



**Transcription**

# **Nokian Renkaat Q3 / 2021 Interim Report**

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## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

# PRESENTATION

## Operator

Welcome to the Nokian Renkaat Q3 2021 Interim Report. Throughout the call, all participants will be in listen-only mode, so there's no need to mute your individual lines. Afterwards, there'll be a question-and-answer session. Just to remind you, this conference is being recorded.

Today, I am pleased to present Päivi Antola. Please go ahead with your meeting.

## Päivi Antola

Good afternoon from Helsinki, and welcome to Nokian Tyres' Q3 Results Conference Call. My name is Päivi Antola, and I'm the Head of Investor Relations in Nokian Tyres. And together with me in this call I have Jukka Moisio, the President and CEO of the company; and Teemu Kangas-Kärki, the CFO of Nokian Tyres. As usual, we will start the call with Jukka and Teemu going through the Q3 results, and then that will be followed by a Q&A.

So Jukka, please go ahead.

## Jukka Moisio

Thank you, Päivi. Good afternoon, and welcome on my behalf as well. I'll start going through the prepared notes, a PowerPoint presentation and, as on the cover mentioned, we had a strong volume and profit growth in the third quarter.

But before going into financial details of the quarter, just remind you that we announced our revised growth strategy in September in our Capital Markets Day. Some of the highlights of that strategies that we have an ambition to become a 2-billion-euro company mid-term. Mid-term meaning three to five years. And that will happen by growing Heavy Tyres by 50% from twelve month rolling basis ending June 2021, also growing in North America by 100%, Central Europe by 50%, maintaining and strengthening the number one position in Russia and also strengthening number one position in Nordics and Vianor.

Our financial key targets are 20% operating profit and 20% return on capital employed. So those are the highlights of our mid-term targets, which we announced as mentioned in the middle of September.

If I go to page five, which is our Q3 highlights. Net sales at 443 million euro, up from 350 million euro or approximately 25% with comparable currencies. All-time high third quarter, both in the passenger car tyres, as well as in heavy tyres. And we had strong demand for our products in all markets. Operating profit increased from 69 million euro to 97 million euro in the quarter and that was driven especially by increased sales volume. We also made price increases to combat inflation that led to higher ASP. We also continued prudent cost control, especially to ensure that the cost inflation is also controlled internally.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

If I move to page six, and I call out some key numbers in our P&L. First of all, the segment operating profit percentage is 21.8% in the quarter compared to 19.8% one year ago. Year-to-date our segment operating profit is at 19.7% in 2021 versus 12.2% in 2020.

Cash flow in the quarter -81 million euro, this was driven by increased working capital, both inventories and also receivables, and on the other hand, we also had increased payables, which helped with the cash flow. Capital expenditure remains below 2020 level. Also in year-to-date, we have invested in year-to-date about 60 million euro versus 119 million euro a year ago. Equity ratio at the end of the quarter at 66% versus 57%, and gearing at 16% versus 18% a year ago.

Those are some of the financial highlights. And now, I hand over to Teemu to talk about passenger car tyres and financial details. Teemu, please go ahead.

### Teemu Kangas-Kärki

Thank you, Jukka. Starting with the passenger car tyres, we had strong volume growth in all markets, especially in Russia, that is visible in our numbers. The growth rate for the third quarter was close to 30% and in absolute terms, net sales reached the level of 330 million euro. The segment operating profit for the passenger car tyres in the third quarter was on the level of 97 million euro plus.

We have been increasing the additional shifts in US and in Finnish factories in order to match that growing demand. All in all, if we move to the next page where we see the breakdown of our net sales, you can see that in the third quarter, our price mix was positive about 1.4%, of which the price component was clearly above 6%. So here you can see that we have been increasing prices as anticipated.

Then moving to the breakdown of our segment operating profit. Here, volume is the biggest driver to boost the profit, and as discussed earlier several times, we have a significant headwind coming from the materials and then when the factories are running with full capacity, we can see that positive development in the supply chain basket.

