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Q1 2020 Stora Enso Oyj Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's Q1 2020 Stora Enso Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

And I would now like to hand the conference over to your first speaker today, Ms. Ulla Paajanen, Head of Investor Relations. Please go ahead, ma'am.

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### Ulla Paajanen *Stora Enso Oyj - Senior VP & Head of IR*

Thank you. Good afternoon, everyone, and welcome to Stora Enso Q1 Earnings Call. It's a sunny afternoon here in Helsinki. And just to be mindful that we are now in a different geographical locations due to the COVID-19 situation.

And I would like to hand over this call now for our CEO, Annica Bresky, and she is followed by our CFO, Seppo Parvi. And after that, there is a Q&A session open. So Annica, please go ahead.

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### Annica Bresky *Stora Enso Oyj - President & CEO*

Thank you very much, Ulla, and warm welcome to you all during these unexceptional times that we are experiencing.

Looking back at the quarter of Stora Enso, Ulla, and if you can move to Slide #3, please. We can say that what characterized our quarter was that we had a mild winter conditions impacting our harvesting operations in our forests. We had the impact of the Finnish paper union strike affecting our mills in

Finland, and we also saw the uprising of the COVID-19 pandemic starting in China in beginning of January. And considering these circumstances, I have to say that I am satisfied with the performance of our company during this quarter. We delivered a better-than-expected result in the upper end of our guidance range, supported largely by good performance of Packaging Materials and Forest division.

And it seems like ages ago last year and how the market conditions looked back then, very different reality. So of course, comparing with our Q1 in 2019, which was an all-time high record quarter, the relevance and comparison is not really there with this quarter. But still, if we now go through the financials, we can see that our sales decreased by 16% to EUR 2.207 billion. Operational EBIT landed at EUR 180 million. As I said, in the upper end of our guidance range that we had between EUR 90 million and EUR 200 million.

Our profit protection program, which we started in a very proactive mode, is proceeding ahead of plan. And the savings target has now been increased to EUR 350 million from EUR 275 million to be delivered by end of 2021.

Our cash flow from operations amounted to EUR 146 million, and cash flow after investing activities was minus EUR 32 million.

Net debt to operational EBITDA is at 2.3x, above our target of being less than 2x. And keep here in mind that it is affected by 0.6 points from our acquisition of Bergvik forest last year in Sweden.

Operational return on capital employed landed at 6.8%, and this is, of course, far below our strategic target of 13%. Excluding our Forest division, it was 7.6%.

And as you also have seen, our Board of Directors came out with a new dividend proposal of EUR 0.15 per share. And in addition to this dividend, the Board of Director also proposed to be authorized to decide on a maximum of additional EUR 0.35 per share to be distributed in one or several installments at a later stage when it is possible to make a better assessment of the situation regarding both our business and our liquidity.

Ulla, if you can move to the next slide. If we look at the waterfall now, we can see that the major impact on our results comes from decreased sales prices and mix and also, of course, the volume impact from the Finnish strikes. We are actively managing our costs, too, but they can only partly offset this big decrease. We see here that we have a positive impact from lower wood costs and other variable and fixed costs and also that we are delivering EUR 40 million on our profit protection program for the quarter.

Please move to next slide, please. So we are fighting this circumstances around the pandemic by strengthening our resilience. And of course, in order to ensure that we can deliver on our promises to our customers, the health and safety of our employees is a key priority. Thanks to our mills in China, we were very early in proactive measures globally in Stora Enso. We introduced travel bans and reduced

physical meetings. Everyone that can work from home is working from home, contingency plans in all our mills. So in that way, we have really been able so far to minimize the impact on running our operations.

We have secured our ability to serve our customers by being proactive in our logistics and supply chain, and we are practicing active management of cash cost and working capital to secure that we are strong regardless of how long this period lasts.

Our CapEx forecast is reduced to a level of EUR 675 million to EUR 725 million. And part of that is, of course, also postponing the annual maintenance shutdowns that we were supposed to have in quarter 2 to the second half of 2020, except for Heinola Mill.

We have started preparation of temporary layoffs in all countries where we have operations and encompassing both our functions and our businesses. And this is a precautionary action to make sure that we have the flexibility to act if demand changes in the market. And I will come back also how we have worked to secure our liquidity, but we have a strong liquidity position for the company.

And as you all understand, it is difficult to predict demand for the rest of the year. The uncertainties are high due to both the impact of the virus but also, of course, the macroeconomic situation in the world. For our businesses, we see an accelerated structural decline for Paper. A lot of the advertising for -- from retail and also newsprint is moving to digital. The conditions for the rest of our businesses is mixed, depending on end use. We have strong demand for food packaging, for hygiene and tissue and uses for pharma and then more mixed conditions, for instance, for wood products, for pulp, depending on if it's for graphical end uses, the conditions are harder; and if it's for hygiene and tissue and fluff, we have better demand. And Seppo will come back going through each division a little bit later on. And naturally then, our Forest division adapts its operations to match the wood demand from each business area.

We can move to next slide, please. So our profit protection program has delivered ahead of plan. And we, therefore, increased our target to EUR 350 million of continued savings and on top of that, EUR 85 million of onetime savings. For the quarter, we had approximately EUR 40 million in total in Q1.

And as you can see here, last year, we delivered a little bit above EUR 100 million. And this is the level that we will deliver also for this year and for the next close to EUR 140 million. And you can also see here the distribution between the different divisions of the continuous savings.

