Nokian Tyres Q4

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Nokian Tyres Q4

Operator: Hello and welcome to the Nokian Tyres Q4 Conference call. My name is Francois and I'll be your operator for today's event. Please note that this conference is being recorded and for the duration of the call, your lines will be on listen only. However, you'll have opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator. I will now hand you over to your host, Paivi Antola, to begin today's conference. Thank you.

Paivi Antola: Thank you. Good afternoon from Helsinki and welcome to Nokian Tyres Q4 and full year results conference call. My name is Paivi Antola and I am the head of Investor Relations at Nokian Tyres, and together with me in the call, I have Jukka Moisio, the President and CEO of Nokian Tyres, and Teemu Kangas-Kärki, the CFO. In this call, we will go through our Q4 and full year results and more importantly, discuss our plans for 2023 and beyond and the new start for Nokian Tyres. But now I'm handing over to Jukka and Teemu. Please go ahead.

Jukka Moisio: Thank you, Paivi. On my behalf as well. So, first of all, I would go through the prepared presentation and performance in 2022 and 2023, a new start for Nokian Tyres. And indeed, we could also, say about 2022, that was an eventful year. I move to page two, and there we reflect the first steps we've taken to build the new Nokian Tyres. The most important thing is that we made a decision in 2022 to build a new factory in Romania. We went through more than 35 sites in Europe in about six months' time, prepared the investment proposal decided and announced that in November. So, quite the rapid action to rebuild our capacity.

First tires will be rolling out in the second half of 2024 and we aim for commercial production in 2025. Right now, we have various actions ongoing, including land purchases, permitting processes and indeed we have ordered the first production equipment already in late 2022. Financing will be taken care of with our own cash flow and leveraging a strong balance sheet. We are not looking to raise new equity to finance this factoring. Actions also, to increase capacity in Finland and in the US are proceeding in line with the plan. So, we had a plan to go all the way up to four million tires in Dayton. That plan is very much ongoing. Equipments will be installed this year and ramping up of those equipments will be completed this year and early 2024 to achieve that four million tire capacity and capability.

Also, in Nokian, we are increasing capacity, we decided that those investments in new equipment in late 2021 and 2022, they are being installed as we speak and also, we are increasing ramping up to capacity increases in Nokian right now. First contract manufacturing agreements were signed in Q4 and negotiations with other manufacturers are ongoing. So, the first of the volumes we expect in the second half of 2023 and the same process in Russia is ongoing.

Move to page three. Despite an eventful year, we had a resilient performance and I want to highlight some of the key achievements. First of all, heavy tires had an all-time high net sales, all-time high profitability and productivity. We are now delivered all-time high net sales in North America. We achieved the highest ever sales in terms of volume in passenger car tires and also, of course production records in our Dayton factory, which progressed in 2023 according to plan or actually ahead of the plan in 2022. So, important achievement was also, our new products, which were high performing and we had strong partnerships with our customers, which drove our net sales in 2022 despite a demanding year and eventful year because of the war in Ukraine.

I go to page four. So, Q4 is impacted by lower supply volumes. Net sales at €411 million. This is 22% behind 2021 fourth quarter in comparable currencies. And the most impacting reason for that was the lower passenger car supply volumes. Segment operating profit at €13.5 million and was €88 million a year ago. We had the same reasons lower passenger volumes and also, changed factory mix. But we also, had price increases to combat cost inflation and we had higher net selling price, average selling price. Teemu will talk more about the profitability impacting factory mix and supply volume impacts soon.

I go to page five, and it is reflecting the full year 2022 performance. So, our net sales are €1.78 million, which is an all-time high. Last year we achieved €1.78 billion net sales in 2023 and €1.71 billion in 2021. So, actually, 2022, despite being an eventful year, had all-time high net sales of Nokian Tyres. However, in comparable currencies further slightly behind the 2021 net sales. We had lower passenger car tire volumes as the sanctions came into force and the tire imports from Russia to Europe and North America ended in July. However, we had also, a record year in heavy tires in [inaudible]. This shows a strong performance by our Nokian Tyres team and also, the resilience under very demanding circumstances in 2022.

