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Presentation

###### Operator

Ladies and gentlemen, welcome to the Nokian Tyres Conference Call. For the first half of the conference, all participants will be in listen-only mode. And afterwards, there’ll be a question and answer session. Please note that this call is being recorded. I’ll now hand the floor to Päivi Antola. Please begin.

###### Päivi Antola

Thank you and good afternoon from Helsinki. My name’s Päivi Antola. I’m the Head of Investor Relations and Communications at Nokian Tyres. In the call with me, I have Hille Korhonen, the President and CEO of Nokian Tyres, and Teemu Kangas-Kärki, the CFO of the company. So, this is already almost a tradition that we are having this call. This is the third end-of-quarter conference call what we are organising. And the idea with the call is really to go through some of the burning questions what you may have in mind and also the most frequent questions what we have received during the quarter.

We will start the call with a brief introduction by Hille and then go over to questions. So, Hille, please go ahead.

###### Hille Korhonen

Thank you. Good afternoon, everybody and thank you for joining us today. We have been presenting our three-year plan recently in our Capital Markets Day and this is the plan we have been now reviewing when visiting some of the capital markets. I would like to take some highlights out of that. So, of course, the whole plan is based on our growth targets and really entering the next stage of growth in our company.

We have a very strong platform for growing. We have been successfully growing already in Russia and in the Nordics and now this next stage of growth is being supported by factory investment in North America. So that we are able to grow not only in North America but maintain and further improve our strong market position in the Nordics, we will aim at growing as the market is expected to grow in Russia, which is the second home market for us. Through the capacity which will be then released from the Russian factory, we are also able to support the growth in Central Europe. Our growth will be focusing on growing first of all in the winter areas, in Russia and in the Nordics, in Central Europe as well, which is the biggest winter-tyre area in the world. We will also be growing in all-season and summer tyres, in all-season tyres especially in North America. All in all, high-margin winter tyres will continue to be our core business, which is today 70% of our total business in passenger car tyres, and we are not seeing any major difference in the coming three years in the share of winter tyres. All in all, we will continue to deliver profitable growth ahead of the market as we see our possibilities to grow, especially in Central Europe and North America, where our market share is still on a very low level.

###### Päivi Antola

Good. Thank you, Hille. That was basically pretty much the main message what we had in our Capital Markets Day early November, and which we organised here in Helsinki, after which we have been travelling quite a lot. So, we have been seeing investors in New York, in Boston, Frankfurt, Paris and London. And before getting the questions what you may have in the audience, I thought that we could start with a couple of questions what we have which have clearly been the most frequently ones in the meetings. One would be in a way a follow-up to what Hille said earlier about growing in the US. We are building the factory in Dayton, which will be operating in 2020 – starting 2020. And one question what we have received in different formats has been what happens to the Russian supply once Dayton is up and running. We will start the commercial deliveries from Dayton factory beginning of 2020. It will take roughly two years, so until end of 2022, until we will have all the 4 million tyres capacity in place. And while ramping up the factory, we will still continue to deliver goods from Russian factory. So, it means that it will be a gradual shift from Russian factory to Dayton factory, transferring the SKUs that are dedicated to the North American market. And while doing that, we see growth potential in Russia. That market, to our understanding, will grow roughly 6% per year. And also, we have growth opportunities in Central Europe, so the volume will be then directly to both Russian market and Central European market.

Then I have a couple of questions which are maybe more for Teemu Kangas-Kärki, the CFO, to answer. The first one is about capex – what will be the capex in the coming years.

###### Teemu Kangas-Kärki

So, we have been indicating this year’s capex level to be around 250 million, then increasing next year to a level of 300 million and then gradually decreasing. And just reminding us, the three main projects that we are having as we speak is the Dayton factory expansion, $360 million, test centre[?] in Spain, around €60 million, and then the heavy tyres manufacturing expansion in Finland, about €70 million, in addition to the accelerated product pipeline development.

###### Päivi Antola

Thank you. And Teemu, if you can continue with the explaining the balance sheet and the target for that.

###### Teemu Kangas-Kärki

We are quite okay with our current balance sheet as it is, as long as we are able to maintain the high return on capital employed which has been on a level of 20% in the recent years. And then in terms of using the cash flow, we want to support the growth expansions in terms of capital expenditure, but at the same time, as you can see from our track record, we have been maintaining or slightly increasing our dividends in the recent years.