The net – we are on a level 97 million euro and in this quarter currency didn't play any significant role. In terms of net ASP, we can see that our price increases have offset negative BA [ph 00:07:15] mix impact when that share of the Russian business is growing stronger than in other markets.

If we then move to Heavy Tyres, there we can see the all-time high third quarter net sales and operating profit with comparable currencies, the growth rate was on a level of 36%, net sales on a level of 69 million euro and segment operating profit for the quarter close to 12 million euro. And the growth was driven by new product launches as we have been discussing earlier that we have a strong NPV pipeline coming and that is affecting positively to our top line and customers' strong production levels as the early timing of deliveries help to reach the top line. In terms of inventories, we can clearly see that those are on a low level, as also in the passenger car tyre business.

And then moving to Vianor. There the performance has been on a good level in all countries. The net sales growth was on a level of 4% in reported numbers, in absolute terms on a level of 70 million euro, and then the segment operating loss was around 4 million euro. And as we all remember, Vianor's two main seasons are Q2 and Q4, and therefore we are now in the middle of the main season in order to generate the profits.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

And maybe as a final comment of the Q3 and the second half, we clearly saw that Q3 was stronger than we anticipated, because of the lack of tyres, but in terms of our view on the second half, there hasn't been any significant changes as we see that today.

### Jukka Moisio

Thank you, Teemu. And I continue with the presentation. So first of all, to revisit our Hakkapeliitta 10, which is our major launch this autumn, again, it's a four-time test winner in Finland, Sweden, Russia and it comes with 140 different SKUs and is a really good winter tyre.

On the next page, on 12, Hakkapeliitta 10 EV which is a tailored model for electric vehicles and hybrids. There are certain expectations or parameters in EV version that are important. First of all, the EV vehicles are heavier, so therefore there is a higher load capacity in the tyre, as well as the higher torque in EVs, and therefore, it needs to have a higher grip or higher torque. It's made from sustainable materials. So this is in line with our sustainability targets, and we include more and more renewable and recyclable material in our tyres. Hakkapeliitta 10 EV also comes with lower noise and that allows higher driving comfort for EVs and hybrids. And finally, what is important for the improved battery range and sustainability matter as well, there is ultra-low rolling resistance in this winter tyre. So this is our highlight and our key product in the season.

On page 13, just to recap that sustainability is important, firmly rooted in all what we do, including our mid-term financial targets, non-financial targets. We had also introduced those in September. So, we want to bring new environmental and safety innovations to our products. Our ambition is to have 50% of the tyre made from renewable or recyclable materials. We also aim to reduce our CO2 emissions, in line with the Science Based Targets which were approved in 2020.

We further want to improve our workplace safety and we keep on monitoring and improving the monitoring of the sustainability of our suppliers. We have published our sustainable natural rubber policy in September. Also, we announced that we've made a ten-year agreement to have renewable wind energy for electricity in the Finnish factory in Vianor and also in June we announced that we will start a solar power plant on top of our Finnish logistics centre in Nokia.

Our guidance on page fourteen is unchanged. We expect that in comparable currencies the segment's operating profit and net sales are expected to grow significantly. And recapping our prepared notes with our revised growth strategy, we have been ambitiously forward [ph 00:12:54]. We aim to be a 2-billion-euro company in mid-term, and growing in heavy tyres by 50% from rolling twelve months ending June 2021, growing North America by 100%, Central Europe by 50% and strengthening number one position in Russia and also strengthening number one position in Nordics and Vianor.

And our 12 month rolling sales, at the end of June 2021 we were 1.52 billion euro and now at the end of September our 12 month rolling sales are 1.615 billion euro, which is all-time high rolling 12 month revenue of the company.

With that, I end my prepared notes and I open for questions. Päivi, please go ahead.



## **Nokian Renkaat Q3 / 2021 Interim Report**

{EV00128297} - {00:39:02}

### **Päivi Antola**

Thank you, Jukka. Thank you, Teemu. And now, Operator, as Jukka said, we would be ready for the questions from the audience, please.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

# PRESENTATION

## Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name is announced, you may ask your question. If you find it's answered before it's your turn to speak, you can dial 02 to cancel.