Segments operating profit were €221 million versus €335 million in 2021. Again, the supply of all the lower passenger car buyer supply volumes as well as changed factory mix, had the most important impact on the profitability. We had savings from price increases and they helped to combat the cost inflation. Based on 2022 performance, the board proposal on the dividend payment is as follows: $0.35 to be paid in May, and also, the board will seek authorization to decide on the second dividend payment of maximum $0.20 per share in the second half of 2023. So, all in all, the dividend payout proposal is up to $0.55 per share.

On page six, we have the highlights of the financial performance. I call out some key numbers here. Cash flow in the final quarter. Cash flow from operating activities. €319 million. Capital expenditure are €70 million. In that €70 million, we have about slightly below €40 million of new equipment for the Romanian factory. EBITDA segment's EBITDA, the new profitability measurement segment's EBITDA at 12.5% and segment operating profit at 3.3%. Full year net sales at €1.78 billion versus €1.71 billion in 2021. As I mentioned earlier, segment EBITDA in 2022, 21% at €367 million versus €455 million or 10.6% in 2021. Equity ratio remains strong, so, we have 65% equity ratio and interest-bearing net debt at the end of the year at €141 million. Capital expenditure for the year at almost €130 million.

I go to page seven. Just to highlight those or achievements in sustainability. We had excellent safety performance, lost time. Incident frequency was record low at €3.2 million hours worked. We also, started to build the first zero CO2 emission factory in Romania. Entire industry introduced the most sustainable concept dial. Yet with 93% of the materials in site being recycled or renewable. And also, an important achievement in 2022, to be included in Dow Jones Sustainability Europe Index being one of the top scoring companies in automobiles and automotive components industry. With those highlights, I will hand over to Teemu to do more color to financial performance and financial details. Please go ahead.

Teemu Kangas-Kärki: Thank you. Let's start with the passenger car tire business. And as we'll see in the Q4 net sales, which was on a level of €236 million, declined from comparison period because of lower supply of volumes from our factories. The segment operating profit was negative in the fourth quarter, €14 million. Then looking to the full year numbers, the net sales for passenger car tire was on a level of €1.233 billion, an increase of close to 3% with reported numbers and with comparable currencies decline of around 5%. Then the segment operating profit for the full year, €179 million and clearly down from the comparison period.

As we knew that the lower tire supply had a negative impact, especially in Central Europe and in Russia. Inventories are on a high level in the distribution, that will have an impact then to the sell-in. The segment operating profit declined as expected, but we have been able to increase prices to offset the headwind from raw materials and other cost inflation. Then if we look to the net sales by quarters. Here, you can clearly see the volume impact of the decline after the first quarter being the biggest decline in the fourth quarter and then the positive price mix development due to the fact that we have been able to increase prices that we started to already in year 2021 in terms of in the second half.

Then currency has given us - they went during the year 2022 and most likely in year 2023. It looks like that we will have a headwind from currencies. Then looking at the performance of our VCT[?], slightly more in detail and focus to segment operating profit bridge. You can see here the impact from volume, some €120 million price mix, significantly up almost €240 million. And then which is clearly offsetting the material headwind of €130 million. Then if we zoom in to the supply chain bucket, which shows a negative development of €134 million. Half of that is coming from the lower production in Russia. And then the other half of that headwind is coming from higher logistics warehouse and customs duties from North America. So, to remember 50/50 split of this headwind.

Then moving to the heavy tires. They had a record year that we are really proud of. The net sales in the fourth quarter was on a level of €65 million and the segment operating profit, €6 million. The full year numbers, €274 million almost its all-time high as the segment operating profit, almost €44 million in the fourth quarter. The net sales decreased slightly due to supply constraints. And as an example, the six leaves were on a high level in the fourth quarter in our Nokian factory. As stated, all-time high full-year net sales and profit on ability in year 2022.

Moving to the DNR, which recorded all-time high net sales. And we had a strong finish to a year into fourth quarter, reaching €129 million in the fourth quarter. And the segment operating profit, almost €11 million. The full year numbers are €362 million and segment operating profit €3 million. As you might remember, we had a weak first quarter and now a strong fourth quarter. And therefore, we landed almost on the same level in 2021. In general, we have continued to improve our operational efficiency as well as to offset the cost inflation in 2022.

