Transcript for "Financial Statements Release 2023"

00:00:02 - 00:00:42
Päivi: Good afternoon from Helsinki, and welcome to Nokian Tyres full-year 2023 results conference call. My name is Päivi Antola, I'm heading the industrial relations in Nokian Tyres. Together with me in the call I have Jukka Moisio, the president and CEO of the company, and Niko Haavisto, the CFO of Nokian Tyres. In this call, we will go through Q4 and full-year results and how we are proceeding with our growth strategy announced last year. This will be presented by Jukka and Nico, then followed by a Q&A. Jukka, welcome and please go ahead.

00:00:43 - 00:01:54
Jukka: Thank you, Päivi. Welcome on my behalf. Indeed let's go through the Q4 and full-year 2023 highlights of Nokian Tyres. I will go through prepared notes on patient presentation, building of the new Nokian Tyres on track. I'll go to page two, which is reflecting that in 2023, we had steadily improving performance and volume delivery throughout the year. You may remember that we started the year with lack of a good product portfolio following the exit from Russian operations and not having at full capacity available in '23 and not being able to bring all the offtake products to the market at the beginning of the year. Throughout the year, we steadily improved our performance and volume delivery. We had good progress in strategic investments to add capacity, including contract manufacturing. We saw in the final quarter already some good signs of the contract manufacturing of products in the market for the winter tires.

00:01:55 - 00:03:03
Jukka: We had a competitive and continuously evolving product portfolio. We announced and launched a number of new products during the course of the year. Of course, we continued supplying our high-performing winter tires. Our capacity to 10 as well as R5 friction tire for this winter season of '23, '24. Achievement, we also made measurements in sustainability and we were moving towards net zero emissions. Indeed, when we look into 2024, there are important milestones to be reached in that year. If I move to the next stage on page three, one of the key successes or anniversaries will be the 90 years of reinventing safety, namely the first winter tire. The first winter tire was actually invented in 1934 by Nokian Tyres. In 2024, we have the honor and opportunity to celebrate 90 year celebration anniversary of that product.

00:03:04 - 00:04:10
Jukka: We'll start early production steps in the world's first zero CO2 emission tire factory in Romania. Remembering that our plan is to start to produce the first bias in 2024, in anticipation to start the commercial production full-time in Romania at the beginning of 2025. We will, of course, use this opportunity to have an anniversary stamp of 90-year-old winter tire throughout the year. This stuff is visible here on this page number three. I move to page four and mentioned that the Romanian factory is proceeding on schedule. Again, to remind that the first tires will be produced in the first half of 2024 and commercial production is expected to start in the beginning of 2025. Right now, in the theater, construction work continues and machine installations have started in January. They are very much ongoing right now.

00:04:11 - 00:05:14
Jukka: The outer shell of the finished goods warehouse is almost closed. The building permit for the mixing building has been received and construction of foundations and the frame is ongoing right now. We have also active recruitment schedule, and our anticipation is that we will hire up to 350 employees in 2024. They will join the launch team coming from our Nokian factory in Romania. Together with the Nokian and launch team, the new recruitments will be trained and will be starting the machines and make the ramp-up of the machines in late '24 towards the beginning of commercial production in '25. Production ramp-up plans are being prepared as we speak. I'll move to page five. You'll see some pictures of the completion at this moment. On the top left-hand side, you see the production building and also the annex of offices.

00:05:14 - 00:06:26
Jukka: Then in that right-hand corner of the smaller picture, you see the warehouse. The warehouse being constructed, almost complete in the roofing area. Below on the left-hand side, you see the mixing department, mixing building, and first steps. On the right-hand side, you'll see an interior picture of the production building. Then I'll move to page six, and just to reflect the operating performance of the company in quarter four. Net sales were €368 million versus 362 in 2022 in this quarter four. This means 6.3 percent growth in comparable currencies. In reported currencies, you'll see that the growth is 1.7 percent, but in comparable currency, it's 6.3 percent. Segment's EBITDA at 71.9 million versus 26.4 in 2022. That represents 19.5 percent margin in this year in '23.

