe way for our people and contractors. So for the full year, we will have an impact similar to last year total maintenance cost.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Seppo here. Just to add on the maintenance cost that in Q4, we will have 1 more mill in maintenance compared to Q3. But in the total maintenance effect, good to keep in mind that as the margins in some business are lower now than a year ago then the total effect is not so much different in that case.

So result that it's not far away, if you look at the full year, if you look at the maintenance effect year-on-year.

Annica Bresky Stora Enso Oyj - President & CEO

Yes.

Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst

Got it. And then just also on the longevity of some of the cost savings. You mentioned, of course, we don't know how quick this will turn around, but I would assume that you've had some benefits from temporary layoffs and short work weeks and whatnot. What do we do when this expires? How we should -- should we view that cost benefit if there was such a benefit in Q2?

Annica Bresky Stora Enso Oyj - President & CEO

Yes, there was, but it is minor compared to the big picture, actually. So that is not the driver of the improvements that we have made. So that is what we can say on that.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Just to -- and also to be clear, profit protection programme figures do not include temporary lay-offs. Those are longer-term actions that we are implementing.

Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst

I understand that. So finally then on Wood Products. Of course, now you had a good performance, and there seems to be some tentative signs that construction is resuming again. Can you share any color what you're seeing in that business if that's now on the right side and you're starting to get the cost benefits or lower timber costs, et cetera?

Annica Bresky Stora Enso Oyj - President & CEO

Yes. For the second quarter, we could see that our overseas market were stronger. Many of the Asian countries kind of came out of the pandemic quicker than Europe. And Europe was already kind of in a semi-recession already before pandemic in terms of construction and so on. For moving forward, the tables have turned. We see weakening in the overseas market, but actually picking up of activity in our home markets in Europe. So hopefully, we can continue to drive our Wood Products division in a good

manner also for the coming quarter.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

In the case of Wood Products, it's good to remember that July is a holiday month having an effect on the activity.

Annica Bresky Stora Enso Oyj - President & CEO

Yes, it's a seasonally slow quarter, Q3.

Operator

And your next question comes from Linus Larsson from SEB.

Linus Larsson SEB, Research Division - Analyst

Coming back to the Oulu startup, which is due to commence late in the fourth quarter. I wonder if you could just discuss with us briefly on the financial impact that we should be expecting. I presume, Oulu, for the time being is loss-making, that will presumably change, but also you might incur some extra costs in conjunction with the ramp-up and during the initial phase of line of production you might be loss-making. So any information that you might want to share there would be helpful.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Maybe if I start first. We have not given any guidance or comments on the ramp-up curve as such and how that is affecting profitability. But reflecting what happened in Varkaus four years ago, you might remember, it was quite fast start-up curve. And typically, kraftliner as a product, it doesn't take such a long qualification times as for instance, liquid packaging boards. So that should make it faster to recover back to black figures. But we'll come later to more detail in on that.

Annica Bresky Stora Enso Oyj - President & CEO

And in the initial stages of ramp-up, we will target, of course, the easier types of products, but we have the ambition to enter food and hygiene kind of type of products with our kraftliner. And that, of course, requires the qualification times. But in the initial stages, we will take the easier ones first. And the site is going to be a very cost-efficient production site for kraftliner.

Linus Larsson SEB, Research Division - Analyst

Sure. And with regards to capex, I mean, you've given a capex guidance for the current year. What would you say regarding 2021 with Oulu behind? Is it fair to continue to think that CapEx should be lower in 2021 than in 2020?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

We will come back to capex guidance later as we typically do in the year. But like we have said earlier, typical capex level as a working figure for modeling you can use is to be at par with depreciation plus some between EUR 70 million and EUR 100 million for biological assets.

Linus Larsson SEB, Research Division - Analyst

Great. Great. That's excellent. And maybe just one final question on the Forest revaluation. I just want to maybe hear from you now, what your -- what's the principle valuation method here. You say you are adjusting your WACC. Are you doing that now on a quarterly basis? Every quarter, you will review that? Are you contemplating like other companies valuing your forest land on transaction valuation basis?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Seppo here. Maybe I can start. We use discounted cash flow (DCF) method. And yes, we do the fair valuation quarterly now as it is such a big part of the balance sheet and a large asset. We follow, as we have said also earlier, market practice development. And of course, you have noticed that there was one more company recently changing from discounted cash flow (DCF) to market price or transaction-based valuation model. So we are monitoring and following. But it's still -- discounted cash flow (DCF) is the most common method used on the market.