Today, we also, announced our alternative non-IFRS figures excluding Russia. And here you can see the figures 2022 and 2021. Our segments, net sales and segment operating profits look in those years. This year, we have now introduced the new term segment net sales that will guide in 2023, excluding Russia, due to the fact that the sales process is still ongoing. And if we look to 2022 and 2021, net segment net sales figures, you can see that they have been on a level of €1.35 million in 2022 and €1.39 billion in 2021. And then looking to segments operating profit for 2022, there you can see the segments operating profit on a level of €18 million. And here to remember the headwind from the supply chain last year, some €60 million due to the extra cost relating to the moving tires out of Russia closer to customers.

Then moving to the assumptions for this year, 2023. We are expecting that the first half will be weak due to the constrained capacity and the seasonality. And then the second half is supported by the winter tire all-season, tire season and the offtake volume that we are getting in the second half. In heavy tires, I said all-time high net sales and segment operating profit last year. Now we see the market softening. So, the most likely is a short term headwind, even though overall we believe that the market is going the right direction. Then the guidance for this year. Now we decided to gauge with absolute numbers unlike earlier years. So, the net sales will be between 1.3 and €1.5 billion. The segment's net sales and the segment's operating profit percentage of net sales between six and 8%. And like to highlight the seasonality, especially in the segments operating profit, meaning that the profit is generated in the second half. And then handing back to you, Jukka.

Jukka Moisio: Thank you, Teemu. So, we go back to looking at 2023 and it will be a new start for Nokian Tyres. So, what will happen? What is important for us? First of all, we count on our team. We've been through 2022, which has been quite a demanding year. We look optimistically into 2023. We have our agenda quite full. First of all, we work on the factory in - new factory in Romania. We have a very tight schedule to build it and to get the first tires dropping out, which is the latter part of 2024, and then commercial production starting in 2025. The second one is that the Nokian factory capacity increase is ongoing. So, right now, we are ramping up new equipment as we speak and increase the capacity.

Same with the Dayton. The new equipment is coming and we are ramping them up and we have factories fully utilized at this point of time. All the tires we can make are being made and being shipped in the second half mostly, as Teemu was saying, due to seasonality and focus on the tires and our core products. We have also, already made an agreement to have contract manufacturing. We keep on negotiating additional contract manufacturing opportunities so, that we complement our product portfolio in late 2023 and especially in 2024, 2025. As you may remember, we announced in December that we have already concluded an agreement that will help us to supply the tires in Central Europe.

At the same time, it's important that we provide our customers with world-class products and services. It's important that we have process from our factories to our customers, and consumers continue uninterrupted. We will drive leadership in safety, product quality and sustainability, building on our achievements in 2023, in sustainability and safety, which were safety was of record level and also, be included in the Dow Jones Sustainability Index in 2022. We aim to do the same in 2023. We also, will use this opportunity to improve our processes and build our systems and capabilities for the next stage of Nokian Tyres growth. And this is important when the new factory in Romania comes on stream.

I move to page 18, which is capturing all these key initiatives and actions that we see. We have an investment phase in 2023, 2025, so, new factory in Romania, a capacity increase in Nokian, Dayton factory completion and growing contract manufacturing. In 2026, 2027, we will see a significant growth phase and based on the new products and invested capability and we target to have a €2 billion net sales at the end of that period or during that period. Obviously, many of you remember that when we had the capital markets day in 2021, we were aiming to be a €2 billion company mid-term. Now we still aim to be €2 billion company mid-term, took some important hits in 2022 and it was a demanding year. However, we regroup, refocus on key actions. We are confident that the implementation will be successful financially. We are able to do it and we have a strong cash flow, strong balance sheet to rely on and that will allow us to build the new Nokian Tyres. This is the end of the prepared presentation and the final page. It's a new journey and it will be a new journey.

Paivi Antola: That it will be. Thank you, Jukka. Thank you, Teemu. Before going to the questions from the audience, you mentioned Capital Markets Day in 2021. And then there is a question about the next Capital Markets Day as announced earlier, that will be arranged once the Russia exit has been finalized. And as I said, the process is ongoing. And now, operator, we will be ready for the questions from the audience, please.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. If you change your mind and want to withdraw your question, hit star two. The first question comes from the line of Michael Jacks from Bank of America. Please go ahead.

