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## Transcript for "Interim Report for January–September 2024"

**00:00:00 - 00:00:28**

Interviewer: Good afternoon from Helsinki and welcome to Nokian Tyres' third quarter results conference call. My name is [inaudible 00:00:08-00:00:09] and together with me, I have on the call the president and CEO Jukka Moisio, and Niko Haavisto the CFO. As usual, we have some prepared notes. Then after that, we have a Q&A. Jukka, please go ahead.

**00:00:28 - 00:01:33**

Jukka Moisio: Thank you, [inaudible 00:00:28-00:00:29] and welcome on my behalf. Indeed, we have some prepared notes. We have a presentation that page one heading is market share gains driving sales growth in a weak market and the Romanian factory progressing on schedule. I'll move to page two. Which is the Q3 net sales and segment operating profit increased. That's the heading. Our net sales were 314 million, which is about 14 percent higher in comparable currencies. We had market share gains which were driven by the improved passenger car availability. Geographically, the strongest growth in the quarter was in Central Europe and the Nordics. Segment EBITDA at 58.8 million versus 46 million the prior year. The percentage margin percentage is 18.8 versus 16.7. Segments operating profit in the quarter at 30.4 million versus 19.6 a year ago and a 9.7 percent margin.

**00:01:34 - 00:02:39**

Jukka Moisio: The main driver for the profitability improvement is higher sales and lower raw material costs. Our overall statement of the quarter is that the car and tire market is weak and it's difficult to estimate market and consumer behavior going forward. I may move to page three. Some of the key figures. First of all, to say that the investment is approaching its end and therefore the net debt in 2024 is speaking. From 2024 onwards, the net debt is expected to go down and the cash flow is turning positive. We've had a negative, strongly negative cash flow in '23 and '24 based on the investment requirements and the build of the Romanian factory, as well as the completion of data on investment, and at the same time having a shortage of or the availability of tyres because we lack the production capability.

**00:02:40 - 00:03:41**

Jukka Moisio: I call out some key numbers on page three. One is the capital expenditure. In the quarter we spent 101 million, mostly in the Romanian factory, and year to date nine months, 260 million versus 157 million a year ago. Also net sales at after nine months, 875 million versus 805, and the segment's EBITDA at 13.5 percent versus 12.2 in '23. Return on capital employed at this moment, rolling is 4.2 percent, equity ratio of 49.6 percent versus 6.1, and indeed gearing at 64 percent and interest-bearing net debt at 800 million. This is the highest number we will see from this moment onwards. This number will go down. Now hand it over to Niko to talk about financial numbers. Niko, please go ahead.

**00:03:42 - 00:04:53**

Niko Haavisto: Thank you, Jukka. I will go through the segment numbers. On page four in the passenger car tyres segment, we had higher sales and improved profitability. This was driven especially by our Central Europe. The average selling prices with comparable currencies, however, decreased. Profitability we improved there due to the higher volumes and lower material costs. I need to point out that in our Q3 numbers, the non-IFRS exclusions included the inventory write-downs of the contract manufacturing. As we've said earlier in the year, these are the products that came in late. We wanted to sell these contract-manufacturing summer products during the Q3. Now we tried that earlier in the summer they didn't or indices and didn't manage to do that as they came in late, but did that now in Q3.

**00:04:54 - 00:06:20**

Niko Haavisto: In the table there below, you can see the segment's operating profit landed at €34.4 million and with an operating profit percentage of 16.4 compared to last year's 11.1. On page five, we have the passenger car tyre business breach. First, there is the net sales fleet, and there you see the volumes impacted heavily. Then on the price side, the price mix was negative, -18 million as well and the currency still had a headwind there at minus €2 million on the sales level and landed at €210 million in terms of net sales. On the operating profit table, they are on the bottom of that page, we see that once again, the volume gain on the profit was €26 million. Price mix to €80 million. The rest netted roughly €8 million. We landed with €34 million in terms of segment operating profit in Q3.

**00:06:21 - 00:07:34**

Niko Haavisto: Then a little bit split year on year, the passenger car tyre still the quarterly change is there you see that the sales volume gained 35.4 percent, so clear increase. The trend there is what we want to see as well. Then in terms of price and mix you see it there -10.5 percent. Without this exclusion from the write-down, it would be on the level of three percent in terms of price mix. That would come mainly from the mix. Then the

current is, of course, still headwind, but passes on a much more moderate level than in the prior year. On page seven, we go to our heavy tyre segment. There the story continues. The net sales are decreasing and that's mainly due to the weak OEM market. I think we have visibility, but it doesn't look too promising when we are looking towards the year-end.

