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Transcript for "Half Year Financial Report for January–June 2025"

00:00:02 - 00:00:49
Speaker 1: Good afternoon from Helsinki and welcome to Nokian Tyres Q2 2025 Webcast and Conference Call. My name is Annukka Angeria, and I'm working at Nokian Tyres Investor Relations. Together with me in this call are our CEO, Paolo Pompei, and interim CFO Jari Huuhtanen. As usual, we will start the webcast by first reviewing the financial results and some other topics from the court. Then we will have a Q&A session. The floor is yours, Paolo.

00:00:51 - 00:01:27
Speaker 2: Thank you very much, Annukka. Good afternoon, everyone, and thank you for joining our call this afternoon. It is summertime, and a beautiful week here in Finland, so we appreciate it even more. For those who are located in Finland, thank you for your participation to this call. Let's start today with the headline, which is a strong operating profit improvement in the second quarter, and of course, action is ongoing to further strengthen the financial performance. Moving to slide number two. This is the agenda that is related to the financial performance in Q2.

00:01:30 - 00:02:19
Speaker 2: Jari will support us in describing the trend of the business unit. Then we will end with the assumptions and the guidance for the year-end. Let's start with the Q2 and the financial performance. We move to page number four. We have a strong quarter of sales. We had a good sales growth of approximately 6.9 percent in Q2. Our operating profit improved significantly by almost 31 percent. This is also the result of the ongoing action that we are putting in place to improve our financial performance at the moment. The ramp-up of the operations in Romania is proceeding according to the plan.

00:02:19 - 00:03:24
Speaker 2: Some good news also from the sustainability side point of view, we are ranked among the world's most sustainable companies by Time magazine. We will tell you something more later on. We will also talk about tariffs that are creating some uncertainties in the short term. We have in place mitigating actions in order to reduce the potential impact. Moving to slide number five, let's talk specifically about the performance. As I said, the sales were going up by 6.9 percent, up to €343.7 million. Our segment EBITDA was up by 22 percent, up €57.2 million. The segment's operating profit was €26.3 million. That was 7.7 percent in relation to sales and up by almost 31 percent compared to the previous year.

00:03:24 - 00:04:17
Speaker 2: The increase was mainly driven by the passenger car tire segment, which was well supported by price increases and lower manufacturing and supply chain costs in Q2. Moving to slide number six, you will see that we were able to outperform any market. In terms of market share development, we were growing in the Nordics. We were growing nicely also in Central Europe, considering all the actions that we have in place, but we were also growing two digits in the North American market. As you know, this is a very important growth area for us, and we are very pleased about the performance in the second quarter in a market that is pretty stable at this stage. Moving to slide number seven, I would like to highlight a few items on this slide.

00:04:17 - 00:05:11
Speaker 2: First of all, I will focus on the growth year to date, which is 9.3 percent. I would also like to focus your attention on the segment EBITDA, which is up by 18 percent year to date, and the segment operating profit, which is up by 56 percent year to date. Also, bottom left, you will see that our CapEx, as expected, is going down. We are at the moment at €89.7 million invested in our business, which is significantly lower than the previous year when we had a heavy investment, in particular in developing our new manufacturing facility in Romania. Q2 cash flow had a strong improvement as a result of better control of the working capital, but also as a result of lower CapEx.

00:05:13 - 00:06:00
Speaker 2: Moving to slide number eight. This is our guidance in terms of CapEx for this year, remain as it was. We will be between 180 and €200 million. Everything is going according to plan, also from the CapEx point of view. What I would like to highlight once again is that we are ending a strong investment cycle that was necessary to rebuild the footprint of Nokian Tyres in Europe, as well as to build and extend the one in North America. At the moment, we are estimating to be perfectly in line with our guidelines in terms of CapEx, and the CapEx level from after 2025 is expected to go back to a normal level, more or less in line with the depreciation.

00:06:02 - 00:07:02
Speaker 2: Moving to slide number nine. As I mentioned at the beginning, we continue to focus on improving our financial performance. I was very clear also during the closing of Q1 that this is going to be very important. To focus on profitable growth, and this is where our guidance is coming from. We have three important focus areas that are extremely important for our future development and our profitability in the near future. One is the commercial area. We are accelerating our efforts to gain premium market share in the North American market. The key opportunity is in enlarging the sales network in the United States. In Central Europe, we have similar challenges, even though we are a little bit more mature in this market.