I'm very happy that we started this program early on. It's divided roughly 60% variable cost savings, and the rest is fixed cost savings. And we have several actions in plan that are all proceeding very, very well. And of course, this builds resilience for us and ensures that we will be stronger when the market turns.

Move to Slide #7, please. It is also important, of course, during uncertainty to have secured a strong liquidity, and we have that, and also good access to funding sources. We have EUR 756 million of cash and cash equivalents at the end of Q1. And above that, we have EUR 600 million committed revolving

credit facility that is fully undrawn. We've also worked with bilateral arrangements signed in early April of additional EUR 400 million, and EUR 900 million of statutory pension premium loans is available. So we are close to EUR 1.8 billion of liquidity, which is a very strong position.

We have limited debt maturities in 2020, and next bond maturity is in September 2021. And there are no financial covenants on Stora Enso Oyj's debt. And as I said before, our net debt to operational EBITDA is a little bit elevated right now, but it comes down to our acquisition of Forest last year.

We can move to next slide, please, Ulla. So some of the key events during Q1, besides what's going on in the world, was, of course, the forming of the new divisions: Packaging Materials, Packaging Solutions and Forest as of 1st of January. The expansion of the corrugated packaging plant in Riga in Latvia was completed, and the ramp-up is proceeding now according to plan.

We also divested Pfarrkirchen sawn construction timber mill, and that was finalized. And of course, we postponed our AGM due to COVID-19, and I'll come back on that in just a few minutes.

So we have, after considering how we will be able to go through with the Annual General Meeting in a safe way as possible, decided to have the next meeting on the 4th of June, awaiting then the Finnish legislation, which will make it possible to vote via proxy. The new dividend proposal is of EUR 0.15 per share. And as I said before, the Board also requests authorization by AGM to decide at its discretion on an additional dividend payment of maximum up to EUR 0.35 per share to be distributed in one or several installments when we can make a more reliable estimates on the impact on pandemic and macroeconomic circumstances on our business and liquidity. And you can see here in the graph how we have, over the years, constantly increased our dividend. And this proposal gives us the flexibility as a company now when times are more uncertain.

So now I hand over to Seppo to take us through the financials in a little bit more detail. Over to you, Seppo.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Thank you, Annica. And I start on Slide #10 on the key figures. And the theme for the quarter was like the title here is focusing on margin and cash flow.

Sales came out for the quarter EUR 2.207 billion that is a reduction of 16.2% year-on-year. Operational EBITDA at 15.2% and operational EBIT margin at 8.1%. Net profit for the period was EUR 149 million compared to EUR 226 million a year ago. Earnings per share, EUR 0.19 a share.

Operational return on capital input was at 6.8%, and excluding Forest assets, it was 7.6%. And cash flow from operations reached EUR 146 million. And net debt to last 12 months' operational EBITDA was EUR 2.3 million, up from EUR 1.6 million, as Annica already mentioned, driven by the Forest asset acquisition in Sweden last year.

Moving to Slide #11 and commenting on the divisions. And I start with Packaging Materials where strong demand continues in liquid, food and pharma. Sales decreased by 8% and was EUR 764 million. That was driven by lower containerboard prices and lower board deliveries in Europe due to the Finnish paper union strike in late January and early February.

Operational EBIT decreased by EUR 3 million and was EUR 95 million. Top line was impacted, and top line impact only partly offset by lower pulp, paper for recycling and fixed costs. And there was no COVID-19 impact on Beihai. Beihai Mill was running quite well and smoothly starting after the Chinese New Year.

We have strong operational performance with several production records during the quarter. Operational return on capital remained quite stable and was 13.4%. And conversion of Oulu Mill to kraftliner production, as announced earlier, is proceeding as planned.

Then moving to Slide #12 and Packaging Solutions where stable demand for e-commerce and food continues. Sales decreased by 17% to EUR 149 million from last year's record high level. COVID-19 impacted China packaging, but they are now in full operation since March. Lower box prices in Europe due to decreased raw material prices had an effect.

Operational EBIT remained stable at EUR 8 million, thanks to improved corrugated margin in Europe. Operational return on capital increased to 14.4% compared to 11.8% a year ago due to lower operating capital and improved EBIT margin.

Then moving to Slide 13 and Biomaterials where mixed demand for different pulp end uses was visible. Inventories during the quarter were slightly down but still above long-term average. Sales decreased by 28% to EUR 286 million from last year's record high level. Significantly lower pulp prices were visible compared to situation a year ago. We had also lower volumes due to the Finnish paper union strike, and weak demand for graphic paper end uses was also visible. But strong demand for tissue, hygiene and packaging end uses supported the business.

Operational EBIT decreased by EUR 110 million and was negative EUR 7 million compared to last year's record high Q1 level. Top line impact was partly offset by lower fixed costs. And operational return on capital was negative 1.1% for the quarter.

Then on Slide 14, we have Wood Products where satisfactory performance was visible during a challenging quarter, and we faced somewhat weakening demand on various markets during the quarter already. Sales decreased by 16% to EUR 338 million. We had lower classic sawn prices and lower deliveries due to the Finnish union strike and lower demand. Operational EBIT decreased by EUR 11 million from last year's record high level and was EUR 18 million for the quarter. Top line impact was partly offset by lower wood and fixed costs. And operational return on capital decreased to 11.4%, mainly due to the lower profitability during the quarter.