**00:07:34 - 00:09:08**

Niko Haavisto: Profitability is I think on the level that we can be proud of. The 12.9 percent is actually better than what we did last year. This tells us that we have the costs in control. We had the production temporarily adapted during the summer break to meet the demand in the market. Then finally the last segment is the vianor. There we see that the sales are at last year's level or slightly increased compared to last year. What we are facing is the negative segment's operating profit. This is mainly due to the inflation, which we've said earlier. Also we are facing quite a weak business-to-business market there. Of course, now that the Q4 comes and the season kicks in, we believe that we are well positioned. We are going into the Q4. Then to finalize the guidance for this year, we've said that it's unchanged, i.e. that our net sales with the comparable currencies and the segment's operating profit are expected to grow significantly compared to last year. With that, I hand it back to you, Jukka.

**00:09:08 - 00:10:06**

Jukka Moisio: Thank you, Niko. Some of the other highlights of the quarter. The Romanian factory, first of all, progressing in budget and on schedule. We had the first item manufactured in July and had a grand opening in September. Production will begin with the manufacture of Central European winter and all-season tyres. Also, financially we got a 150 million European Investment Bank loan to finance the factory. Also in August, we got the European Commission's approval for Romania's state aid measure to be paid and to support the establishment of the factory. As mentioned, the state aid that has been approved but hasn't been paid. It will be paid progressively step-by-step in '25 and '26, and some remaining amounts in '27 based on the completion of the factory.

**00:10:08 - 00:11:08**

Jukka Moisio: On page 11, you see the aerial photo of the factories 100,000m<sup>2</sup>, about 16 football fields. If you look at the European football field size, about 16 on the roof and the build-up area consists of a mixing building on the left-hand side, a production building in the middle including the office on the right-hand side. Not the blue one, but the one which is attached to the production building and then fields would warehouse. As mentioned earlier, this footprint land area allows for tripling the size of the factory in the future years. The original investment is up to six million tiles, but you can triple that size in the coming years. The investment decisions are being made. On page 12, the Romanian factory about benchmark in sustainability. It's going to be CO2 emission-free.

**00:11:08 - 00:12:22**

Jukka Moisio: That means that all electricity used at the factory is CO2 emission-free. Part of the electricity will be generated by onsite solar-powered power units, and the rest will be sourced without CO2 emissions. We have innovative electric boilers, which will then use CO2 emission-free electricity to generate steam for curing. Energy efficiency, obviously, the manufacturing process is very energy efficient and uses the most modern technology and machinery. On page 13, just to remind the birthday product of 2024 is Winter Tyre. It celebrates its 90th year anniversary. That's our innovation a long time ago. Still a very strong product. As the winter season is coming, just to remind everybody that the world's first thing was invented in 1934. Even today, with Hakkapeliitta 10 and Hakkapeliitta R5.

**00:12:22 - 00:13:13**

Jukka Moisio: Now number 10 is a studded tire and R5 is a non-studded tire. They are in the podium places in several magazine tests, performing extremely well in the winter conditions. That will remain also in the future and the key to our innovation will be to make sure that we have tires made for demanding conditions. Also in the quarter, Paolo Pompei was appointed the president and CEO of Nokian Tyres, and he will start on January 1st, 25, and finalized the presentation and prepared comments with our purpose. We want to make the world safer by reinventing tires and how they are made over and over again. With that, I had over back to [inaudible 00:13:10-00:13:12] please go ahead.

**00:13:13 - 00:13:27**

Interviewer: Thank you Jukka and Nico. Before we go to the questions from the audience, I would actually have two questions for you. We have a new president and CEO starting in January, but you will continue until that.

**00:13:28 - 00:14:02**

Jukka Moisio: That is correct. I will continue until the end of December and then hand it over to Paolo. We have, of course, overlapping transitions during the months of November and December, but all will be at full speed when he starts in January. Obviously, those takes take place in the budget meetings and various other management team meetings that indeed, it's not that I leave and he comes. We overlap at this moment and in the coming weeks and also the month of December.

**00:14:02 - 00:14:07**

Interviewer: Very good. Another very important question. Do you already have winter tires in your car?

**00:14:08 - 00:14:43**

Jukka Moisio: I have actually in my wife's car. We have studded tires, Hakkapellitta 10, and tomorrow I will change my car to Hakkapeliitta 10 winter tires. I am a true believer in studded tires. I know [inaudible 00:14:19-00:14:20] that you are a true believer in friction tires, and I know that people vary between these beliefs some people like friction tires, other people like studded tires, and it depends on where you drive and how you drive. I go a lot to the countryside and therefore I rely on studded tires. I know that you are a city person and that you have friction tires.