And our first question comes from the line of Akshat Kacker of JP Morgan. Please go ahead, your line is open.

## Akshat Kacker

Thank you. Akshat from JP Morgan. Three, from my side, please. The first one on pricing. Obviously, it was a very strong quarter with a 6.6% increase. I think somewhat offset by the Russian mix, but it will be really helpful if you could give us a broad summary of the price actions that you've taken in your key markets. Just trying to understand if there are more price increases with the new product range that will come through in Q4 helping price mix into year-end. And if you still think that pricing can offset the different cost inflation headwinds that you will see across 2021 and 2022. That's the first one, please.

## Teemu Kangas-Kärki

So if I start with the comment that we have made several times in our earlier calls that we anticipate to offset the cost inflation with our price increases in all markets. And we are looking carefully where the raw material development is going and in line with our view, we will then further implement price increases as we go further. And regarding the price increases in different markets, they vary, so there are no one-fits-all solution for different markets.

## Päivi Antola

And Jukka, can you comment something about the new products and their impact on prices?

## Jukka Moisio

Yes, new products are, of course, an important driver and they allow us to have new price points. And so therefore, obviously, they have a big major contribution going forward and allowing us to improve the mix. And so therefore, for example, Hakkapeliittain 10 in various markets, and EV version, for example, commands a price premium versus the normal offering. And we hope to continue that by launching as part of our strategy by launching new products continuously. We've had a record number of new products launched in the past couple of years and we aim to continue that.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Akshat Kacker

Understood. Talking about mix, I want to go back to one of Teemu's slides from the CMD on category margin where you showed that all season tyre margins are lower than summer tyres. Can you tell us what actions are you taking there? And by when do you expect to improve the margin profile of that business, at least above the summer tyre business?

### Teemu Kangas-Kärki

As you stated, it has been visible in our communication already for a long time that the product mix has some negative headwind in terms of net ASP or the profitability development. Having said that, what we also been now working to improve the mix, or the profitability impact is the rim size development. And that is one example of the actions to mitigate the headwind coming from the product mix development in the coming quarters and years to come.

### Akshat Kacker

Understood. The last one is on passenger car production capacity in Dayton and Finland please. Can you talk about the current annualised production run rate as of today? And when do you plan to hit the Q2 million level at Dayton and the 5 million in Finland on an annual basis?

### Jukka Moisio

Yes, we said it as part of our Capital Markets Day that the ambition is that we go towards 5 million in Finland, so that's the capacity that is available and also that we've authorised the investments and steps to go all the way to 4 million in Dayton and pretty much making the progress as anticipated, so that we expect that in midterm we will hit those numbers. And look at the end the quarter, we are basically on track to make that progress.

### Akshat Kacker

Thank you.

### Operator

Thank you. Our next question comes from the line of Thomas Besson of Kepler Cheuvreux. Please go ahead, your line is open.

### Thomas Besson

Thank you very much. It's Thomas Besson from Kepler Cheuvreux. I have few questions as well, please. Firstly, could you talk about the development in Russia in terms of both demand and the level of dealer inventories. I mean, it's been the



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

main driver of your revenue bit in the quarter. Clearly currencies and oil prices suggest an improvement there. But could you discuss whether you effectively expect a substantial improvement in market conditions in Russia in Q4 in 2022 or whether it's still too early to talk about that now? That's the first question.

### Jukka Moisio

Okay. So thank you for the question related to Russia. First of all, as we ended last year, all the inventories were normalised level. And so therefore, this year the selling has been different compared to 2020 and driven by of course the demand in Russia. What we see is that the demand is essentially growing, but our selling has been growing faster for the reason that surely certain product allocations by competition has not taken place, so therefore there is higher demand for tyres for those suppliers who are operating allocating capacity in Russia. Inventory levels at this point of time are relatively normalised, so we don't see any extra inventory anywhere. Obviously, it's subject to the winter season which has started in parts of Russia, continues right now, and then we will see how the season will end up when we go into full November and early December, but our anticipation is that the inventories are at a normalised level in Russia.