Operator

And your next question comes from Markku Järvinen from Handelsbanken.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

Perhaps there have been quite a few questions of Oulu and its financial impact and so forth. I suppose you gave quite detailed information on Varkaus and Beihai, when those started up. Should we expect similar information on sort of quarterly earnings impact from all on Packaging Materials and sort of a guideline on when it will reach EBITDA breakeven and such? Or are you going to stick to not commenting on Oulu's performance in the future as well? Or how should we look at that?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Yes. Like I said -- Seppo here, in my earlier answer that we will come back to that later once we are coming closer to start-up and ramp-up.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

So you will give some sort of guidance on that?

Annica Bresky Stora Enso Oyj - President & CEO

Yes. We will discuss kind of how our performance is developing and if the ramp-up is according to plan and so on. We usually do that in the initial stages of such projects.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

Okay. And while you're moving all between divisions, are there sort of one-off -- are some of the costs reported as one-offs? Or will it all be operating costs and earnings?

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

It is part of the operative result.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

Okay. Good. And further on Oulu, have you given any more thought about converting the second machine, cartonboard business seems to be doing okay at the moment. How does it look to you?

Annica Bresky Stora Enso Oyj - President & CEO

It is an optionality that we have to do that, and we make sure that we have that choice if and when we decide to proceed. But at the moment, we focus on ramping the first one. And then let's see how the market develops.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

Okay. Good. Then I think Paper business has also been discussed quite extensively. But as said, earnings were somewhat weak in Q2. How would you now describe the business? Is it still core for Stora Enso? Or is it non-core?

Annica Bresky Stora Enso Oyj - President & CEO

Well, we are managing the business for cash flow. We are making sure that we do the necessary improvements in the mills to keep them at a strong cost competitive position. But as said, it is a business that is in structural decline, and we are managing it from that perspective. The cash flow has been strong in Paper, and we have used that to invest in other parts of our growth divisions.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

So should we expect you to continue to walk down this path and not necessarily start a strategic review of the entire business at any stage?

Annica Bresky Stora Enso Oyj - President & CEO

Let's come back to that on the Capital Markets Day. But at the moment, there are no other plans than managing it as is.

Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst

Okay. Good. Then in China, there have been recent investment news around in Beihai or close to your mill in Beihai and also in virgin cartonboards by Sun Paper in April, how do you view those? And is there a need for more cartonboard capacity in China?

Annica Bresky Stora Enso Oyj - President & CEO

Well, I'm always surprised when new machines pop up in China, considering kind of how many investments that have been made in that area. But of course, this is kind of the traditional way that has been done in China before, a lot of machines come online and on stream.

So we need to just continue following the development. Right now, there's quite a big overcapacity on kind of standard boards in China.

Operator

And this question comes from Mikael Doepel from UBS.

Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst

It's Mikael Doepel from UBS. A couple of questions still left here. On the graphic paper side, just coming back to the volumes there. Can you give any comments on what you saw in June on a year-over-year basis and maybe what you are seeing in July? Just trying to get a sense of what the trends are there right now.

Annica Bresky Stora Enso Oyj - President & CEO

Well, the trends are declining from kind of previous higher level. But I cannot say if there is any major difference between June and July, really.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

I think it's too early to comment. You have to remember that societies have started to open only now and its holiday season. So we can really see it only after holiday season in August, September how the volumes are coming back or if they are coming back.

Annica Bresky Stora Enso Oyj - President & CEO

Yes.

Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst

Okay. All right. And then on a different topic, on dividends, when can we expect the resolution on the remaining dividends? When we will take a decision on potentially paying out more?

Annica Bresky Stora Enso Oyj - President & CEO

This is a AGM and Board decision or it's a Board decision really. And following the coming quarters and how the development is going to be decisive how we proceed as a company. I cannot say anything more than that. It's up to the Board to decide if the remaining dividend is paid out or not.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

It depends like we set original communication in the dividend, but it will then depend on how business environment develops and cash flow develops in general.

Operator

Okay. And we will now be taking no more questions. And I'll now hand the floor back to Ulla.

Ulla Paajanen-Sainio Stora Enso Oyj - Senior VP of IR & Head of IR

Okay. Thank you, Summer, and thank you for everyone joining us for today's call. And I will hand this over to Annica the final words of today. Annica, please.

Annica Bresky Stora Enso Oyj - President & CEO

Thank you very much for all the good questions. I like this active discussion. And my final words are that

we will continue to do what we have been doing, working with what we can impact and making sure that we have continued good business continuity and serving our customers now and for the future. So we are staying resilient in the headwinds, and we prepare for a strong recovery. Thank you very much, everyone.

Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland

Thank you.

Ulla Paaanen-Sainio Stora Enso Oyj - Senior VP of IR & Head of IR

Okay. Thank you.

Operator

Thank you. That does conclude our conference. Thank you for joining. You may now disconnect.

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