Then on Slide 15, we have our new division, Forest division, where we were managing a challenging

business environment. Sales decreased 16% to EUR 542 million. There were quite challenging harvesting conditions due to mild winter during the quarter and clearly lower deliveries due to the Finnish paper union strike. Operational EBIT increased by EUR 11 million and was EUR 44 million. That is thanks to improved profitability from own forest holdings, namely in Sweden. Operational return on capital decreased to 4.3% and compared to 6.6% a year ago due to increased operating capital after the Bergvik Skog restructuring in Sweden.

Then on Slide 16, Paper, where we saw accelerating structural decline in demand. Sales decreased by 22% and was EUR 591 million mainly due to the Finnish strike. And oversupplied paper market was impacted and -- impacted deliveries and prices negative. And Dawang paper mill investment had a slightly negative impact on the sales side as well.

Operational EBIT decreased by EUR 48 million to EUR 21 million, and top line impact was partly offset by lower fiber costs and good fixed cost management in that division. Cash flow after investing activities to sales ratio decreased driven by lower profitability. And as mentioned earlier, we are converting Oulu paper mill to kraftliner mill. And after the conversion, Paper division's share of group sales will be approximately only 20%, and paper capacity will be reduced by about 1.1 million tonnes once we stop the paper production there later this year.

Then I move to Slide 17 where we have a summary of our strategic financial targets. As you see, it's pretty much on red at the moment, and we are working hard to take back to green as we have seen in the past. Net debt-to-equity ratio is below the 60% maximum level, and we are 48%. Also, there was positive development in Packaging Solutions where return on capital improved from 11.8% to 14.4%, and Packaging Materials return on capital remained quite stable.

With that, I hand over back to you, Annica.

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**Annica Bresky Stora Enso Oyj - President & CEO**

Thank you, Seppo. And let's move to Slide #18. Due to the exceptional uncertainty that we see, we have chosen to discontinue our guidance and outlook for the coming quarters and for the full year. We see an exceptional uncertainty in the global economy. And as Seppo also said, the current situation has accelerated the structural decline for paper.

To remember here, though, is that after our Oulu conversion, our share of sales from Paper division will be approximately 22% for the group as a whole. So our transformation from paper products into more growth-driven products has been successful and continues.

So as a company, we continue to put focus on securing strong liquidity and cash flow. We actively manage our cost and working capital to stay resilient and ensure that we have a quick recovery after the pandemic is over and when the cycle in the market turns.

We move to the last slide, Slide #19. So for us, our main focus is strengthening our resilience and making

sure that we have the ability for a quick recovery. We have had a better-than-expected quarter, supported by the Packaging Materials and Forest divisions. We see a mixed demand for our different product areas, depending on end uses. Only minor disturbances on our operations so far. And when we look forward now, we will continue to work with protecting the health of our employees to make sure that we can serve our customers and deliver business continuity to them.

We also believe that it is important that we stay close to our customers by commercializing new products and innovation and bringing them to the market. This is a statement of strength if we can continue doing that. And as always, in a crisis, new innovations often arise.

We focus on what we can impact, staying close to our customers and partners, understanding their circumstances, securing a strong liquidity position and active management of cash flow, working capital, costs and CapEx.

Thank you very much. And now over to you, Ulla.

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**Ulla Paajanen *Stora Enso Oyj - Senior VP & Head of IR***

Thank you, Annica. Operator, we are now ready for the Q&A session. If you could please give the instructions to our audience.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Harri Taittonen.

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**Harri Taittonen *Nordea Markets, Research Division - Senior Director & Sector Coordinator***

Harri Taittonen from Nordea. Maybe if I start with the Packaging Materials with the margin improvement and just if you can give some color on basically what combination of the reasons, how the cost per tonne came down so much. Did you still benefit from lower pulp prices in your profit and loss in Q1 compared to Q4? Was that one of the drivers? And so basically, if you can sort of give me some -- a bit of color on the cost side for that division, please.

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**Ulla Paajanen *Stora Enso Oyj - Senior VP & Head of IR***

Yes. Thank you, Harri. And Annica, please.

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**Annica Bresky *Stora Enso Oyj - President & CEO***

Yes, Harri. The pulp prices are still on a low level. So yes, that was one of the parameters. But I would like to highlight more that we completed liquid negotiations last year. So the liquid prices, the new prices are in, also that the mills were operating really well. We had several records and operational start-up after the Finnish strikes in Finland went quite well. Of course, the division is working hard with the profit protection program as well. So it's a combination of different areas that led to the result.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

And I would add also lower prices for paper for recycling. So recycled paper prices went down.

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes, you're right.

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**Harri Taittonen Nordea Markets, Research Division - Senior Director & Sector Coordinator**

Okay. How about the -- if I look at the consumable side, I think it was the sequential kind of calculated improvement in the average selling price was something like 2.5% in Q1 compared to Q4. I mean is it -- knowing that these are always a bit jumpy numbers and volatile, but does this sort of represent more or less what you have in reality? Kind of on a like-for-like basis, how -- what would be the kind of that improvement in the price/mix roughly? Is it sort of representative of what you have achieved in Q1?