Michael Jacks: Hi. Good afternoon, Jukka. Teemu, Thanks for taking my questions. I have three. The first - first of all, thank you for providing more specific guidance ranges on revenue and EBIT. But could you please also, provide some steer on the building blocks for cash flow in 2023? I think the dividend sends a somewhat confident message in this regard, but just want to understand the moving parts to that. Secondly, on heavy tires, your guidance flags risks from general economic development. Just curious, is this based on trends that you are currently observing? Or are you taking a view on the macro development for the year? And then finally, with reference to your restated segment, operating profit figures, what are the main reasons for the wide margin gap between the 2021 x Russia margin of 15% and your 2023 guide of six to 8%? Thank you.

Jukka Moisio: So, Teemu, if you take the cash flow influx, please go ahead.

Teemu Kangas-Kärki: As you stated, the dividend proposal to the AGM should send a clear signal to the investors how we see our cash flow developing not only in 2023, but also, in the coming years. Good to remember that we have now a heavy investment program in the coming years. And the first two years are the biggest in terms of investments. And as we have stated, that the investment in Romania is some €650 million. So, if you divide that by two, taking into account that we have maintenance CapEx of some €100 million. So, that might be a good proxy for year 2023. So, dividing 650 by two, meaning that the Romania investment is not yet completed in two years because into three years, but then taking into account the maintenance CapEx on a level of some close to €100 million. Then in terms of working capital changes, most likely no major changes there in this year.

Jukka Moisio: And then if you look at the net debt to EBITDA ratios, we see that we can comfortably clear the situation in 2024, 2025 and not having to higher leverage based on net debt EBITDA despite these investments. Heavy tires, we basically talk about the heavy tires. What we see right now, obviously the general economic situation is a concern and we need to pay attention. But right now, of course, the statement was saying that inventories and pipeline is relatively fall and we see a current situation which appears to be softer. However, that may change, of course, depending how the economic momentum evolves over the year. Identity statement, Teemu?

Teemu Kangas-Kärki: And the question was about the range. Did I -

Michael Jacks: Yes. I just want to understand the main reasons for the difference in the margin between the 2020, 2021 ex Russia margin of 15% and the guide for between six and 8% for 2023, given that that one is also, excluding Russia.

Teemu Kangas-Kärki: So, if we start with 2022, and as I said, we should bear in mind that there we have these headwinds from logistic warehouse and customs duties, some €60 million. So, on the €80 million, you can put that on top. And then then if we look at 2021, there, we should remember that we get the benefit of lower production costs in in in Russia. So, if we take that into account, then we come closer to the guidance of 2023 indicating range of six to 8%.

Michael Jacks: That's very clear. Thank you very much.

Operator: The next question comes from the line of Akshat K.A.[?] from JP Morgan. Please go ahead.

Akshat KA[?]: Hi, Jukka, Teemu. Akshat from JP Morgan. Three questions from my side as well, please. The first one on the deal with that mask on the Russian plant. Obviously, you mentioned that the process is still ongoing. Is it possible to give us some more clarity in terms of the timeline or the next steps in this process, please? And how have things really evolved in the last three months from when this was announced? I'll ask the other two later.

Teemu Kangas-Kärki: As we stated already in late October when we announced the deal that the Russian exit has substantial uncertainties related to timing, terms and conditions and the closing of the transaction. And the situation definitely has not got any better. So, it is demanding topic and environment. And therefore, I would love to give you more clarity, but I don't have that either. So, therefore, I cannot comment that unfortunately.

Jukka Moisio: maybe if I just add something that you didn't ask, but nevertheless I add. So, despite the ongoing Russian process, the rebuild of the company in terms of building the new factory in Romania and advancing with the capacity rebuild is not dependent on the Russian exit. So, that these are two separate things. Russian exit is one, it's a process in its own. And then the other part is that we build new Nokian Tyres independently how it goes and when it comes to conclusion. So, therefore, these two things are not dependent just as an addition to your question.

Teemu Kangas-Kärki: And if I build on that, of the team, Nokian Tyres team, 99.9% are focusing to the future building the new Nokian Tyres. Myself and few of my team members are the ones who are only focusing on closing the deal in Russia.