###### Päivi Antola

Thank you. And now, operator, we could check if there are any questions from the audience, please.

Q&A

###### Operator

Thank you. Well, ladies and gentlemen, if you wish to ask a question, please dial zero one on your telephone keypad now to enter the queue. Once your name’s announced, you can ask your question. If you find it’s answered before it’s your turn to speak, you can dial zero two to cancel. So once again, that’s zero one to ask a question, or zero two if you need to cancel. Our first question comes from the line of Sascha Gommel of Credit Suisse. Please go ahead, your line is open.

###### Sascha Gommel

Thank you for taking my questions. The first one would actually be on the current demand situation. When we look at Europe, and particularly the Scandinavian market, your demand is quite weak, and I remember you mentioned in the last quarterly call that due to the fact that most customers buy a car with summer tyres and winter tyres, I was wondering if you can update us how you see that demand factor evolving currently. My second question would be on raw materials. They’ve been coming down quite a bit over the last weeks. I was wondering, looking into ’19, how you see your raw-material headwind/tailwind phasing over the quarters in 2019. And then very lastly, the consensus expectations came down post the Capital Market Day a bit. Are you happy now with consensus for the next two years? Thank you.

###### Hille Korhonen

So, thank you for the question. I will start by answering the demand situation in the Nordics and in Central Europe. As we have stated, the implementation of WLTP has an impact on the new car sales. And especially in the Nordics, when people are buying new cars they are buying also winter tyres, because the new cars come with summer tyres. So, that has been impacting our sales during this autumn and I would say that it’s still visible, because the new car sales has been going down in both Norway and Finland and especially in Sweden.

###### Päivi Antola

And then there was a question about the raw materials. We have not guided to 2019 yet, but Teemu, if there’s some kind of colour you could give on the raw-material developments.

###### Teemu Kangas-Kärki

Yeah. So, if we look our raw-material developments this year on a net level, including the currency impact, we have been slightly down from previous year. Excluding the currency, we have seen growth in our raw-material cost and we are expecting that to increase also in 2019. Some of the raw materials are decreasing. Others are decreasing. But the overall raw-material basket as we see it, we expect that to increase next year. And then you have the third question regarding the consensus. We feel that now the consensus is directionally on a right ballpark.

###### Sascha Gommel

That’s great. Very helpful. Thank you very much.

###### Operator

Thank you. Our next question comes from the line of Panu Laitinmäki of Danske Bank. Please go ahead. Your line is open.

###### Panu Laitinmäki

Yes, thank you. I was still wanted to ask about the Q4 outlook and what you have seen in terms of the market pricing and competition. And maybe a follow-up to the raw-material question: do you think that this decline in the oil price will kind of put pressure on your sales prices in 2019? So, do you see it as a positive or a negative overall?

###### Hille Korhonen

Well, I would not like to comment the fourth quarter sales at this point of time. So, we are sticking to our guidance.

###### Panu Laitinmäki

Okay.

###### Operator

Thank you. Our next question comes from the line of Artem Beletski of SEB. Please go ahead. Your line is open.

###### Artem Beletski

Yeah, hi, it’s Artem from SEB. I actually have two questions. The first one is relating to Russia and how do you see the market basically developing in 2019. I know that you are having quite, let’s say – expect quite nice growth long term, but do you expect any meaningful impact from increased VAT starting from next year? And looking at Q4’s inventory issues what you mentioned relating to summer tyres, are those basically pretty much in line as you have expected in the past, or has it been better or worse, so to say? And the last one is just a quick question relating to tax case in Finland. Has there been any news relating to it recently, or some development?

###### Päivi Antola

If we start with the Russian development, of course at this point of the year, it is a bit challenging for us to comment on 2019, as we have not guided next year. But Hille, maybe you could somehow in a way comment on the inventory levels what we said after summer that they were elevated and how that will impact 2019 in Russia.

###### Hille Korhonen

So, as we know, the summer tyre inventories are on a higher level than the normal situation after the last season and it will have an impact on the sale in during this fourth quarter and the first quarter 2019. And we are expecting that situation to normalise after next summer season. So, the inventory situation should come back to normal towards the end of the year. And at this point of time, it’s too early to make any statements yet about the winter tyre inventories because the season is not yet over. What comes to the VAT impact, that’s also still a big question mark. It might have an impact on the new car sales – increasing the new car sales towards the end of the year. But at this point of time, we have been estimating new car sales to be roughly between 12% and 15% and we are sticking to that understanding.