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**Ulla Paajanen Stora Enso Oyj - Senior VP & Head of IR**

Annica, will you take this?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. I think it's roughly in that area. Remember that this is a mix of products on the folding boxboard market and also on liquid -- longer-term liquid contracts. So it is affected by the mix that we are running.

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**Harri Taittonen Nordea Markets, Research Division - Senior Director & Sector Coordinator**

Of course. Yes, yes. And then finally, just the last question on the linerboard side. There's been some indication or some early signals that some prices have been kind of moving up in the trade statistics, so some price rebound from lows. But how do you see that in your business? Or do you see scope for sort of price improvement going forward linerboard side?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes, we have seen some increases. However, of course, it is difficult, as I said before, to estimate how the demand develops. So far, so good. We have had a strong demand on liner side, but it's hard to have a clear view of what is going to happen in the coming quarters.

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**Operator**

Our next question comes from the line of Alexander Berglund.

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**Alexander Berglund BofA Merrill Lynch, Research Division - Analyst**

Two questions from me. I mean first, it's a bit of follow-up on price. I know you don't -- I know it's very uncertain times, so you don't want to give any formal guidance. But I'm just wondering if you can give any color kind of what you're seeing now. You mentioned kind of strong tissue demand. Is that also kind of what you think is the reason that people are going for price hikes on the pulp side as well, and again, that sounds that that's enough to get a price hike through on April? And then also, if you have seen an increased demand for e-commerce packaging in the last couple of weeks, that's my first question.

My second question is more specifically on packaging. We've been hearing use of collection issues for recycled fibers. And we've now seen a couple of price increases on the OCC index prices. So I wonder if you can just remind us how much OCC you buy each year and also how you're seeing the current pricing environment for OCC and also your ability to ensure security of supply right now.

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**Annica Bresky Stora Enso Oyj - President & CEO**

Thank you very much. I can take the first question regarding the pulp market. If we see the inventory levels in China, and we start over there, the inventory levels are still quite high. So -- and they have not been coming down. We don't want to speculate on the pulp prices. And as you said, the tissue and the hygiene area is holding better from a demand perspective. However, we all know that many people have been stockpiling on different hygiene products now. And it's not certain that, that will kind of hold for the rest of the year, that demand.

If we then move over to your question about OCC availability, yes, there are challenges to collect OCC on the European market. It's very important here that the borders are kept open and that goods can flow between different countries. So we are following this up very closely and the impact that is having, of course, in our mills in Poland in Ostroleka and so on.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

And on your question on volume, it's something like 2,800 tonnes. That's what we buy. I think you were asking how much we are buying.

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. Did that answer your question or?

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**Alexander Berglund BofA Merrill Lynch, Research Division - Analyst**

Yes. Perfect.

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**Operator**

Our next question comes from the line of Lars Kjellberg.

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**Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst**

Have a number of questions. If we can start with -- clearly, we've seen and you've talked about strong containerboard demand. And we've seen some really strong shipments numbers from the U.S. and anecdotally from Europe driven by COVID, et cetera. Have you seen the same sort of strong demand trends in the Consumer Board, which ultimately would use those boxes to move into distant markets?

And when you're talking about maintenance costs being pushed out to the second half, how should we think about that in terms of total cost for the full year? Would that increase your total cost of your maintenance? And what sort of risks are we seeing when those maintenance activities are pushed out?

And just a third question, if I may, on top of that. When you're looking at the Finnish strike, how should we think about that in terms of the -- this segment impact. You talked about EUR 25 million for the whole company, of course, right? But where did it hurt most?

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**Annica Bresky Stora Enso Oyj - President & CEO**

If I start with the last question -- yes, Ulla, sorry.

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**Ulla Paajanen Stora Enso Oyj - Senior VP & Head of IR**

Yes. Thank you, Lars. So you want to take the last question, Annica. Please go ahead, just...

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. I will take the last. It's easier to say that because the biggest impact was, of course, on our Packaging Materials division. If we look at Wood Products, we had a challenging Q4 already. So there, the impact is not as big, even if the mills -- the sawmills were curtailed. And also, for Paper division, of course, we had some shutdowns. But the biggest division that was affected was Packaging Materials.

If we then look at -- if you can repeat your first question.

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**Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst**

Yes. So we have seen very strong demand in containerboard. We've seen that in numbers and anecdotes. Consumer Board, have you seen the same sort of positive impact on from COVID?

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**Annica Bresky Stora Enso Oyj - President & CEO**

For quarter 1, yes, we have seen a strong demand for liquid, food and pharma end uses. On the other hand, if we look at goods that are more seldomly consumed like luxury, the demand has decreased. If we look at containerboard and e-commerce, grocery e-commerce is an area which is now picking up a lot. And we think that this is driven solely by COVID-19 and people staying at home and ordering food home.

Going back to Consumer Board also part, the -- there was an effect also in food service board. A lot of the fast food restaurants have been closed, so that was a negative impact for Consumer Board division. So as I said, it's a little bit of mixed picture depending on end uses. We expect that food, medicine and hygiene area will stay strong moving forward.

And then we have a second question on...

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**Lars F. Kjellberg Crédit Suisse AG, Research Division - Research Analyst**

The maintenance, how could that...

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes, the maintenance. Of course, we are constantly...

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

I can take that. So full year maintenance cost as such is not changed due to the pushing to the second half. We have managed to do that on time. And obviously, we have some parts really, really awaiting for the maintenance works. But so far, no major effect on total year, yes. And of course, we have been watching also what can we move forward without endangering the asset quality or safety at the mills.