00:06:26 - 00:07:46
Jukka: That is a clear improvement over 7.3 percent that was achieved in prior year. Segment operating profit at 44.5 million versus 0.2 in 32. Clear profitability in the segment operating profit. That was driven predominantly by passenger car tires. However, in the final quarter, also heavy tires as well as we are now reporting higher segment operating profit compared to 22 numbers. I'll move to page seven to reflect the full year 2023. Performance was in line with the plans. Net sales at €1.174 million versus 1.35 billion. It's about -9 percent development in comparable currencies. Demanding market environment and dealers focusing on inventory reductions to lower demand. We also had a 52 million negative impact from currencies. On the other hand, on the positive side, we had market share gains in premium. Segment operating profit in the year was 65.1 million versus 17.8 in '22 full year.

00:07:46 - 00:08:59
Jukka: Price increases were implemented to combat cost inflation leading to higher average selling price. In the comparison period, logistic cost is quite high because we had extraordinary measures to secure buyer supply. We also had a pretty high cost in place in late '22. At the meeting today, the board decided to propose a dividend payment of $0.55 per share. That will be paid in two installments during the course of '24. This is, of course, a proposal to the AGM. I'll move to page eight. These have a strong balance of the '23. Equity ratio at 58 percent versus 65 at the end of '22 and year-end at 16.6 percent versus 9.8 in '22. Interest-bearing net debt at 224 million versus 141 million a year ago. Indeed, the difference in the interest-bearing net debt was mostly driven by the higher capital expenditure that we did in '23.

00:08:59 - 00:10:15
Jukka: This was in line with our plans because we are building the factory in Romania, as well as completing the investment steps in Dayton to have a full production capability in Dayton. Cash flows from operating activities in the full year 82 million and in the quarter about 298 million. Other highlights of the quarter are mostly discussed. The full-year EBITDA is 14.5 percent versus 8.8. In '22, and the full-year segment operating profit 5.5 percent versus 1.3 in 2022. Those are the highlights from the strong balance sheet. I also want to take the opportunity to talk about the steps in sustainability. We are constructing the first zero CO2 emissions by a factor in Romania that started in the year. We also had a target to reduce our factory CO2 emissions by 52 percent from 2015 base year until 2030. However, this target was already achieved in 2023.

00:10:15 - 00:11:02
Jukka: Factory CO2 emissions are at industry leading level. We joined the Polestar 0 in a project that aims to create a climate-neutral car by 2030 that was announced during the year. Finally, also important to mention that, again, we were included in the Dow Jones Sustainability Europe Index, being among the most sustainable listed companies in Europe or highly scored in the automotive segment in all industries. With those, I hand over to Niko to talk about the financial performance of the segments and other highlights of financial performance. Niko, please go ahead.

00:11:02 - 00:12:44
Niko: Thank you, Jukka. As you said, I'll go a bit more in detail in our segments and Q4 specifically. In the passenger car tires, we had a clear profitability improvement. It came both from the higher volumes and lower costs. The Q4 net sales were 198 million compared to €286 million last '22. In comparable currencies, that's an increase of 10.6 percent. Also, the segment's operating profit in Q4 was a clear improvement there with the €22 million level compared to the previous year, i.e. Q4 '22, -€27 million. The operating profit was at the level of 11.1 percent. Full-year numbers you see there, you comment them through as well. In terms of the segment's operating profit in the PCT, we were at the level of 5.6 percent. On the following couple of slides I have from Fritz's, page 11, I think we can say here that in Q4, the quantum price and mix were neutral. The sales volume was up by 11.3 percent.

00:12:44 - 00:14:12
Niko: Then the currency was still negative in our figures with an amount of 4.5 percent. Below that, there is this segment operating profit bridge. There you can see the same items, i.e. the sales volume of material expenses were down. Also, we had much lower supply chain and logistics costs there, namely the warehousing, and the logistics. Then also GG&A was better compared to '22 Q4. Then we landed at the level of €22 million in terms of the PCT segment's operating profit. On slide 12, there is quarterly changes in our net sales. There you can see that in terms of sales within increasing quarter by quarter when it comes to the volumes and in terms of price and mix, we said that last year average sales prices increased strongly throughout the year. Now it's flattening in Q4.