**00:14:43 - 00:14:51**

Interviewer: That is correct. Now, once we have discussed these two very important questions, we will be ready for the questions from the audience. Please.

**00:14:56 - 00:15:21**

Speaker 4: [silence 00:14:51-00:14:56] 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 00:15:10-00:15:15] The next question comes from Akshat Kakkar from J.P. Morgan. Please go ahead.

**00:15:24 - 00:16:17**

Akshat Kakkar: [silence 00:15:21-00:15:24] Thank you for taking my question. From my side to the first one on the passenger car profit bridge, could you just explain what drives the supply chain improvement year over year? The eight million that we see in that bucket. Also on the bridge, if you could talk about your assumptions for raw material costs, as we think about the next two quarters, that will be helpful. The second question is mainly on working capital. Yet there's a seasonal pickup in the cash drag on the business in the first nine months. I noticed that the receivables look much higher than what they are usually. Could you talk about your expectations for working capital improvement in the fourth quarter, and how should we think about that for the full year as well? The last one is on the ramp-up in Romania. Could you just talk about your expectations for volumes coming out of that plant for 2025 as well? Thank you.

**00:16:31 - 00:17:46**

Niko Haavisto: [silence 00:16:17-00:16:31] This is Niko. If I start with the raw materials, we've said that we see that they are moderating the prices. Of course, there is a lot of fluctuation as we speak. As most of you know they are dependent on the oil price, so there is a big correlation. Going into next year, I think the EUDR and the certified natural rubber will have an increase in the raw material prices. At this point, we see that's quite moderate. Then in terms of the net working capital, you are correct that there was an increase there and the receivables are on the high side. Of course, much of our sales also were tilted to towards the end of the quarter. In that sense, they increased as well. In Q4, as you know as well, we are getting most of the accounts receivables paid in the month of December.

**00:17:46 - 00:19:12**

Niko Haavisto: As Yukka said in his presentation net debt is at its peak as we came out from Q3. In terms of cash flow, we feel that we are well and it's in good hands also going forward. Then you had the question about the supply chain, you believe that was the year Romania factory. What do we expect in 2025? Obviously, we've said that you start commercial production in 2025. We start with the winter and all-season tires. We expect that the volume are installed capacity at this moment is about three million tires and we keep on investing new equipment throughout or installing new equipment throughout 2025. We will then ramp up towards half more than half in '25. Then the currently installed and then continue in '26 with the new installations that we do during the course of '25 and progressively step by step, we ramp up. To give an exact number is difficult. Then obviously ambitions are that as the equipment is being installed, we ramp up them as they come on stream.

**00:19:14 - 00:19:23**

Akshat Kakkar: Thank you very much. One quick follow-up, probably I missed it. Could you just explain the eight million positives on the profile page that come from the supply chain on a year on year basis?

**00:19:24 - 00:19:50**

Niko Haavisto: There we have quite a few positive things. One is, of course, that we've been able to lower the cost of the external warehouse. We have been heavily involved with this, especially now that we have the finished goods warehouse in our Dayton factory as well. We see the full impact going towards the year's end. I think that's the main or those are the main drivers there.

**00:19:52 - 00:19:53**

Akshat Kakkar: [silence 00:19:50-00:19:53] Thank you.

**00:19:58 - 00:20:03**

Speaker 4: The next question comes from Artem Bielecki from SEB. Please go ahead.

**00:20:08 - 00:21:06**

Artem Bielecki: [silence 00:20:03-00:20:10] Hi, first of all, I would like to wish you all the best, Yukka. Years at Nokian Tyres have been definitely pretty challenging with first COVID and then the war in Ukraine but you navigated well through these exceptional conditions and the repositioning of the company. Then going into a couple of questions about what I had on my mind. The first one is in general, what comes to the winter tire season. Could you maybe provide some comments? How it actually started, and what comes to Europe and North America. Then maybe one question relating to the guidance, which was kept unchanged. There have been some expectations that maybe it could be detailed. Could you provide some parameters? What comes to, for example, Q4? What should we expect in terms of PCT volume growth? How do you see the outlook is, for example, Q3 a good proxy for it, and maybe some commentary in terms of price mix development? Thank you.