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**Lars F. Kjellberg *Crédit Suisse AG, Research Division - Research Analyst***

Got it. And just 2 quick ones. So the experience from China, of course, you called that in Packaging Solutions there was some weakness. Have you seen that recovery now in a decent -- at a decent pace post March and going into April as China starts to open up? And finally, if you can just clarify, when you talked about the onetime savings, EUR 10 million in the current quarter, EUR 85 million in the big program, what are those relating to? How should we think about those?

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**Annica Bresky *Stora Enso Oyj - President & CEO***

I can take China, and you can take the cost -- the profit protection, Seppo. If we look at China, Packaging Solutions units in China were closed -- close to the Chinese New Year, approximately 30 days, but they have been starting and running since then. The effect on Packaging Solutions was minor of that closure. And as Seppo also mentioned in Packaging Materials, Beihai Mill has been operating all along. And there, the end uses that Beihai Mill has in food packaging, in food service board, et cetera, has been running really well. So there, we did not have any closures in Beihai.

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**Seppo Parvi *Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland***

When it comes to profit protection program and this kind of onetime effects and benefits, it's things like getting participation in certain events, for instance, or fairs and other things that are then coming back later once we start to participate in those again, traveling-related things, et cetera. This kind of temporary things that you stopped certain spending this year, maybe do it already next year also, but they will come back later with permanent ones, then we can talk about the cost savings and costs that are not coming back in future. Consulting is one good example, also delay in some development projects and that kind of things or cancellation.

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**Operator**

Our next question comes from the line of Mikael Doepel -- I'm sorry, Johannes Grunselius.

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**Johannes Grunselius *Kepler Cheuvreux, Research Division - Head of Forestry, Paper & Packaging***

I have, first of all, a question on the forestry division. So the EBITDA, if you exclude for forest reevaluation, was a bit higher than what we have seen over the last quarters. Could you give some color on that? What's behind it really? Is it the forest outtake? How was the mix? Or is it more on the cost side? So I would appreciate if you can sort of elaborate on that.

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**Ulla Paajanen *Stora Enso Oyj - Senior VP & Head of IR***

Maybe Seppo can take this.

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**Seppo Parvi *Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland***

Yes. Thank you. First of all, it is a reflection of good efficient harvesting in Finland in the Finnish wood supply organization. Also, you have to remember that this new Bergvik setup was not in place during the first quarter last year. It was more effect in second half of last year. So that is having somewhat positive effect. And then Tornator, our associated company has had good performance this quarter.

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**Johannes Grunselius Kepler Cheuvreux, Research Division - Head of Forestry, Paper & Packaging**

Okay. When you talk about the new setup with your new organization, I mean, is it possible to give any numbers on what the impact was from that and how you see that for the next few -- over the next quarters or years?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

We don't give that kind of split on the division performance.

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**Johannes Grunselius Kepler Cheuvreux, Research Division - Head of Forestry, Paper & Packaging**

Right, right. Then I have also a question on your Wood Product divisions. I mean your Wood Product is a bit different from the rest of the industry in the sense that you have a lot of CLT capacity. Could you give some -- a bit of outlook comments, please, on how you see this division and particularly the CLT business given that there is a lot of macro uncertainty, obviously, because of the corona situation?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. I can take that, Ulla. If we look at the long term, we expect the demand for wooden buildings to continue to increase. So our building solutions part in Wood Products is going to be strong. Now short term, a lot of the construction sites are, of course, shut down. People are not able to move around in Europe and work in the construction sites. On the other hand, many countries might also stimulate building and infrastructure projects moving forward. But currently, Wood Products is affected. We don't expect any kind of quick turnaround for that division as the situation looks now.

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**Johannes Grunselius Kepler Cheuvreux, Research Division - Head of Forestry, Paper & Packaging**

Yes. Are you still able to get -- to manage decent volumes, but you sacrifice on the high-end products. Is that how one should see it? Or is it more that you, for example, will lose, I don't know, 20%, 40% of your volumes or something like that for the second quarter? I mean can you help me with the thinking there, please?

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**Annica Bresky Stora Enso Oyj - President & CEO**

What we're doing in Wood Products is that we are decreasing the shifts that we run the mills. So in Central Europe, we have already started Kurtzarbeit short-term layoffs and short-time working. And from that perspective, the mix, of course, we continue to deliver on the projects that we have commitments on. But as time moves along and the economy is getting more kind of softer, I think it looks tough for Wood Products moving -- the coming quarters.

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**Operator**

Our next question comes from the line of Mikael Doepel.

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**Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst**

Just coming back to the demand trends already discussed for Wood Products and some packaging grades. I just had a question there on the graphic paper side. You mentioned that you see an accelerating decline there. Would you care to quantify what kind of magnitude of declines you're see right now and also what's your visibility there?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. As we see in Paper, the end uses of retail, for instance, or office paper when people are staying home, they are going down really rapidly. And newsprint as well, people are moving to digital to get kind of the latest news there. So we expect that the European paper demand will decline almost by 30% moving ahead. So it's really weak economic activity. And Paper division had some COVID impact in the first quarter, but that is going to be accelerated moving ahead.