Jukka Moisio: It's a necessity. It's a necessity from the company point of view that we move on. We built a new company at the same time we value and pay attention to that of course, that we do in a professional way the process in Russian exit. Okay. Next question. So, you had a second question?

Akshat KA[?]: Yeah. That is very clear. And I agree with that, that the balance sheet is in a strong position. The second question was on the 2020 guidance and the implied passenger car margin. So, you're talking about a six to 8% segment operating profit margin. So, firstly, in terms of your disclosure, what will be the difference between segment operating profit and operating profit in 2022? Just probably a list of items that you will still be adjusting for in 2023. Is it still the Dayton ramp up expenses or maybe some more ramp up expenses in Romania? So, some kind of details on those adjustments will be helpful. And secondly, within that group margin, can you also, guide us to what kind of passenger car margins are you looking for in 2020 because your Q4 passenger car tire margin was in the negative territory? Thank you.

Teemu Kangas-Kärki: If I start with the PCG, passenger car guidance, we have been guiding on that on a group level and we stick with that approach. Then in terms of the profitability guidance between six and 8%. There, as you said, the exclusions are not included. And the exclusions in year 2023 are, as you said, the Dayton ramp up until we reach the €3 million level as we have been communicating. And then on top of that, we exclude now the Russian business. And that's the reason why we introduced the segments net sales, because as long as they have some business there, we will report the net sales and operating profit as non-IFRS exclusion.

Jukka Moisio: So, the new item in 2023 and exclusions will be Russia. And the process is concluded.

Akshat KA[?]: Sure. Understood. And for the underlying passenger car margins, like just in terms of Q4 was a negative number. And what are we building for 2023? I did hear the comments in terms of the second half weighted profitability, which is just in terms of how the passenger car profitability is panning out with the two underlying plants that you have today. Thank you.

Teemu Kangas-Kärki: As I said in our Q3 call, that you shouldn't overanalyze our Q4 results because of several activities happening in passenger car tires business. And therefore, I just reiterate the same comment that don't overanalyze the Q4. Please look at our guidance for 2023 and our comments regarding the seasonality, and maybe this is a good point to give you some color, you might take a look what kind of business we had. For the sake of argument, in year 2000 before we started the Russia era, there you get some flavor how the seasonality was between the quarters and what kind of profitability we recorded in those quarters.

Akshat KA[?]: Great. Thank you for the details and all the best.

Operator: The next question comes from the line of Tom Morrison from Kepler Cheuvreux. Please go ahead.

Tom Morrison: Thank you very much. It's Tom from Kepler Cheuvreux, maybe I'll be a bit blunt. You had 337 million exclusions in 2023, 57 in 2021. Should we expect you to be closer to 2021 or 2022 levels of exclusions in 2023, assuming the process of your disposal goes broadly as you imagined? So, I assume sometime in H1.

Teemu Kangas-Kärki: So, the dates and parties on the same ballpark that it has been. And then the Russia is the big question mark that nobody has a crystal ball at the moment. But as you can see from our numbers from last year, we recorded that €300 million impairment related to Russia that is in exclusions and we make the conclusion that the impairment is still valid at the yearend with the information that we had at the yearend. However, let's see what is the end result when this saga ends?

Tom Morrison: Okay. Thank you. Second question, please. You present adjusted figures that you call excluding Russia. So, I just want to clarify, because for me, maybe I'm tired, but I'm not sure I understand what you mean. Are you talking about without Russian sales, you remove the Russian revenues as a destination, right? Would it not have made more sense to present an adjusted set of figures without Russia as a production center on top of the sales? We are completely unable to look at what your underlying performance. So, as long as you still assume that Russia is a production center was still there. I just want to make sure I understand that the exclusion is just Russia as a destination, right?

Jukka Moisio: No, it's Russia excluded completely, including all the top line, all the manufacturing, everything. And then that is segment that sales and segment operating profit, excluding Russia. So, there is no Russian impact at all in those numbers and in the guidance. So, 1.3 billion to 1.5 billion net sales is completely without Russia. And also, six to 8% segment operating profit is complete without Russia. No manufacturing, no net sales, none whatsoever.