**00:21:09 - 00:22:03**

Jukka Moisio: First of all, thank you, Artem. Thank you for your kind words and on. We obviously have been through a difficult time and demanding time for local tires. We have repositioned and not me. It's a team. I have to say that the resilience of the team has been remarkable, given that we've faced some unusual times. Not only us, but many other companies, having been active in Russia and facing the situation that happened in 2022. However, we are now in front of something new because things are going well and new things are happening in terms of innovation and capability and on. Let's go to the situation of the winter tires. Obviously, we see the winter tire season about to start. You look outside and you see the sun is shining. However, the forecast is that things will change.

**00:22:03 - 00:23:26**

Jukka Moisio: We see a relatively good momentum in the Nordics. You see a good momentum in North America, especially in Canada. The US is more weather-related. You see that it's quite warm on the North American side. We had good pre-orders for the season, but, of course, the season to materialize required that all those pre-orders materialize. We need the season to start and the weather to change. Then going into the season, it looked quite strong in terms of pre-orders. What can we expect in terms of volume development compared to Q3? Perhaps you see somewhere between Q2 and Q3 type of volume development, maybe not as strong as in Q3, but nevertheless a progress in terms of where we are going. This is in line with our ambition for 2024. When we said that we are better availability with more tires, we aim to gain market share at this. This is what we have been doing and we try to continue to do that till the end of the year. Guidance is that we continue with the significant topline improvement expectation as well as significant segment operating profit improvement expectation.

**00:23:30 - 00:23:32**

Artem Bielecki: [silence 00:23:26-00:23:30] Excellent. Thank you, Yukka and all the best.

**00:23:33 - 00:23:33**

Jukka Moisio: Thank you.

**00:23:41 - 00:23:47**

Speaker 4: [silence 00:23:33-00:23:41] The next question comes from Mika from DNB markets. Please go ahead.

**00:23:50 - 00:24:27**

Mika: [silence 00:23:47-00:23:50] Just a couple from my side. First, in America, you delivered flat year-over-year growth, which should imply that there is some fixed cost under absorption as you have increased your capacity there recently. At the same time, you had this overall positive supply chain impact on the passenger car tyre EBIT. I'm just wondering what explains this. You mentioned the positives, but can you explain, did you actually experienced a lot of cost under-absorption in North America due to this? You could perhaps a little bit give color on the North American replacement and your expectations.

**00:24:30 - 00:25:58**

Niko Haavisto: If I start with North America there. It's true that our volumes are picking up in terms of our own products. At the same time, though, I need to say that as I think we've discussed in these calls as well, it seems that consumers are moving towards the kind of tier three and four brands as well. That's clearly seen in the market environment. Also, the pricing element that has been there is a thing that we need to be really careful, i.e. . We are able to keep the price is going forward in the North American market as well. Having said that, you asked about the volume they will open and on. Every week we see an improvement in Dayton volumes. The latest week was the highest-ever volume. Of course the progress happens. We still have a lot of work to be done in order to make sure that the throughput gets to a level where we want it to be, as well as the efficiency and all that. This work is very much going on. We have all the focus on that work, but no new investments are needed

or anything like that. It's more work on a daily basis to improve the efficiency, throughput, and on. So far so good, things are going forward.

**00:26:00 - 00:26:38**

Mika: Thank you. Then just follow up on the raw material costs. I read from Q2 that you expect the raw material cost to turn into a headwind during the H2. However, now we see that you benefited actually from lower raw material costs at the same time you removed the cost outlook assumption. How should we read into this? You mentioned that there should be a modest increase into next year, but how about on the underlying costs for passenger car tyres especially?

**00:26:40 - 00:27:12**

Niko Haavisto: For the rest of the year, I think it's quite moderate that what we see there. In terms of this year's profitability. What I'm seeing more and discussing now is the '25 and what we see there in terms of raw materials. Yet I need to say at the same time that, of course, we are hurting part of the raw material purchases, but it's fluctuating a lot at this point.

**00:27:15 - 00:27:32**

Mika: [silence 00:27:12-00:27:15] How should we think about that passenger car tyre merging into Q4. What now? What sort of a stronger level much stronger level year on year? Should we think that there are now some temporary benefits that want to port you in Q4?

**00:27:33 - 00:27:52**

Jukka Moisio: We expect that the mix should be quite favorable in Q4 and therefore the margins should be at a good level. Obviously, raw material has a slight impact either depending really on oil prices and the short-term fluctuations. Mix-wise, we expect that Q4 is quite beneficial to us.

**00:27:55 - 00:27:58**

Mika: That's all from our side. Thank you very much and all the best.

**00:28:06 - 00:28:12**

Speaker 4: [silence 00:27:58-00:28:06] The next question comes from Thomas Besson from Kepler Cheuvreux. Please, go ahead.