00:14:14 - 00:15:48
Niko: Then the currency has been for the past three quarters, including this Q4 last year at failry stable -4 percent level. Slide 13, you have heavy tires. I think as we say there, it was a really, really solid performance in terms of Q4. We did adapt our production during the Christmas breaks. That is to reflect the lower demand in the market segments. Net sales were 62 million compared to 65 million in '22 Q4. In comparable currencies, they were slightly below that of '22, i.e. with 2.6 percent. Operating profit, €7.3 million and operating profit, 11.8 percent. I think there is also room to improve in this segment going forward. Then finally, the last of our segments is to the owner. It improved its profitability. It had been from the currencies. All in all, I think it was an okay performance and in a low-margin business.

00:15:48 - 00:17:27
Niko: I think as you look at the numbers in segment operating profit, 9.6 percent for Q4 '23 is a good achievement as such. All in all, the full-year operating profit was a positive of €3.4 million, roughly on the same level as '22. Then I have guidance and the kind of assumptions behind that. In 2024, Nokian Tyres' net sales with comparable currencies and segment's operating profit are expected to grow significantly compared to the previous year. There you can see what is driving our guidance and the assumptions. We see that or expect that the selling replacement market is growing this year in '24. However, the weak development in our economic development in our mere markets is expected to continue, which together with the lower consumer confidence, may have a negative impact on tire demand as thoughts. OEM demand for heavy tires may decrease due to the high-interest rates, which have a negative impact on machinery investments.

00:17:28 - 00:18:32
Niko: Then finally, after peaking in early '23, the raw material costs are expected to moderate during this year in '24. Our long-term financial targets are kept as they've been, i.e. the growth. We're targeting two billion net sales. In terms of profitability segment's EBITDA at around 25 percent and segment's operating profit at the level of 15 percent. Then in terms of our capital structure, net debt to segment EBITDA between one and two. There we are at the level of 1.3 at the year's end. The dividend policy is there to divide at least 50 percent of the net earnings. With that, back to you.

00:18:33 - 00:19:45
Jukka: Thank you, Niko. Just to recap, we have key fundamentals for growth. We have a clear strategy for what we need to do. Obviously, we are in the implementation phase of the new capacity of products. Given that our top line is 1.17 billion in 2023 based on this two billion. We need to and want to drive the top line. The margin improvement is coming from the fact that the sales volume will increase and average sales price remain at a good level. Strong, deep theme is also important and instrumental in implementing strategic actions. Building the capacity and bringing that successfully to the marketplace. It's also clear that the environment over time, if you look into the past, has changed quite dramatically in the past years. We expect that the changes and all kinds of economic dislocations or disruptions, if you want may happen.

00:19:45 - 00:20:40
Jukka: Therefore, it's important we have an agile and resilient team that can work in the changing environment. The most important thing is that we continue to work together to build the new Nokian Tyres, and that is our commitment. Move page 19 just to remind you that we have a journey that consists of two things. One is the investment phase and the other one is the growth phase. In the investment phase, which we expect to last from '23 to '25, we now spent year '23 and we are very much on track. In terms of building the capacity and capability in Romania, completing the investments in Dayton, and then we already have increased capacity in BCT Finland and all those are happening, as well as the growing contract manufacturing that can help us to improve the net sales and top line.

00:20:41 - 00:21:45
Jukka: We still have two more years to go in the investment phase. Very much by the end of this year, we will have the Romanian factory ready and then we start the commercial production in the final year of the investment phase of 25, and then ramp it up so that we move into the growth phase in '26 and '27. The ultimate target is to have an excess of €2 billion. In heavy tires, we have the expectation that the sales will continue above the market level growth in years to come in order to deliver what we have been delivering in the past six years. [inaudible 00:21:17-00:21:18] will help us to have distribution excellence in the Nordics. This is very much a journey. We've not taken one year and we've delivered more or less as we expected by the end of the year. We will then continue with the good exit momentum from '23 into '24. With these words, I complete our prepared notes, and then I hand over back to Päivi. Päivi, please go ahead.