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**Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst**

Okay. That's very clear. And then a second question on a different topic, mainly from a cash flow management point of view. You made some changes to the CapEx guidance. It was still fairly marginal, I would say, considering the full CapEx. I would assume that the reason there is that you have the Oulu conversion projects planned for this year. So my question there is, do you have any flexibility to postpone that project in case things turn really, really bad?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes. Right now, this -- you are totally right. Oulu project is about EUR 250 million of this year CapEx. So we have postponed noncritical projects for the year. We are continuing doing environmental investments and investments that make us stronger for the future that are already committed, and those are quite difficult to kind of get out of, if I may put it like that.

For Oulu, the civil works are ongoing, full speed right now. We are evaluating when to start up production. It's going to be a question on if the demand is there. And regarding the possibility to postpone CapEx, well, we have commitments. And of course, this is a trade-off between breaking contracts and the cost that, that has. But of course, the further we move ahead, the better visibility we will have, and we will assess that if we need to do that move.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

When it comes to cash management, we obviously continue to be converting capital, inventory levels, receivables, strong control, especially in this market situation when it comes to receivables and credit management and payables. So the traditional actions that we continue on the working capital, that may boost the cash flow as well.

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**Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst**

Sure. And on that topic -- sorry, go ahead.

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**Annica Bresky Stora Enso Oyj - President & CEO**

And on Oulu, I just want to say that this conversion from the paper grades into kraftliner is going to make us stronger as a company in the future. So even though this short term, it's looking a little bit tough. This is an area of growth and a big, big market, so.

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**Mikael Doepel UBS Investment Bank, Research Division - Executive Director & Analyst**

Yes. That's for sure. And just finally, a follow-up on what Seppo said about the working capital. Just looking at the numbers here, I can see that last year, you had a release of EUR 240 million. In Q1, you had a tie-up of about EUR 150 million, but that's probably seasonal. So would you care to quantify a bit what kind of release do you expect to be able to achieve this year working capital?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Well, you are right, Q1, typically, working capital goes up, and that's visible also this year if you compare to year-end. But we are clearly at a healthier level than a year ago, if you look at year-on-year. If you look at the full year and where we stand, we believe that we can knock out something like EUR 100 million from the working capital.

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**Operator**

Our next question comes from the line of Antti Koskivuori.

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**Antti Koskivuori Danske Bank Markets Equity Research - Analyst**

It's Antti Koskivuori from Danske. Most of my questions have been already answered. Maybe one follow-up on maintenance work. Now it's pushed back towards H2. I assume everyone else is pretty much doing the same. Is there a risk going into H2 with all these maintenances? I think it's going to be fairly busy maintenance schedule then. Is there a risk that the capacity won't be there for everyone and there could be further postponements and potential impact on production volumes in H2? Is that a risk at all? Do you -- how do you view that?

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**Annica Bresky Stora Enso Oyj - President & CEO**

This is the reason why we keep very close contact with our suppliers. And you're probably right that many companies are considering of moving their shuts. But always, the industry also has to use the same type of suppliers for some of the critical works. So this alignment happens through our suppliers. I'm not worried about any additional risks in that sense.

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**Operator**

Our next question comes from the line of Robin Santavirta.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

So you commented about the demand and delivery outlook for the European graphic paper market. Could you also give the same kind of comments about the Packaging Materials and the pulp business you have? What are we talking about? What are you seeing now for Q2?

**Annica Bresky Stora Enso Oyj - President & CEO**

I think demand for Packaging Materials is going to continue to be strong for the end users that I mentioned, the food, liquid, hygiene and medical and pharma. And as I also said, it is mixed with other types of packaging. If we look, for instance, industrial packaging in Packaging Materials, most of the industries have standstills, and that is unclear where that demand is going. And it's much tougher for Packaging Materials to give kind of a clear demand estimation or guidance on this. So I'm sorry, I cannot do better than that. We will have to wait and see how Q2 develops.

If we look at pulp, I do not expect any price increases to happen during this year. Probably, if something turns is by end of this year, considering the big inventories that are out there. And here also, for the graphical end uses where the pulp is going, it's going to be tough. Also dissolving pulp for textile and applications is difficult, whilst the hygiene and tissue area has so far been quite strong. And this is the best estimation we can make at this point.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

And in terms of volumes in pulp now, what -- for Q2, what are you seeing there?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Well, if I look at -- if I don't remember totally wrong, we see a decline of volumes of approximately 1 million tonnes. Correct me if I'm wrong.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

But for your deliveries now in Q2, are they growing compared to Q1 or declining compared to Q1? In Q1, you had these strikes.

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**Ulla Paaanen Stora Enso Oyj - Senior VP & Head of IR**

Annica, maybe Seppo can support you here.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Yes. I think, first of all, you have to notice that, like Annica said, the market is a bit different depending on what grade you are in. And in our portfolio compared to past also, we have a bit more dissolving pulp and fluff compared to past. And there, the drivers are a bit different. And then if we look at the demand, graphic papers are down, but then we get compensation from the fact that packaging volumes, hygienic and tissue is rather stable. So no serious drop or move to any direction when it comes to our own demand. But like Annica said, market demand as such is, of course, considered somewhat weaker in Q2 and 3 because of the coronavirus COVID effects on the demand in general markets.