00:07:02 - 00:07:47
Speaker 2: We are expanding our existing network at the moment. We are also entering new markets and implementing consistent price realization in line with the premium branding positioning. This is a long journey that we will carry on from now on, because obviously, this is the position that we want to have in both the Central European and the North American markets. In the Nordic countries, we are doing pretty well at this stage. We are managing the pressure that is coming from the raw material increase. We keep protecting our premium position and our strong product portfolio, utilizing Vianor as a strong asset of the company to accomplish our objective.

00:07:48 - 00:08:44
Speaker 2: From the operational point of view, we are also working at 360 degrees. The ramp-up of our factories in Oradea and Dayton is supporting economies of scale, consequently, better absorption of the fixed cost. We are moving in the direction of driving higher efficiency across the organization because we need to improve our efficiency and productivity in our factories. You will see later on more and more the importance of our development in Romania in terms of ramp-up, because obviously this will give us a competitive base for our future development in Central Europe. Last but not least, we are working very hard to improve our efficiency where we talk about supply chain, and our local business model will give us the opportunity to become more efficient in managing our working capital and inventory.

00:08:45 - 00:09:39
Speaker 2: We also said at the beginning of the year that we want to improve from the procurement point of view, enlarging our supplier portfolio, and becoming more efficient in the way we spend our money. This is what we are doing at the moment, and we see already an important improvement in our PNL in Q2, also in this dimension. All three dimensions are delivering good results at this stage, and have contributed to the good improvement that we had in Q2. Moving to slide number ten, obviously, this continuous improvement plan requires a clear structure. Our new operating model is helping to have a stronger focus on the PNL.

00:09:39 - 00:10:38
Speaker 2: In some way, the KPI ownership that we have built around the organization has been driving better accountability of our business. We have in place at the moment a lot of different work streams that are working in a systematic way to follow up. They are giving us the possibility to follow up and to have a clear reporting of our practices, but also of our results. Today, we have an organisation with an enlarged management team that is giving us the possibility to be more agile and to react quickly to any business opportunities or challenges. Moving to slide number 11. We also had some good news on the sustainability side. Nokian was recognized to be one of the top 500 most sustainable companies in the world by Time magazine.

00:10:39 - 00:11:29
Speaker 2: We were number 98 on the list made by Time magazine. This is rewarding our effort in becoming a more sustainable company, reducing the CO2 emission, increasing the level of renewable and recyclable material, and also being a socially responsible player in the industry. We will carry on this effort, and this effort has been recognized not only by Time but also by many other organizations. I would like to highlight again that this platinum status is one of the best indicators to tell how good our effort is at this stage of our history. Moving to slide number 12. I will ask kindly, Jari, to take control of the presentation.

00:11:30 - 00:12:31
Speaker 3: Thank you, Paolo, and good afternoon from my side as well. Starting from passenger car tires. In the second quarter, we reported higher sales and improved margins. Our net sales were 260 million compared to the prior year of 189 million. Net sales increased in comparable currencies by 11.3 percent. Average sales price with comparable currencies improved, as well as the share of higher than 18-inch tires increased significantly. Segment operating profit was 15.9 million, or 7.7 percent of net sales, compared to last year, 7.1 million, or 3.7

percent of net sales. Profitability improved in passenger car tires, mainly due to higher sales and price increases, which were implemented in the first quarter.

00:12:32 - 00:13:27
Speaker 3: Also, our manufacturing and supply chain costs were lower compared to the prior year. In the first half, we have been able to improve our inventory rotation in passenger car tires. On the next page, we can see passenger car tire prices. In the second quarter, net sales and segment operating profit. In net sales, we can see that both sales volume and price mix component developed well. Sales volume impact was 12 million, and price mix was 9 million. Currency, we had some headwind coming mainly from the USD and the Canadian dollar. In the segment operating profit side, sales volume impact was 5 million, and price mix impact was 9 million.

00:13:28 - 00:14:22
Speaker 3: Still in material cost, we had some negative impact, minus 4 million. However, I want to highlight that it's good to see that the price mix component is now clearly higher than the material cost. We have been able to offset the higher cost in the second quarter. Supply chain component plus 3 million coming mainly from manufacturing sales rates and warehousing costs, somewhat 3 million negative compared to the prior year. When it comes to currencies, the impact is very close to neutral, minus one million. [silence 00:14:05-00:14:12] Quarter net says here we can see quarterly changes by our sales components, sales volume, price mix, and currency.