Tom Morrison: Okay. But you mean that the 2022 adjusted figure of €1.3 billion excludes the production of tires in Russia as well? So, that's only what you have built in London data that has been recorded in your €1.3 billion sales for 2022. You have no task produced in H1 in Russia in that?

Teemu Kangas-Kärki: As I tried to comment earlier, when we were looking the year 2022, there we had the impact from Russia for the stage that we generated outside Russia because we produced those fires in Russia. And then maybe it's more clear in year 2021, if we look at our segments, operating profit, €210 million that contains the cost of tires produced in Russia with a lower production cost.

Tom Morrison: Okay. Thank you. I have two other quick questions.

Jukka Moisio: Yeah. So, again, the guidance for 2023 is completely without Russia.

Tom Morrison: Yeah. I think all the guidance is clear. Thank you. Can you guide us on the tax rate now that you don't have Russia anymore? It's been an important source of substantially the tax rate than you would have had normally. What should we assume in 2023, 2024 as your tax rate now that you don't have Russia anymore?

Teemu Kangas-Kärki: So, I think I would say that somewhere around 20, 21% is good ballpark number.

Tom Morrison: Okay. And last question, please. I looked at your backup slides. 83% of your debt to be refinanced in 2023, 2024. Can you guide us on how you plan to do this refinancing? Do you plan to use your existing and unused bank loans or you plan to issue bonds? And what kind of cost should we assume for 2024, 2025 net interest charge fees?

Teemu Kangas-Kärki: So, we are now in process to organize the financing or the funding for the company. And this is now the moment where we become like a normal company with a different kind of funding. Because in the previous years, we have been in a net cash position now. So, now during this year, we will structure our funding totally different. And bond is one of the source of funding the investments in coming years.

Jukka Moisio: Our profile becomes different because from now on, our net sales and our profitability and our assets are outside Russia. So, they are essentially invest in Europe and in North America. And so, therefore, our leverage and our asset base, as well as our financing structure, can and will change. So, therefore, we look different kind of a company in terms of a balance sheet in years to come.

Tom Morrison: Okay. Thank you very much.

Operator: The next question comes from the line of Martin [inaudible] from SEB. Please go ahead.

Martin [?]: Yes, good afternoon and thank you for taking my questions. A couple to be asked from my side. So, the first one is actually relating to the product mix development this year. So, what is your outlook? I guess you will be capacity constraint and that can actually improve your mix and how it actually looks like in Q4 excluding Russia.

Jukka Moisio: Yeah, our product mix, obviously when we look into 2023, so, we'll be capacity constraint and so, therefore we go back to our core, which is vintage[?] tires, and all-season tires and high premium summer tires. But basically, the key driver will be winter tires. And obviously, that's why we talked about the seasonality in terms of our supply that winter tires will be supplied towards the end of the year. And so, therefore, when we talk about our guidance, so, we said that the net sales will be accumulated in the second half quite strongly and this is what we do. And so, therefore, clearly, we prioritize those tires and those SKUs that bring us the best benefit from our current capacity that we have seen already in the latter part of the year. Of course, Russia, if you exclude that, you see that as in the latter part of the year, has been the important part. And going into 2023, that will be the key. It's obviously, I mean, this is, I guess, a no brainer to everybody that the tires are core and we prioritize them, as well as all season.

Martin [?]: Yes. And then I had another question is relating to your force structure and potential actions, what you are taking on that front. So, are you a bit worried about those ones in accordance with your results? Could you provide some update? Obviously, you are planning for some sort of cost initiatives looking at this year.

Jukka Moisio: So, we already took out costs in 2023 in anticipation, that especially in the Central Europe, we will have a lower volume because that was supplied by Russia. So, therefore, we took cost actions already in 2022. Those will bring benefits in 2023. But we also, look at the expense very carefully, and under these circumstances, we regulate our cash flow quite carefully as well as our spend. And so, therefore, you can expect that all kinds of actions that are needed to conserve cash and be cost efficient are taken. But the major restructuring and those actions were taken already in 2022.