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**Annica Bresky Stora Enso Oyj - President & CEO**

I think the demand, I said, 1 million tonnes, it's about 6% to 7% globally, so.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

Yes, for the full year, yes. Yes, I understand. I understand. In terms of Paper, what measures are you now

taking as demand is weakening? And secondly, what is the average price interval you have in Europe in graphic papers?

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**Annica Bresky Stora Enso Oyj - President & CEO**

If I can take what measures we are doing is, of course, when demand drops, we take temporary layoffs at the mills. And as always, we make sure that we have very good cost management. And then we evaluate our strength in the business. So this is what we have always been doing with Paper assets.

And Seppo, perhaps you can give a guidance on the price question part.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Well, like I said, we are not giving guidance and market outlook, so we don't comment the market more than that. As we said earlier, we have seen -- so the expected price increase on pulp market did not happen after Chinese New Year because of COVID-19 spreading around and that pricing has been delayed. But the prices, as such, has been holding pretty well, whereas as you have seen and you follow the big indices and others are coming out weekly. But they're, of course, pretty low to start with, so it cannot drop anymore.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

Yes. But in terms of Paper, so I guess, I was wondering about the average price interval you have in the European graphic paper market. So is that half a year? Or is that 3 months?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Typically, if you look at the paper market, it is from monthly to quarterly, max semiannual.

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**Robin Santavirta Carnegie Investment Bank AB, Research Division - Financial Analyst**

Right. I understand. And then finally, just on Forest, just maybe a clarification there. Do you see looking out 2, 3 years that you can improve the profitability of that business? Compared to some of your peers, the profitability and margin looks quite low. And from previous comments, I have understood that the intention is to improve that profitability. But is that already what we see now in Q1? Or is there more potential ahead?

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**Annica Bresky Stora Enso Oyj - President & CEO**

I think there is more potential ahead. Q1 was not a normal quarter from a Forest perspective, harvesting operations due to mild winter conditions and so on and also demand in many of the end uses. So I think there is potential to increase from a growth perspective. We have said 10% there in the growth in our Forest. And of course, if we look from an asset management perspective, we are, of course, always scouting the market to see if there are opportunities out there that we can strategically acquire either directly or through our partnership with Tornator. And also, if we have assets that are considered noncore for our supply of wood to our operations, we can also divest. But clearly, our focus now in creating the Forest division is to drive more value from our forest operations.

**Robin Santavirta *Carnegie Investment Bank AB, Research Division - Financial Analyst***

And maybe one, finally, if I may. Now this sort of liquidity pileup that you are doing at the moment, is that only to safeguard the company's liquidity position for normal operations? Or is it also -- are you also looking to add the [M&A] market or maybe to take advantage of the potential very tough times we have had in terms of M&A .

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**Annica Bresky *Stora Enso Oyj - President & CEO***

If we look at it, no one knows how long and how deep this recession is. So better to be safe than sorry. We were proactive here, and we want to have the flexibility in our business to make right choices should an opportunity also arise. But primarily, the focus is to make sure that we safeguard the liquidity position and -- during these uncertain times. And then you never know what happens on the market, of course, if a good opportunity arises, yes.

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**Operator**

Our next question comes from the line of Linus Larsson.

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**Linus Larsson *SEB, Research Division - Analyst***

I'd like to come back to the containerboard market. And maybe if you could just open up a little bit on a snapshot of your order book situation, that would be very helpful. And also, if you could please remind us of your segment split within containerboard, please.

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**Annica Bresky *Stora Enso Oyj - President & CEO***

If I may say, on our order book, it is healthy and strong so far. So that's what we see in containerboard. And then the split, I don't have it on top of my head. Seppo, do you have it?

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**Seppo Parvi *Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland***

Well, if you go the containerboard there, we have the kraftliner production, 390,000 tonnes in Varkaus. We have fluting operation in Heinola about the same as Varkaus, a bit over 300,000, 400,000 tonnes. And then we have recycled board test line of production in Ostroleka in Poland, 450,000 tonnes.

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**Linus Larsson *SEB, Research Division - Analyst***

Sorry. I was actually -- mainly, what I meant was your end-use exposure within containerboard. How much is fast-moving consumer goods? How much is industrial, et cetera? Sorry.

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**Seppo Parvi *Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland***

So you mean -- in fact, it's a material division in general, consumer board or?

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**Linus Larsson *SEB, Research Division - Analyst***

In containerboard.

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**Seppo Parvi *Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland***

We don't give that kind of split. It's partly difficult to follow also because that is going to converters, and

then we don't always know what -- who are the end customers that they are serving.

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**Linus Larsson SEB, Research Division - Analyst**

Okay. And just coming back to your answer, Annica, on the order book, it's healthy and it's strong. I don't know if you're willing to put any numbers on that. But is that on the same level as a quarter ago, a year ago? Or would it be possible to put it into some sort of reference?

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**Annica Bresky Stora Enso Oyj - President & CEO**

I think it's hard to put it into reference if we look ahead. We don't really know exactly how it's going to develop. So far, the order book looks on the same level as Q1.

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**Linus Larsson SEB, Research Division - Analyst**

Okay. So when you talk about -- I mean, the risk of -- I mean, you have been focusing mainly on other segments, maybe Wood Products and Paper, when it comes to the near-term weakness. But in containerboard, it's really -- you haven't really seen that weakness as of yet. Is that the way we should understand it?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Not major impact so far, no, besides the China packaging mills that we had in Q1. But they are back in operation now.

