



Transcription

Nokian Tyres Conference Call

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16 December 2019



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PRESENTATION

Päivi Antola

Good afternoon and welcome to Nokian Tyres Q4 end of quarter call. My name is Päivi Antola and I'm the head of investor relations at Nokian Tyres, and together with me in the call, I have Hille Korhonen, the President and CEO of Nokian Tyres and Teemu Kangas-Kärki, the CFO.

As usual, this Q&A conference call is to give further clarity on information which has been made public over the earlier. We have some 30 minutes for the call. We will start with a brief introduction by Hille and then move on to the questions. So, Hille, please.

Hille Korhonen

Thank you, Päivi. So, good afternoon and great to have you on the call. Early December, we had a very successful trip to Russia together with some of our sell side [ph 00:01:09] analysts. As you know, we have the largest manufacturing operation in Russia and we wanted to demonstrate the efficiency and scale of the Russian production, and also our leading position in the Russian market. Today, our market position in Russia is the strongest ever.

During the quarter, I have had several conversations with customers and the feedback from them is that the market has continued to be tough. This is in line with what we have said in our third quarter call. Just by looking at the weather forecast of our core markets, winter season has clearly had a slow start.

As we have not updated the guidance, the guidance is as stated in late October. Looking ahead, we continue with the execution of our strategic investments as planned. We are looking forward to the Dayton factory starting commercial production in early January.

As you know, we will leverage the same technology and competence as already tested in our Russian factory. This gives us a unique global production platform that allows us to scale up or down our output, according to demand.

In all our passenger car tyre factories, we can manufacture all sizes and models, which again increases the flexibility of our production.

This was a brief summary and now let's continue with Q&A.

Päivi Antola

Thank you, Hille. So as said, operator please, we would be ready for the questions from the audience.



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Q&A

Operator

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. If you wish to draw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Gabriel Adler from Citi Group. Please go ahead.

Gabriel Adler

Hi. Thanks for taking my question. It's good to hear you've maintained your guidance and this implies quite a solid price mix for the fourth quarter if you're going to offset what's clearly going to be weaker volumes given the slow winter tyre sell-in.

Could you please just provide some commentary on pricing of winter tyres in this tough market? Are you seeing price pressure on the tyres given oversupply because of the late sell-in? That's my first question.

My second question is on Russia and the Russian market and any indication of your expectations for the Russian market next year. Are there signs of any recovery in new car sales you expect to come through next year?

And then my last question is just on inventory levels. Could you give an update on inventory levels at the dealers for both winter and summer tyres? Thank you.

Hille Korhonen

So, thank you for your question. Regarding the pricing situation during the third and fourth quarter there is definitely in Europe pricing pressure given the additional volumes that there are in the market, but we of course from our point of view focus on improving the mix and working on availability to be able to deliver what is needed.

Then regarding the Russian market for 2020, it's still too early to make any statement about the market conditions because the winter tyre sell-out will have an impact on the demand next year. So, we will come back to our market expectation when we are releasing our full year numbers in February.

And what comes to inventory levels, it's kind of the same answer. Summer tyre inventory levels in Russia, they are lower compared to the previous year and in other markets they are on a - I would say - back to normal level as far as we have understood the situation and winter tyre inventories, it's still too early to make any statement about the winter tyre inventory since the decision is still actively ongoing.



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Gabriel Adler

Okay, if I could just follow up very quickly on pricing. I understand the issue around European pricing pressure, which all your competitors are seeing, but specifically on winter tyres in your local markets in Russia and in the Nordics, are you seeing price pressure on those as well?

Hille Korhonen

In the Nordics, yeah, we are market leader and we have been taking prices up in order to compensate some of the negative currency impact and also, in order to compensate some of the raw material cost increase. In Russia, overall, there has been some slight increases in terms of pricing of winter tyres, but we have been doing some changes between the different product groups. Overall, the pricing impact is positive because of the higher share of segment products in Russia.

Gabriel Adler

Okay, thank you very much.

Operator

And the next question comes from the line of Akshat Kacker from JP Morgan. Please go ahead.