Martin [?]: Okay, that is very clear. And maybe the last point from my side is actually relating to Dayton ramp up. And you actually mentioned that €3 million is the mark of which you won't be recognized in any ramp up related costs. Is it fair to assume that you would be reaching this type of ramp up or run rate in terms of production already during this year?

Jukka Moisio: We will install the machines and equipment for that kind of run rate this year, but then achieve the run rate sometime in 2024. And then it's up to us to be as quick and as efficient in hiring the people and getting the machines up and running. But basically, the machine deliveries will happen this year. And this goes back to our many previous discussions, identity audit equipment, late 2021, early 2022, and they are now being delivered during the course of 2023 and then ramped up one by one.

Martin [?]: Okay. That's very clear. Thank you.

Operator: The next question comes from the line of Giulio Pescatore from BNP Paribas. Please go ahead.

Giulio Pescatore: Hi. Thanks for taking my question. The first one on the €2 billion target by 2027. I'm just wondering, what are you assuming here? Are you assuming a normalization of pricing in case the material costs start to normalize? And any chance you can give us a rough indication of what the margins can do and how quickly you can reach those 2000 levels? The second question on the inventories. You said that inventories are quite high. I was just wondering if you can specify which are we talking about and if that's true across all segments, winter or summer? Yeah, Thank you.

Jukka Moisio: Okay, let me look at the €2 billion target. Obviously, it's a combination of volume. So, we ramp up volume, not only our own manufacturing volume, but also, offtake volumes. We assume trend pricing for that. So, that's how we look at the revenue plan in terms of margins. We have not given any indication. So, perhaps we wait until the Russian situation is clear and then we have the CND, and then we will come back with the margins and details of achieving €2 billion. But basically, just give a high-level ambition for 2026, 2027. We aim to be a €2 billion company. We had that in our plans already, 2021. We were about to achieve that in 2022, but then the war came between us and success. However, we want to achieve that success in the years to come. But more details when the CND will be organized, and that is dependent on the conclusion of the Russian process.

Giulio Pescatore: And then can I just follow up on that just quickly? So, just to make sure I understood it correctly, you are assuming current pricing and recovery in volume, so, you're not assuming a normalization of pricing, assuming trend pricing.

Jukka Moisio: So, pricing normally is a normalization. So, it's not the highest of the high, not the lowest of the low, but trend price.

Giulio Pescatore: Okay. Thank you.

Jukka Moisio: That's typical in the industry.

Teemu Kangas-Kärki: And then regarding your question about raw material price development, so, on year-on-year comparison, we expect that to still increase in 2023. But if you look at the development by quarters, good to remember that the first half last year, we had lower raw material prices peaking towards the year end. Now we don't see that to increase, but we have a low comparison in the first half, and therefore, the year-on-year comparison is higher. And having said that, another factor that impacts our raw material price level is that because of the situation that we went through last year, we purchased high amount of raw materials in order to secure our production. Now we have more than enough raw materials with higher prices in our inventories that we will consume in the first half. And then we are on a normal level with our raw material inventories in the second half.

Jukka Moisio: And that's a good point. What Teemu was saying that when we went through the event for 2022, we wanted to secure that, indeed, we will not run out of raw materials in either in Nokian or in Dayton. And to have that kind of a reason to not to be able to manufacture or ship tires, that was important for us to ensure that this does not happen.

Giulio Pescatore: Okay. Thank you. And sorry, on inventories in the distribution, you mentioned that they are quite high. So, I was wondering if you can comment on where they are and on which products and what's the reason for that? Thank you.

Jukka Moisio: Yeah. That was basically because the slowing economy in the final quarter and early in 2023. Pipeline across the system is quite poor. We expect that that will then clear up. We cleared out step by step, but towards the end of the year, the pipeline was quite full.

Giulio Pescatore: And that's a general industry comment. Not only a Nokian issue.

Jukka Moisio: That was a general industry comment, but it's also, some of our tires. So, it's not that we are immune to that.

Giulio Pescatore: Perfect. Thank you very much.

Operator: The next question comes from the line of Christof Khoury[?] From Deutsche Bank. Please go ahead.