00:21:45 - 00:22:34
Päivi: Thank you, Jukka. Thank you. Niko. Now we would be ready for questions from the audience. In the Q&A, we will focus on the company results for the quarter and for the full year. We will not make any remarks concerning the European Commission's ongoing antitrust inspections in tire companies, which were initiated last week. Nokian Tyres does not have information on the outcome of the inspection and we cannot comment on the ongoing investigation. Nokian Tyres is fully cooperating with the authorities. In the Q&A, we are only talking about the fourth quarter and about 2023. With these words, let's take the first question from the line.

00:22:40 - 00:23:03
Jukka: 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. The next question comes from Michael Jaques from BofA Securities. Please go ahead.

00:23:04 - 00:23:55
Michael: Hi, good afternoon. Thanks for taking my questions. My first one is just with regards to your expectations around product mix in 2024, between winter, summer, and all-season tires. We saw a strong recovery in winter contribution to around 63 percent. Is that representative of what we should expect for 24 as well? Secondly, thank you for your guide on raw material tailwinds, but what are your expectations for the other cost buckets such as transport, energy, and labor? Then perhaps added to that, I assume that you're going to say these are inflationary. If that's the case, do you potentially have any price mix offsets in mind for 2024 to help cover this? Then one final question, if I may, could you please give us an update on toll production in terms of what the contribution was in Q4 and what we should expect for '24? Thank you.

00:23:58 - 00:24:58
Jukka: About the product mix, let's start with that one. Thank you for the question by the way. The product mix of course in '23 was quite skewed to winter tires for the simple reason, we started the year without the summer tires. We didn't have the ability to produce a lot of summer tires because we lost the capacity in late or say, after the summer of '22, and we didn't have a ability to make some tires. Therefore, what you can expect in '24 product mix is that we have a growing number of winter tires, but we have even bigger number of summer tires and all season, so that the mix will be more all season, more summer tires, and less winter tires. Overall, of course, the absolute number of tires will go up in all these categories. That's what you can expect.

00:25:00 - 00:26:15
Jukka: In terms of raw materials, I said that we think that they are moderating, i.e. that at beginning of '23 it was a peak there. Now we see that they're going even a bit down. I think that that will of course help us. In terms of transport, energy and labor, of course, those are inflate data. We feel that it's not an issue at this point but we need to monitor it closely that how it will be in our prices going forward. Then it comes to offtake products that are a contribution to our top line. Clearly, the final quarter, what you see in the Central European sales are mostly based on offtake products and then some complementary products in the Nordics area to complement our premium winter tires also offtake. Clearly, more to come of the product's contribution in the course of 2024.

00:26:17 - 00:26:19
Michael: Great. Thank you for the information.

00:26:31 - 00:26:37
Moderator: The next question comes from Thomas Besson from [inaudible 00:26:34]. Please go ahead.

00:26:38 - 00:27:15
Thomas: Thank you. Hi. [inaudible 00:26:38- 00:26:49]. I have a few questions that, if possible, I'd like to ask one by one. I'd like to just follow up on Michael's questions. On contract manufacturing, is it possible to have a figure in terms of units that were effectively contributing to year '23 volumes and what you're planning for 2024? Was it a few hundred thousand units? Do you expect two, three, or four million in '24? That's the first question.

00:27:17 - 00:27:36
Jukka: You can expect that the contract manufacturing is somewhere around three million units in '24 or we are aiming towards that number. Then in '23, slightly shy of three million. One million was the contract manufacturing contribution in '23.

00:27:38 - 00:27:50
Thomas: Thank you. Can I ask another very simple question? Could you give us some indications in '24 on the trends for CapEx, tax, and interests, please?

00:27:54 - 00:28:29
Jukka: CapEx, we expect that the major CapEx will go to Romanian factory build. We expect that capital outlay full year is somewhere in the range of 330 to €360 million for the year. Most of that goes to Romanian factory build. Then tax on the interest, Thomas.

00:28:29 - 00:29:00
Niko: The interests are at a similar level or the financial items at the similar level that they were on 23, I think more or less debt would be had there at the year-end will be similar, in terms of maturity and at the level. In terms of taxes, it will be around similar type of tax rates that we have had in previous years.