00:14:23 - 00:15:29
Speaker 3: Here I want to highlight the price mix in the second quarter, which was plus 4.9 percent, coming from both higher sales prices and also better sales mix compared to last year. [silence 00:14:37-00:14:43] Then, to continue with heavy tires in the second quarter, we had solid sales development. However, the weak market affected the heavy tires' margins. Net sales were 61 million compared to last year's 60 million. A change in comparable currencies was plus 1.3 percent. In heavy tires, net sales increased in all regions, driven by aftermarket sales. Segment operating profit for 6 million, or 9.9 percent of net sales, compared to last year, 7.6 million, or 12.7 percent of net sales. Profitability decreased in heavy tires, mainly due to a weaker product mix in sales.

00:15:31 - 00:16:32
Speaker 3: In heavy tires, finished goods inventories are on a lower level compared to the prior year. [silence 00:15:36-00:15:41] Moving to Vianor second quarter, we reported stable sales development there. Net sales are 98 million compared to last year, 96 million. Net sales with comparable currencies increased by 1.2 percent. Segment operating profit was 7.1 million, or 7.2 percent of net sales, versus last year, 7.5 million versus 7.8 percent of net sales. Segment operating profit was slightly lower year-on-year, mainly due to cost inflation in the Vianor business. In Vianor, finished goods inventories remained stable in the first half. [silence 00:16:24-00:16:30] Then handing over back to you, Paolo.

00:16:33 - 00:17:19
Speaker 2: Thank you, Jari. Thank you very much for explaining the performance in the single business unit. Now we go through the guidance, and from the market point of view, we don't see major changes in the market. There is a lot of uncertainty related to the market development in North America. Due to the situation, we will watch this very carefully. In general, we can see the after-market where we are a strong player, we will see at the moment to remain pretty stable, both in Europe as well as in North America. The heavy business will be down. We are expecting that we will remain down in the second half of the year at this stage. Also, looking at the market development in both the replacement and the OE segments.

00:17:21 - 00:18:14
Speaker 2: When we talk about North America, as we mentioned already during the closing of Q1, we will keep a pretty flexible strategy. What I mean is that we have a local for local business model, and fortunately, we are not exposed heavily at all to the tariff. When we talk about the US, 85 percent of our business is made in the US for the US. We don't see this issue, but of course we will need to be ready to look at any kind of opportunities in the month to come based on the negotiation between Europe as well as US, and Canada, because we are also exporting to Canada. I remind you that all the wintertime business that we sell in Canada, which is an important part of our business, is made in Finland.

00:18:14 - 00:19:03
Speaker 2: We should not be exposed on that side. We are at the moment looking at different options and scenarios. There will be some uncertainty that is more related to consumer behavior than uncertainty related to

the manufacturing side. We will need to carefully watch the development from the consumer side. This is my main message today. We are well-equipped from the pure manufacturing point of view to face any ending scenario. Moving to slide number 21, we keep our guidance for the year where sales are expected to grow, and segment operating profit as a percentage of net sales will improve. We are expecting the remainder to remain in line with the previous year's level.

00:19:03 - 00:19:53
Speaker 2: Then the global economy, as well as the geopolitical trade and tariffs, are creating some uncertainty that we are watching day by day in order to better understand the business of development. We have an important opportunity to have our capacity move up in Romania in particular, which will support better availability of finished goods, and at the same time, better sales. I would like to take this opportunity also to draw your attention to the following quarters. Last year, we had a very high level of exclusions in our PNL due to exceptional items that were coming on the agenda last year. This year, we are forecasting by far lower exclusions.

00:19:54 - 00:20:46
Speaker 2: When you build the model, please look at the improvement of the profit level more than segment operating profit, because this is very important to understand the development of the company for future months. We guided fewer exclusions for the next couple of quarters. We have also today announced three important changes in our management team. We welcome Chris Ostrander, who has been a board member and is still, even today, a board member of the Nokian Tyres team. He will step down from the position as a board member and also as the leader of the Investment Committee. He will join the management team starting from the 1st of September, leading the North American team as the Senior Vice President of Passenger Car Tyres in North America.

00:20:47 - 00:21:23
Speaker 2: He will replace Lauri Halme, who has accepted the challenge to lead our Vianor Network starting from the same day as the Senior Vice President of Vianor. Lauri Halme has extensive experience in the company and also in managing service operations. I'm sure she will do a great job also managing Vianor as the Senior Vice President for the years to come. At the same time, we are promoting Tron Gulbrandsen as the Senior Vice President Passenger Car Tyres for the Nordics. Tron has been in the company for many years. He knows the company very well.

00:21:23 - 00:21:43
Speaker 2: He will join the management team and he will bring his expertise and his commercial knowledge to the management team, supporting our future growth and expansion in the commercial area. [silence 00:21:36] We are now up to the time of the Q&A.

00:21:48 - 00:21:48
Speaker 1: [silence 00:21:42-00:21:48] Thank you, Paolo.