Christof Khoury [?]: Hey, thank you for taking my questions as well. Those will be on the ramp up of the contract manufacturing volumes that you foresee. So, the first one on that, how big is your confidence in the ramp up, given that it's not entirely yourself operating those volumes? And then just in terms of the pricing that you assume for those volumes to go into the market, in the meantime, before you have sizable volumes from the contract manufacturing, I would assume you just technically lose market share to some degree. Obviously, you have a strong brand. Do you just assume that you can go in with the market pricing that you see at that point and your premium pricing versus competition? Or do you need to be a bit more aggressive in order to place the volumes in the market as well? Thank you.

Jukka Moisio: Point of view that how confident we are that we can deliver those contract manufacturing volumes. We are quite confident. We tested the quality, we audited or we are in the process of auditing the supplier plants and we see that in terms of logistics and factoring quality. We are confident that we can deliver. Now obviously, the pricing wise, they are not as profitable as our premium tires made in Nokian or in Dayton. However, important part of making sure that we provide to our customers and our distribution Nokian products so, that they have a good portfolio of products. This is of course, something that over time will evolve and we expect that the offtake will be an important or more important part of our portfolio in years to come.

Historically, we haven't done that, but we see that even when we start Romania factory increase capacity, Nokian and in Dayton offtake will be an important part of our portfolio. And so, therefore, we invest time, effort, development to make sure that that is going to be successful. Now the first volumes will be in the second half of 2023. So, at this point of time, these are plans we are confident we will deliver. But then the reality will happen when we actually deliver. But those are included in our guidance of 2023.

Christof Khoury [?]: Thank you. Just to follow up, if I may, on that. You just said to Guilio's question, I think that inventory levels are fairly high. So, by H2 of 2023 in Europe, you would expect it to normalize and inventory at the dealers to be at a level where they happily take those volumes, they come onto stream. And is it any different?

Jukka Moisio: We expect that - because the expectation of the new car deliveries will be positive in 2023 versus 2022? So, we expect that there will be an increase in demand and improvement in demand. And so, therefore, the inventories will be quite back to normal level during the course of 2023.

Christof Khoury [?]: Thank you.

Paivi Antola: Okay. Thank you very much. It's getting 4:00 here in Finland, so, it's time to finish the call. Jukka, any closing remarks? Maybe a couple of words about building the new Nokian Tyres.

Jukka Moisio: Thank you, Paivi. Maybe if I come back to that guidance, €1.3 billion to €1.5 billion in 2023, that doesn't include any Russia. So, this is based on our output in Nokian, in Dayton and offtake, as well as heavy tires. We are not. So, that's the perimeter of our guidance, six to 8% segment operating profit. And then obviously, the segment EBITDA will be at the mid double-digit kind of a number or higher and key actions for our team in 2023 there lined out. So, it's really to achieve the Romania factory first step. So, building the real estate and then starting to install the machines and being prepared for H2 2024 first tire manufacturing and then commercial production in 2025. So, this is one project.

The other one is to ensure that the Nokia factory ramp up. The new capacities that are being installed right now will be delivered as well as heavy tire expansions will be delivered and Dayton continue to ramp up and the new machine installations will be delivered. Those are quite important things. And then the offtake, which is a new element or in that scale, a new element to our company, that the quality delivery, the process will be impeccable and that we get the benefit of top line profitability in the second half of 2023. So, lots of new things in our company for our teams. At the same time, as Stan[?] was saying, 99.9% of the people are working on these ones, but we have an important professional team working on the exit at the same time. And again, when the Russian exit is being achieved or concluded, the process concluded, we will then seek to organize a CND as soon as possible.

To keep more color, how we get to €2 billion net sales based on trend prices with the highest of the high, not lowest of the low, and what kind of volumes we expect from various sources coming and what kind of margin profile can we think about achieving at that point of time. Again, you all have been used to our Russian factory a long time ago. Russia, as we knew it at the time, delivered high margins. We don't see that Russia being there anymore. So, we as a company want to move on and we have a new high price, new opportunities ahead of us, and we will deliver on those. That's where Nokian Tyres is at right now. Thank you, Paivi.

Paivi Antola: Thank you, Jukka. Thank you, Teemu. And thank you all for participating. And this concludes the call.

Operator: Thank you for joining today's call. You may now disconnect your lines. Hosts, please stay on the line and await further instruction.

[END OF TRANSCRIPT]