And so, therefore, when we go into 2022, we don't see any overhang of excess inventory. And on the other hand, there's no significant upside potential in the retail pipeline in Russia, so we see quite a normalised situation right now. Teemu, if you talk about the currencies and—

### Teemu Kangas-Kärki

In terms of the Russian rouble, if we compare that to Q3 this year and last year, they are roughly on the same level. What is different within the quarter was that, last year in the beginning of third quarter it started to depreciate, this year this quarter it has started to appreciate. So currently the Russian rouble is around 82 against euro when for the quarter it is somewhere around 86/87. So now, knocking on wood, hopefully, the Russian rouble stays on this level or strengthens, let's see.

### Thomas Besson

Thank you. When I look at your mix – I mean, the summer all season shares have been higher, the winter lower. The weather is still mild this year, do you expect the full year or the full year mix to get closer to the previous years? Or do you believe that we're going to see a further revision of the winter share?

### Jukka Moisio

I think that what you will see is that absolute number of winter tyres and so on will remain at good level and even grow. However, it's clear that the all season is growing in Europe and also in North America for us so that all season share will be growing in our total mix. And in the summer, this year particularly, summer was quite strong in early part of the year and then when we go into 2022 we'll then see how this turns out. But obviously, the absolute number of winter tyres is an important driver for us and that will be growing. But all season is very, very strong, of course.





## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Thomas Besson

Thank you. Last question, could you give us some qualitative comments on the evolution of profitability by region? I know, you don't disclose that, but just as an indication, whether you are happy with the development notably in the Russian and North American business. And you talked about a substantial mix situation, but with the market environment normalising, currencies improving, Russia contribution should improve as well, and I assume that the North American business is very much supported by an unusually strong pricing environment. Is that fair?

### Teemu Kangas-Kärki

So as a qualitative comment, naturally which is visible in our numbers that all business areas are improving, their profit and profitability, and if you look at geographical net sales development, Russia being the main driver, of course, then the impact is also very significant.

### Thomas Besson

Okay. Any comment on the North American margin development?

### Jukka Moisio

As I said, all business areas are developing to the right direction comparing last year.

### Thomas Besson

Okay. Thank you very much.

### Operator

Thank you. Our next question comes from the line of Michael Jacks at Bank of America. Please go ahead, your line is open.

### Michael Jacks

Hi, good afternoon. Thanks for taking my questions. My first one relates to the early deliveries. Are you perhaps able to quantify the impact of this in Q3 revenues? And should there be any reversal in Q4?



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Jukka Moisio

It's difficult to quantify the impact, but essentially what we saw is – if I qualitatively describe what we saw – is that certain markets there was worry with the distributors, that is, are there enough tyres in the markets? So they actually called in deliveries early in order to ensure that they have products for the winter season and that is the driver. Will there be any reversal? We don't think so. But as Teemu was saying that our expectation for the second half is pretty much unchanged, so that the early delivery is obviously something that we have in the quarter three, but for half year we expect a similar trading as we had when we went into the second half in August.

### Michael Jacks

Clear. Thank you. And then could you please give us a sense for what your exposure is to see freight? And what proportion of the contracts are annually negotiated?

### Jukka Moisio

So, sea freight is especially important for – as we speak – for our North American business. At the moment we ship majority of our tyres to North America. So we can see that there is a headwind in the sea freight. And also, in our materials unit costing in general is impacted by the sea freight as well.

### Michael Jacks

All right. Thanks. And the last question, are you starting to experience any significant wage inflation in your operations? And how is this developing regionally?

### Jukka Moisio

Yes. This is part of the cost inflation environment as we see [? 00:27:03] transportation logistics and also we see that there's growth in the wages and salary costs locally in various markets. And this is also part of our inflation – as we said that the cost inflation will continue, so this is part of our expectation and it's part of our price increase and cost inflation actions that we see what we can do about this cost inflation. Yes, we do see, yes.