00:29:02 - 00:29:21
Thomas: Thank you. Looking at your debt maturities, you have a relatively heavy concentration in the very short term. Could you talk about your plans in terms of refinancing and explain why the net interest isn't expected to increase?

00:29:23 - 00:30:16
Jukka: I think that the debt maturity as such reflects the situation the company was back in '22 when the Russian invasion of Ukraine happened and we were in a place that we needed to arrange the financing very fairly quickly. I think that's a reflection of that, that there is quite a lot of one would call type of short-term financing. We have plans to more kind of longer-term in terms of debt maturing going forward. We do see that the interest rates and the yields are going down as we speak compared to last year and the situation that the company was in.

00:30:19 - 00:30:39
Thomas: Understood. Can I ask you to make a few comments about what your view is or the visibility here is on the EBITDA business? There were some decelerations in the summer and on Christmas. What do you anticipate for '24 overall directionally for volumes?

00:30:41 - 00:31:38
Jukka: In '23, we clearly saw that the inventory pipeline was quite full. Therefore, the summer shot was extended because we wanted to take down the inventory in our own system, but also reflect that the aftermarket demand was quite low in the early part of '23. OE demand, actually, in the early part of '23 continued quite strong. Now, these have been reversed since we have come from the summer towards the year-end, and starting this year that the OE outlook is softer because the heavy equipment investments based on the higher interest rates and so on are a little bit weaker and softer. Therefore, the OE demand is a little bit softer in '24 thus 23c, while the aftermarket, we see that the inventory pipeline is normalized. Therefore, we expect a normalized demand.

00:31:38 - 00:32:23
Jukka: In terms of our manufacturing as we've taken two extended shots in the summer and then one in the Christmas time so we can run hard until the summer of '24. Now, what happens in Finland? I don't know if you are aware of the particular Finland situation that there are strikes in Finland right now. And so, those are hitting industrial companies, including ourselves. And, for example, in the month of February, we are losing five production days because of the strikes. And those obviously are not needed at this point because we would love to run the manufacturing harder. This is, of course, an unfortunate situation, but it is what it is.

00:32:25 - 00:32:53
Thomas: Understood that. I have one last question, if I may. Could you comment on your level of inventories at the end of 2023? I think it will be high at the end of 2022, but also at the end comment on the level of dealer inventories at the end of '23. Do you expect your production and demand to be aligned or some potential restocking or do you still see some further destocking?

00:32:56 - 00:33:41
Jukka: In terms of inventories, I think at the end of last year in 2023, they were on the high side to the offtake tires that we had to warehouse, to prepare us for the seasons now in '24. Let's see what happens with the destocking but that is our understanding that the sell-out from the dealers will increase and i.e. to selling to

therapy will be better than it was in '23. The raw materials are at a relatively good level. They are on a safe level, so to say.

00:33:43 - 00:33:45
Thomas: Understood. Thank you very much. That's it for me.

00:33:54 - 00:34:00
Moderator: The next question comes from Artem Beleskey from Seb. Please go ahead.

00:34:02 - 00:34:36
Artem: Hi. Thank you for taking my questions. I actually have two to be asked. The first one is relating to ramp-up costs. What is your outlook for this year? I think in Q4, the number was some €11 million relating predominantly to the US. Then just looking at your guidance, so as you are talking about significant growth to what comes to sales and also segment operating profit, should we also implicitly naturally expect that, uh, profitability will be improving this year compared to last year?

00:34:41 - 00:35:06
Niko: I'll start with the significant growth. You ask that the absolute numbers, we expect significant growth and we expect also that the profitability margins are improving. We expect that we target that the margins would improve. Then the ramp up [inaudible 00:35:05].

00:35:06 - 00:35:24
Jukka: The ramp-up expenses, we had some idea of thinking that they would be at the level of some 20 million in Romania and the US. That is our best estimate at the moment.

00:35:28 - 00:35:42
Artem: Maybe just a follow-up on that one, is it basically 20 million for Romania and 20 million for the US? If it's so, uh, when do you anticipate US-related ramp-up costs to go to zero?