###### Teemu Kangas-Kärki

And then with regards the tax case, there are no new news. So, we are still waiting the decision from the higher administrative court. We are waiting for that.

###### Artem Beletski

Okay. Very clear, thank you.

###### Operator

Thank you. Our next question comes from the line of [inaudible] of OB Group. Please go ahead. Your line is open.

###### Speaker

Yes, hello. Yara[?] is here. Still a question on capex and US factory investments. Could you please remind us how much of the total investment amount has been allocated for 2019 and then 2020?

###### Teemu Kangas-Kärki

So, we haven’t breaken down the total amount by years, but clearly next year, with all the other projects, as communicated, that will be the peak year in our capex spending, then decreasing in 2020.

###### Speaker

Okay. Thank you.

###### Operator

Thank you. Once again, if there are any further questions, please dial zero one on your telephone keypad now to enter the queue. And we have one further question coming through at this point. That’s from Pasi Väisänen of Nordea Bank. Please go ahead. Your line is open.

###### Pasi Väisänen

Hi. This is Pasi from Nordea. Well, just to confirm, is this 22% group level EBIT margin guidance actually also valid for ’19, for next year, regardless of the growth investments going on? And also, do I understand right that you say that the fourth-quarter consensus EBIT is on the right ballpark? And if it’s so, could you actually please elaborate a little bit about the volume and price effect for the sales and EBIT on the fourth quarter? Thanks.

###### Teemu Kangas-Kärki

If I start with the consensus, my comment wasn’t specifically for Q4 but general for the coming years, relating to the capital markets communication what we made. And now I…

###### Päivi Antola

There was a question about the EBIT target of 22% - is that also for 2019?

###### Teemu Kangas-Kärki

Yeah. So, the financial targets that we gave out was for the next strategic period for these three years. So, not only for one year.

###### Pasi Väisänen

So, just to confirm, so 22% is still valid and you believe it for 2019 also?

###### Teemu Kangas-Kärki

The level of 22% for the next three years is valid.

###### Pasi Väisänen

Okay, great. And the last question was about the volume and price effect for the fourth quarter. Do you have any kind of comments for that?

###### Teemu Kangas-Kärki

We don’t want to comment at this stage for Q4.

###### Pasi Väisänen

Okay, great. Thanks.

###### Operator

Thank you. Our next question comes from the line of Olof Cederholm of ABG. Please go ahead. Your line is open.

###### Olof Cederholm

Hi. Thanks. It’s Olof from ABG. Just a couple of book-keeping questions. First, after the Dayton investment have been completed, what would you say your maintenance capex will amount to in sort of – in the long term? And also, could you talk a little bit about where your tax rate is going? We will soon have detailed 2021 forecasts in there and how should we think about the tax rate long term? Thanks.

###### Teemu Kangas-Kärki

With regards that maintenance capex, we have been indicated in the Capital Markets Day material that should be on – roughly on a level of 125 million. So, an increase from current 100 million. And then regarding the tax rates, the current level around 20% as a tax rate is a good expectation for the near years.

###### Olof Cederholm

Perfect. Thank you.

###### Operator

Thank you. Our next question comes from the line of Ashik Kurian of Jefferies. Please go ahead. Your line is open.

###### Ashik Kurian

Good afternoon. Thanks for taking my questions. I’ve got a couple. The first is in 2017 and 2018, you mentioned that you were able to gain or increase your market share in Russia because the competitors have been a bit slow to ramp up the production in Russia. Just wondering whether in the recent months or so, have you seen an increased activity from your competitors in terms of trying to regain some of the lost share?

###### Hille Korhonen

Well, overall, if we look at our market share in Russia at the moment, it’s the highest ever. So, we are in winter tyres roughly on the level of 40% in A and B segments together and in summer tyres on the level of 20% in A and B segments. It’s still too early to comment on the market share development, because we are not the end of the year yet and we don’t have the statistics, but it seems that the availability of products in Russian market has been on a good level. But too early to comment anything about the market-share development.

###### Ashik Kurian

Okay. And then, in the US, there’s been at least two rounds of price increases announced by most of the market players. I know you are more of a niche player, but have you participated in the price increases in the US?

###### Hille Korhonen

Yes, we have. So, we have been increasing prices during this autumn. And some prices – price increases – have taken place already before the competition.