### Michael Jacks

Thanks. Maybe just following up on that, sorry. Just trying to get a sense for what the level of incremental inflation is that we should expect. I mean, a lot of the sort of inflation items that we saw in Q3 started to rise towards the end of the quarter and I would imagine that you've got price increases already towards the beginning of the quarter. So trying to get a sense for what proportion of inflation is yet to reflect in the cost base? Maybe perhaps looking into Q4 and Q1 next year?



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Jukka Moisio

Yes, I think that maybe if I respond qualitatively again that we try to ensure that our price increases offset these inflationary environment impacts. And so we act on those accordingly.

### Michael Jacks

All right. Thank you very much.

### Operator

Thank you. Our next question comes from the line of Giulio Pescatore of Exane. Please go ahead, your line is open.

### Giulio Pescatore

Hi thanks taking my question. The first one is on mix, can you help us understand the drivers, so the components of the negative mix headwinds within the product costs and maybe regional costs and all the others. Just maybe trying to understand what was the strongest component and which one will actually reverse in the next quarter?

### Teemu Kangas-Kärki

As we have been discussing also in the previous calls, this year, one of the biggest negative mix components is coming from the business area mix when the Russian share is increasing faster than other markets. And that then implies that net ASP [ph 00:29:23] in euros are below the average. And in this quarter, we were able to offset more than the headwind coming from the negative BA mix.

### Jukka Moisio

Then you saw that – as we discussed earlier in this call that obviously our product mix especially in the early part of the year a bigger part of the summer tyres than we usually have, and also all season growing. However, of course, in quarter three winter tyres were the main deliveries. But overall, in the year, the share of summer and all season will be higher, although the absolute number of winter tyres will also be higher.

### Giulio Pescatore

Okay. Thank you. So biggest impacts on regional mix and product mix. And I guess, there was also some positive impact from the new product launches in winter [ph 00:30:19].



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Jukka Moisio

Indeed. And as we have discussed many times when we launched new products, so that allows for the new product in new price points, but also behind that product and repricing the other product offering so that we have the right kind of price points in various categories. And this is visible now in this year as well.

### Giulio Pescatore

Okay. Thank you. The second question on Russia, I mean, are you worried at all about the COVID situation in the market? Do you foresee the risk of any lockdown or are you seeing any risk of that? And are you taking any preventive actions to potentially offset a lockdown of your factory in St Petersburg?

### Jukka Moisio

Yes. We, of course, follow the COVID situation quite carefully. And so far, our factory has been operating well. We have had cases like everybody probably operating in Russia, but we've been able to take mitigating actions and continue operating with good efficiency. We don't expect that to change significantly, but always, always we are careful, and we take care of the safety of our employees all the time.

### Giulio Pescatore

Thank you. Maybe just one last one on the US ramp-up. I mean, you reiterated the target of 1 million units this year. Is there any scope to do better than that?

### Jukka Moisio

We basically are running towards our 4 million euro target, and we are on track and even when we can achieve higher, so the year is not yet full, so we will see. But clearly, we are making good progress.

### Giulio Pescatore

Okay. Thank you

### Operator

Thank you. Our next question comes from the line of Gabriel Adler at Citi. Please go ahead, your line is open.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Gabriel Adler

Hi. Thank you for taking my questions. I just have two. The first is on the bridge, the supply chain bucket on the bridge. Could you elaborate a little bit on what was driving the strong reversal and the positive impact there? And then my second question is on the guidance, because you maintain this quite vague guidance of significant growth despite only having a few months left in the year now. Would you like to take the opportunity maybe to clarify the guidance at all on the call on this print? Thank you.

### Teemu Kangas-Kärki

I'll start with the supply chain bridge. And there, it's good to remember that last year we had a significant negative impact and now this positive is the reversal of last year negative. So that's in its simplicity the reason. Now the factories are running at full capacity as we speak and therefore it is a positive thing for our profitability compared to last year.