00:35:43 - 00:35:54
Niko: Our anticipation is that they will end by the end of H1. In H2, there should not be such expenses anymore.

00:35:55 - 00:35:57
Artem: This is very clear. Thank you.

00:36:06 - 00:36:12
Moderator: The next question comes from Burnt Anne Ruth from Barry Stains, Linoleum. Please go ahead.

00:36:17 - 00:36:48
Burnt: Yes. Thank you very much for the interesting presentation. My questions circulates a little bit around US factory in Dayton. You mentioned a lot. We got a lot of information about the Romanian factory. What is the current status of the factory in the US? How near completion is it and what is the production level and stock level, etc.? Thank you.

00:36:50 - 00:37:09
Jukka: Thank you for the question. I think that we will not talk about the production level or stock level. I can say that the investments are essential in the final stages. As Niko was saying, that we expect that the exclusions will end in H1, which means that [inaudible 00:37:07] production in H2.

00:37:13 - 00:37:14
Burnt: Thank you.

00:37:22 - 00:37:40
Moderator: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. The next question comes from Thomas Besson from [inaudible 00:37:37]. Please go ahead.

00:37:43 - 00:38:18
Thomas: Thank you. It's Thomas again. I'm surprised I'm already back, but I just wanted to understand how your guidance compares with pre-release consensus expectations. You say you expect significant increase in

revenues and margins to improve. Do you feel your overall consensus data to be at an appropriate level, excessive level? What kind of visibility do you have and what would you comment on these figures, please?

00:38:21 - 00:38:50
Jukka: Essentially, the guidance is that we make progress year on year towards our targets. Obviously, the continuous improvement from '23 into '24 and '25 will continue. I cannot be more specific at this point of time. Obviously, when we go into the year, we see quarter by quarter how the results will improve. Then we give more precise guidance as the year continues. At this point in time, this is where we are in terms of overall guidance.

00:38:51 - 00:38:52
Thomas: Understood. Thank you.

00:38:58 - 00:39:03
Moderator: The next question comes from Mika from Hamaki. Please go ahead.

00:39:08 - 00:39:22
Mika: [inaudible 00:39-07-39:08] markets. Previously you had said that you had an application for an investment subsidy and are now currently under EU review. What's the status with that, please?

00:39:26 - 00:39:44
Niko: Nothing has changed, in that, we will have the application for that subsidy. It's a Romanian government subsidy which EU needs to approve, but nothing that we know of has affected that process as such.

00:39:58 - 00:40:03
Moderator: The next question comes from Rowley Jeeva from India's. Please go ahead.

00:40:06 - 00:40:35
Rowley: Hi. Rowley from India's here. You mentioned the product mix will be back more towards summer analysis this year, but can you give an idea of the seasonality between the quarters? Will we be basically back in the similar kind of seasonality we saw? Pre-COVID years, for example, or is it still more weighted towards the end of the year and the winter tire sales?

00:40:38 - 00:41:42
Jukka: Still skewed towards the end of the year more because our own capacity is still this year in the early part, heavily dependent on Nokian. Therefore, the entire production will be important for us. Obviously, at the same time in Dayton is ramping up and achieving its full-- We will have more all season as the American production as mostly all season. Some of those are all better and similar closer to the input, but basically practically all season. Therefore you can expect that the seasonality is still not the same as it used to be. It's more somewhere between what we had in '23 and something what we had in 21. So we are moving towards that old seasonality. Today we still have a very much extraordinary, which is related to the fact that the capacity that we have available is mostly in winter, but not so strongly as in '23 when we actually lacked the summer tires in Central Europe.

00:41:43 - 00:41:45
Rowley: That's right. Clear. Thank you.

00:42:12 - 00:42:18
Moderator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

00:42:21 - 00:42:29
Päivi: If there are no additional questions, it's time to finish the call. Thank you all for participating and have a good day. Thank you.

00:42:30 - 00:42:30
Jukka: Thank you.

00:42:30 - 00:42:31
Niko: Thank you. Have a good day.