###### Ashik Kurian

Just a last question from me. Normally, at least based on my understanding, when a tyre maker ramps up production, the initial units are contracted for OE because it helps them ramp it up on a more – a structured way. You have zero exposure to OE, especially in the US, so is there some sort of a pre-buy arrangement that you have with distributors in the US in terms of you know when the first lots come out of Dayton? Are you going to be assured of a buyer for those units?

###### Hille Korhonen

As we are 100% in the replacement market, it means that all the production we are producing is going to our independent distributors or wholesale customers and we don’t have any specific arrangements for the ramp-up phase, because all the quantities aren’t guaranteed for them, either from our Dayton factory or from the Russian factory.

###### Ashik Kurian

Perfect. Thanks a lot.

###### Operator

Thank you. Our question comes from the line of Kai Mueller of Bank of America Merrill Lynch. Please go ahead. Your line is open.

###### Kai Mueller

Hi. Thank you very much for taking your time. Just a quick one on this point that Ashik made earlier as well on the market shares. Have you seen any sort of changes in your competitive environment in the winter tyres space? Because I remember you were a bit more cautious in terms of your winter-tyre volumes while some of your competitors, especially Continental, have been a bit more upbeat on winter tyres. Is that something you can see them trying to gain more share in some of your regions?

###### Hille Korhonen

Well, when we look at the competitive environment, it’s actually good that all the suppliers and manufacturers are coming up with new products, because usually the quality and safety is improving. We definitely are confident that we are ahead of the competition and one key advantage for us is that as 70% of our total volume is winter tyres, we are building our whole business model around that. And that means that in the season, we are in a very good position to guarantee the availability of the products to supply our retailers and wholesalers as well.

###### Kai Mueller

Perfect. And then, just in terms of the question, obviously you did the Capital Markets Day and met a lot of investors following that. What are some of the questions around possibly the Spain investment, the 60 million for your summer tyre, you know, all-season tyre testing? In the long run, why do you do it? I mean, how much would we think 2030 Nokian would be winter tyres versus all-season versus summer?

###### Hille Korhonen

In the big picture of our share, the share of winter tyres out of our total business in passenger car tyres will not be changing. So, we – today, we are on the level of 70% and in the coming three years, the 70% is still valid, because we are definitely not growing only in all-season and summer tyres but definitely in winter tyres.

###### Kai Mueller

But for that you need the Russian market to grow nicely, because market share gains are more challenging. Is that correct, if I understood you earlier?

###### Hille Korhonen

Yes. The – our assumption is based on the fact that we believe that the Russian market will be gradually recovering. We are on a very low level today with new car sales. Roughly it will be 1.8 million cars sold this year, whereas the highest level has been 3 million cars sold in 2012. So, our belief is that as we are on a such low level in new car sales, the market will gradually recover. And one-third of the replacement market is being impacted by the new car sales. So, there is a clear correlation to the replacement market. And the other two-thirds is impacted by the replacement of tyres for cars and the cycle is three to four years on average.

###### Kai Mueller

Perfect. No, thank you very much. Have a nice holiday break.

###### Operator

Thank you. Our next question is a follow-up from Panu Laitinmäki of Danske Bank. Please go ahead. Your line is open.

###### Panu Laitinmäki

Yes, thank you. I just wanted to ask two things about your volumes. Can you give a number what is your current level of sales volume in the North America? And then secondly, when you get this Dayton factory up and running and you move the volume out from Russian factory, you mentioned that it kind of reduces the complexities. So, what is the kind of effective increase in that production capacity of the Russian factory once you get the North American SKUs out from that? Thank you.

###### Hille Korhonen

So, our current volumes that we are shipping from Russian factory to North America is roughly 2 million tyres and the capacity of the Dayton factory will be 4 million tyres end of 2020. So, that means that we will be releasing roughly 2 million tyres capacity from Russian factory to support the growth in Russia and Central Europe. The impact of reducing complexity – that’s a bit tricky to estimate, since we will also need to have more sizes and more products to support the growth in Central Europe. But there is some potential, I would say.

###### Panu Laitinmäki

Okay. Thanks a lot.

###### Operator

Thank you. Once again, if there are further questions, please dial zero one on your telephone keypads now. As there are no further questions at this time, I’ll hand back to our speakers for the closing comments.

###### Päivi Antola

Thank you. So, if there are no additional questions, I would like to thank you all for participating. Have a nice holiday break and talk to you all again in 2019. Thank you.