00:21:49 - 00:22:10
Speaker 4: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. [silence 00:21:58-00:22:06] The next question comes from Akshat Kacker from JPM. Please go ahead.

00:22:12 - 00:22:50
Speaker 5: Good afternoon, Paolo. I'm Akshat from JPMorgan. I have three questions, please. The first one is actually on pricing. Can you talk about all the pricing actions that you have taken specifically in Europe and North America? Is this specifically related to playing catch-up on raw materials and other inflation costs, or are you also being opportunistic in the North American market, given your position there? The second question is on overall volume growth, and you have told us multiple times that a lot of the volume growth that you've seen is supply-linked for no gain, because you are in a unique position. I've seen that number relatively slow down.

00:22:50 - 00:23:28
Speaker 5: It was at 21 percent in Q1, six percent in Q2, and the comps get more difficult in the second half. Could you just give us a broad expectation of what you're expecting for Nokian volume growth in the second half, please? The third one is just a general question on the marketplace. I would be very interested in understanding what you are seeing in both Europe and North America since May, since the U.S. status has come

into force. Could you just talk about general inventory levels in these markets? Probably product flows coming in from Asia, and what the competitive landscape looks like in general. Thank you so much.

00:23:29 - 00:24:21
Speaker 2: Thank you very much. Three important questions. I would like to start answering the first one, which is really about prices. As I explained in Q1, as you may remember, we lost margin because we were not increasing the prices to cover the raw material cost increase that we had in Q1. There is always a time gap between the raw material increase and the pricing, but this was for us an important action to put in place in order to compensate for the loss margin in Q1 that was coming from the higher raw material and stable prices. At the same time, I also deliver the important message that it is crucial for us to position Nokian Tyres as a premium player in the Central European and North American markets.

00:24:22 - 00:25:19
Speaker 2: This is a journey that is starting this year and will carry on in the years to come. We will always compensate raw material, but we will always try to raise our position in terms of pricing to be well-positioned in the premium market. About the volume growth, this is also very important. There is no joy in life to grow without increasing the profit. We say that we were focusing on profitable growth, to more than only on growth. At this stage of our history is extremely important that whatever additional time we sell it will be profitable, it will generate profit and value for our shareholders. This is what we are doing at the moment. We accept being a little bit slower in generating growth, but we want to have profitable growth for the years to come.

00:25:20 - 00:26:08
Speaker 2: Last is about the scenario of the tariff. I mean, the situation in Europe, the market was pretty stable in the second half. It was down for the European player. There were a lot of tariffs coming from Asia, too, and the same is happening in North America. It was happening at the beginning of the second quarter when the tariffs were just announced. There was a large number of tires arriving in the United States from Asia in order to anticipate and reduce the impact of the duties. To effect, I think the market will stabilize. In Europe, it will be pretty stable for the months to come, while in North America, the only question mark is about the general economy and the consumer behavior related to the GDP development of the country.

00:26:08 - 00:26:59
Speaker 2: Clearly, less purchasing power from the consumer will deliver decisions in terms of what to buy. The market is not self-sufficient in terms of tires. What I mean is that in the North American market, half of the market is supplied from abroad. This can also be a problem, but an advantage for us being a local player. We will observe the dynamics, and we will see where we land. Just to remind you that we are pretty small in North America. We watch the market day by day, but we have our agenda. We need to grow based on our capabilities, accepting that there will be ups and downs based on the GDP growth in the local market.

00:27:01 - 00:27:07
Speaker 5: Thank you so much. Just a question left on looking at tire volume growth expectations for the second half, please.

00:27:08 - 00:27:19
Speaker 2: The guidance is that we will grow. Meaning that we are guiding growth below 10 percent.

00:27:21 - 00:27:23
Speaker 5: [silence 00:27:18] Thank you so much, Paolo.

00:27:29 - 00:27:52
Speaker 4: [silence 00:27:22-00:27:29] As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. [silence 00:27:34-00:27:46] There are no more questions at this time. I hand the conference back to the speakers for any closing comments.

00:27:56 - 00:28:11
Speaker 1: [silence 00:27:52] Thank you. It seems that everything was very clear this time. If there are no further questions, it is time to end this webcast. Thank you all for participating in this call. Thank you, Paolo and Jari.

00:28:12 - 00:28:13
Speaker 3: Thank you.

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00:28:13 - 00:28:16
Speaker 1: Have a nice rest of the day and summer.

00:28:17 - 00:28:20
Speaker 2: Thank you very much also from our side, and have a wonderful summer.

00:28:21 - 00:28:21
Speaker 3: Thank you.