### Jukka Moisio

And to guidance, it's unchanged. We made the guidance in February this year, and we are tracking according to that guidance. So no reason to change.

### Gabriel Adler

Okay. Could I maybe follow-up on the supply chain bucket point? Because I think the negative last year around 9 million. So it will be interesting to understand if there's anything else within that portion of the bridge that you're including, I know you mentioned the cost reduction measures. Maybe you could elaborate on that if that's also included and provide more detail on what the delta is between the 17 this year and the 9 negative last year?

### Jukka Moisio

The main reason for that development year on year is fixed cost structure. And last year, we didn't have the full fixed option because the volumes were on a low level. Now we have the full fixed cost and then they are some other items, but they are not as significant as this [? 00:34:13] difference year over year.

### Gabriel Adler

Okay. Thank you very much.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Operator

Thank you. And our next question comes from the line of Panu Laitinmäki of Danske Bank. Please go ahead, your line is open.

### Panu Laitinmäki

Yes, thank you. I have two questions. Firstly, just coming back to this early deliveries and the outlook for Q4. Just to clarify to understand, you don't expect a reversal in early deliveries, but then it sounds that you are more cautious on Q4. So has your view changed on Q4 than what it was when we last spoke? And then secondly, can you provide a number for the expected inflation on raw material cost and have this view changed from what you do at the time of Q2 report? Thanks.

### Teemu Kangas-Kärki

So if I start with cost inflation of the raw material headwind, it has gradually increased slightly but we are already on a high level as we have been speaking earlier. So there will be a significant headwind in the second half as communicated earlier. But no major change from that significance.

### Jukka Moisio

Following that and talking about the expectations for the second half, when we went into the second half in August, our view from that hasn't changed significantly. Obviously, we're very happy about quarter three volumes and we will see then how the final quarter will turn out to be, but we have no change of expectations.

### Panu Laitinmäki

All right. Thank you.

### Operator

Thank you. And our next comes the line of Pierre Quéméner of Stifel. Please go ahead, your line is open.

### Pierre Quéméner

Sure. Good morning. Sorry, Good afternoon to you. Two questions, I guess. I'll go over what has already been raised. Regarding the raw material price increases, is it still valid that you expect to fully offset the cost fully by the first half of 2022? It will be the first question, please.



## Nokian Renkaat Q3 / 2021 Interim Report

{EV00128297} - {00:39:02}

### Teemu Kangas-Kärki

So, what we have been discussing is that, on a rolling basis we will offset the cost inflation, not giving any specific timeframe.

### Pierre Quéméner

Okay. Thanks. And once again, a follow-up on the volume. I'm not sure I totally remember what you said what were the trends you were expecting for this second half of 2021. But given the staggering volume number in the third quarter, do you in a nut shell expect a positive development on the volume side in the fourth quarter of this year? Thank you.

### Jukka Moisio

So we basically at the time when we talk about the second half we were supplying and running flat out. And I think that essentially our situation in that sense when we have been operating in the second half hasn't changed. So we expected strong volume development and it has materialised partially in Q3 due to early deliveries, but we also expected that good volume development continued in the second half of 2020. But we haven't changed that expectation; the expectation as we had it in August is pretty much the same.

### Pierre Quéméner

Okay. So likely positive if I understand you correctly in the fourth quarter of 2021.

### Jukka Moisio

It can be interpreted that way, yes.

### Pierre Quéméner

Okay. Thank you.

### Operator

Thank you. We currently have no further questions in the queue. So, once again if there are any final questions, please dial 01 on your telephone keypads now.

Okay. As there are no further questions coming through, I'll hand back to our speakers for the closing comments.



## **Nokian Renkaat Q3 / 2021 Interim Report**

{EV00128297} - {00:39:02}

### **Päivi Antola**

Thank you. So if there are no additional questions, it's time to finish this call. Thank you, Jukka, thank you, Teemu, and thank you all for joining and have a good day.

### **Jukka Moisio**

Thank you, Päivi. Thank you, Teemu.

### **Teemu Kangas-Kärki**

Thank you all.