Akshat Kacker

Thank you. Just willing to ask that you obviously highlight that end markets have continued to be challenging across key markets. The question being are you willing to take more cost actions in Finland in addition to what you've already announced in both indirect or direct functions? And when you budget next year, what are the key focus areas for you? Thank you.

Hille Korhonen

Thank you for the question. Our key actions regarding cost management is related with our production capacity utilisation in Finland and we are currently having temporary layoffs as planned earlier and what comes to general cost management, we have had ongoing throughout the year already several cost improvement and cost management projects.

But I would just like to highlight that the biggest impact is coming from the capacity utilisation.



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Akshat Kacker

Thank you.

Operator

And just as a reminder if you do wish to ask a question, please press 01 on your telephone keypad now.

And the next question comes from the line of Pasi Väisänen from Nordea. Please go ahead.

Pasi Väisänen

Thanks. This is Pasi from Nordea. Two or three questions, if I may. The first one is actually related to inventory. So, what amount of excess tyres do you have on your own inventories in terms of units? And then the second one is more related to the current situation and December and the guidance. So, if the market is weak, and if the snow is missing, what actually do you still expect to happen in next two weeks period, which actually would make this season more normal or better than it's currently?

And maybe, as a last one, there was actually some growth in German but looking at the new car registrations in fourth quarter. Have you seen the similar growth figures in replacement tyre market at all or on your own figures? Thanks.

Hille Korhonen

Thank you, Pasi, for your question. Regarding our own inventory management, as we are having 70% of our tyres in winter tyre season, it means that we have some inventories throughout the year and we have been managing the capacity in order not to create excess inventories.

So, this is our way and approach and we continue to have a possibility in our toolbox for next year to take down Nokian factory capacity if needed. So, we will not be creating excess inventories on our own.

And then you had a question regarding the normal winter. We of course would love to see the snow on the ground already in in November and as I said in the core markets, in Nordics, the snow is not there and also in many parts of Russia, there is not a strong winter or in Central Europe, but of course, there are countries where you still need to have winter tyres despite the rainy weather and this is of course then creating some demand.

But clearly for example, in Finland, where the snow came early, but then disappeared, it's still taking down the business in the [? 00:11:50] as we see.



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Then you mentioned the German market and replacement situation, whether it's driven by stronger new car sales, and I would say that regarding winter tyres, the market is at the moment quite weak.

Pasi Väisänen

Okay, great, that is understood. Thanks.

Operator

And the next question comes from the line of Artem Beletski from SEB. Please go ahead.

Artem Beletski

Yes, hi, it's Artem from SEB. A couple of questions from my side. Could you maybe comment how your receivables collection has been progressing during Q4, because it's quite crucial and I guess you might be impacted by weather conditions right now.

And the second question is relating to your guidance for this year. Just trying to understand as you're talking about approximately 20% EBIT margin. So, what does actually approximately mean in your vocabulary, so how big a deviation you can allow from there?

Teemu Kangas-Kärki

In terms of trade receivables, so far, it has progressed more or less according to the expectation. But as you know December is the big, big month and you know that then in the beginning of January but no major deviations so far.

And then in terms of our guidance, what we have stated approximately is on a level of the number without being too specific.

Artem Beletski

Okay. Very clear, thank you.

Operator

And as there are no further questions, I will hand it back to the speakers.



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Päivi Antola

If there are no further questions then, Hille, maybe a couple of words from you and then we can finish the call.

Hille Korhonen

So, just to conclude the call, I said, we are ramping up the production in Dayton and looking forward to starting 2020 with a capacity of about 900,000 pieces, and in order to be able to do that, we will be then recruiting new team members starting in the first quarter.

And regarding the Spanish test track, we are on track with our schedule and looking forward to having the first customers visiting the track next summer already.

And with the heavy tyres, everything is proceeding according to plan. So, many thanks to our team for executing the project in a very professional way.

Päivi Antola

Thank you, Hille. So, we will be on the line again on the 4th of February with the full year results and now, happy holidays, everyone. Thank you for joining.

Hille Korhonen

Thank you.

[inaudible 00:15:19]