**00:28:13 - 00:29:24**

Thomas Besson: Good afternoon this is Thomas. I have three questions as well, please. Firstly on contract manufacturing I just like to clarify completely what you've said. Could you confirm exactly how much has been written down? I think it's 10, 15 million. Just tell us exactly what happened. Who was the supplier when the products arrived, if some of them can be sold or not, and whether contract manufacturing is still part of the plan while your Romanian plant warms up. That's the question one. Question two is a lot easier. North American volumes. Can you just remind us how much of what you said in the US is built in the US, and how much is imported from Europe? Lastly, that may be peaking, but it's quite high 800 million. Can you remind us of your available liquidity and your 2025 CapEx plan, please? Thank you very much. Yukka, best wishes as well for the next part of your life.

**00:29:27 - 00:30:34**

Jukka Moisio: I'll start with the with the liquidity. We have the 300 million RCF, the revolving credit facilities on tap. That is available to €300,000,000,000 million in terms of cash available on top of what we have in the bank accounts. Then on the write breakdown of the inventory, that was roughly 11 million that related directly to the inventory write-down. That was due to the Red Sea crisis. For the product, summer products arriving more or less after the summer. You'll take the North American question. The North America, it's pretty much the same mix. We sell studded winter tires and friction tires out of Nokian to North America, predominantly Canada, the northern part of the US. All the rest in the market, all season, all weather light trucks, et cetera is made in Dayton and sold in North America. There are no products made in Dayton that come to Europe.

**00:30:37 - 00:30:41**

Thomas Besson: [silence 00:30:34-00:30:37] Thank you. Can I follow up, Niko, with the '25 CapEx plan, please?

**00:30:45 - 00:30:47**

Niko Haavisto: [silence 00:30:41-00:30:45] Can you repeat your final question?

**00:30:47 - 00:30:51**

Thomas Besson: What is your estimated 2025 CapEx at this plant?

**00:30:52 - 00:31:21**

Niko Haavisto: Yes, I don't think we haven't disclosed that yet. My understanding at this moment is roughly

€200 million. Basically significantly down because essentially it's new equipment at that TBM type machines and similar in Australia. Those are the commitments that we made when we built the factory. Beyond that, the capital outlay is relatively modest.

**00:31:24 - 00:31:26**

Thomas Besson: Thank you both of you. Again, best wishes, Yukka.

**00:31:26 - 00:31:28**

Jukka Moisio: Thank you, Thomas.

**00:31:35 - 00:31:41**

Speaker 4: [silence 00:31:28-00:31:35] The next question comes from Mika Kapanen from Danske Bank. Please go ahead.

**00:31:45 - 00:32:04**

Mika Kapanen: [silence 00:31:41-00:31:45] Hi. This is me Mika Kapanen.. You saw quite a lot of summer tyres during Q3 compared to sort of the typical Q3 quarter. Could you elaborate a bit to of inventory level development and in distribution, especially in Central Europe, ahead of the next station in 25?

**00:32:08 - 00:32:48**

Jukka Moisio: Our understanding is right now that when we look at the inventory levels, whether it's about winter tires or season and on, they are becoming normalized. Obviously now just ahead of the winter season, which is about to happen. The winter tire inventories are higher, but otherwise, they are approaching normalization. This is our understanding at this moment. Obviously, if you look at the overall demand in Europe, compared to the years prior to the Ukraine war or COVID, then we are still below in terms of overall demand, but inventories are normalizing.

**00:32:49 - 00:32:51**

Mika Kapanen: Also in summer tires.

**00:32:52 - 00:32:53**

Jukka Moisio: Also in summer tires.

**00:32:54 - 00:32:58**

Mika Kapanen: Good. Thank you. Good luck. Thank you.

**00:33:04 - 00:33:25**

Speaker 4: [silence 32:58-00:33:04] As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. [silence 00:33:10-00:33:19] There are no more questions at this time, I hand the conference back to the speakers.

**00:33:30 - 00:33:42**

Interviewer: [silence 00:33:25-00:33:30] If there are no additional questions, then it's time to finish the call. Thank you all for participating and joining. Thank you, Niko and Yukka.

**00:33:42 - 00:33:43**

Jukka Moisio: Thank you, [inaudible 00:33:43-00:33:43] All the best.

**00:33:43 - 00:33:44**

Interviewer: Thank you.

**00:33:44 - 00:33:45**

Niko Haavisto: Thank you.

**00:33:45 - 00:33:45**

Jukka Moisio: Bye.

**00:33:46 - 00:33:46**

Niko Haavisto: Bye-bye.