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**Linus Larsson SEB, Research Division - Analyst**

Right. Great. And maybe linked to this, just coming back to the Oulu project, and I'm not sure I understood you right, but I think you said something, Annica, that the demand situation at time of completion of the project will determine the start-up. Could you just explain that? I mean if markets are weak, you might not start the machine on time? Or did I misunderstand what you said there?

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**Annica Bresky Stora Enso Oyj - President & CEO**

No, you did not. A ramp-up, you can always choose how quick you ramp up your machine. And the plan as now is to start up the machine from beginning of 2021. But if, of course, the market is very weak, we can choose to have a slower ramp-up or also postpone the actual kind of start of the machine. And then this is -- we are starting a temporary layoff discussions, as you know, in our operations globally to have this flexibility if the demand is not there to be able to temporarily lay off our people.

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**Linus Larsson SEB, Research Division - Analyst**

Got you. And so the start-up is going to start in the fourth quarter or first quarter at the earliest? And also, in relation to that, what kind of start-up costs are we talking about?

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**Annica Bresky Stora Enso Oyj - President & CEO**

I can't answer really if we have any specific start-up costs, anything specific that you are thinking of more than the ramp-up curve of the actual machine, getting it up to full production.

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**Linus Larsson SEB, Research Division - Analyst**

Exactly. Yes, that was my thinking, I mean...

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**Annica Bresky Stora Enso Oyj - President & CEO**

From a personnel perspective, assuming now that we have a normal ramp-up, then you run the machine and the mill as much as you can. And then so from a cost perspective, there is no specific impact there. But of course, if you have a slower ramp-up, you can select how many shifts you run and how you set up your ramp-up, how many days you are running, for instance.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

And if you compare to Varkaus where we did similar conversion 3, 4 years ago, there, we sort of passed the ramp-up phase in roughly a quarter or 2. So it's relatively fast compared to Beihai forest that was totally greenfield. And also, we are talking about liquid package import and food service ports there that qualification process is also long and more challenging. It's relatively fast, assuming normal market conditions.

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**Operator**

Our next question comes from the line of Markku Järvinen.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Yes. This is Markku Järvinen from Handelsbanken. Just a few more questions. Just on the profit protection, so did I understand correctly that you achieved EUR 105 million roughly last year and now you'll exceed that by EUR 105 million this year? So it's EUR 105 million improvement compared to '19 and then another EUR 140 million improvement on '20 in '21?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

That is correct.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Good. And then the EUR 85 million, how should we think about that? How does that split across the 3 years?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

If you look at last year, we were at the end of this quarter in total at something like EUR 210 million roughly but -- and that was EUR 40 million from this year, that's EUR 170 million. So that was something like EUR 60 million last year, and then the rest through the rest of this year. And then the remaining EUR 21 million is then continuous savings because then this onetime savings are sort of running out.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

The onetime savings were mostly last year, is that right?

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Yes. Yes.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Okay. Good. Then can you say something about wood cost? How does that look now for you?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Well, the wood prices are -- the wood costs -- the wood prices are going down, if we look at it from a buyer's perspective. So they are quite stable at this point. But if, of course, the demand decreases the coming quarters, then we will see a decline in wood costs or wood prices.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Okay. Good. Then still on Paper, you mentioned a 30% decline that you expect to see. Is that sort of starting from Q2? Or what's the visibility for you?

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**Annica Bresky Stora Enso Oyj - President & CEO**

Yes, it's Q2.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Okay. And that's quite a significant decline. I understand you're taking temporary layoffs. Would that mean closing entire mills? And how much fixed cost do you think you'll be able to manage down?

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**Annica Bresky Stora Enso Oyj - President & CEO**

We have no plans currently of closing full mills. We take it line by line if and when needed.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

Okay. And I think you also said that you see this decline as some accelerating structural decline. I appreciate that you're converting Oulu. But on newsprint side on -- especially SC side and magazine, I suppose you have quite a lot of capacity, and I suppose that utilization there is getting quite low. What kind of time line or what kind of a need do you see for sort of permanent closure of capacity in those grades?

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**Annica Bresky Stora Enso Oyj - President & CEO**

In SC part, I think we should remember that Maxau and our mills are quite good from an asset point of view. So I will not give any time line of permanent shutdowns there.

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**Markku Järvinen Handelsbanken Capital Markets AB, Research Division - Analyst**

And on the newsprint side?

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**Annica Bresky Stora Enso Oyj - President & CEO**

We do not disclose any information like that. We will come back to that if and when it becomes a reality.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

And also, they are Langerbrugge is a strong mill in the newsprint business.

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**Operator**

Our last question comes from the line of Cole Hathorn.

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**Cole Hathorn Jefferies LLC, Research Division - VP**

You mentioned you're starting some temporary layoff discussions to allow flexibility in case demand weakens. Can you give an idea of what the cost impact is to earnings if you need to temporarily close the larger mills? So I mean, we think about it as effectively lost volumes plus a portion of the fixed and variable costs. I'm just trying to understand, with the level of volumes, what could the impact be to earnings.

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**Annica Bresky Stora Enso Oyj - President & CEO**

This is, of course, very hard to make any such kind of prediction because it is, as we said, a precautionary measure. So we do it on the functions and also on the mills. And it is very much locally dependent on which business segment you're in, if you're going to temporarily lay off people. So I don't -- I cannot give you an answer to that question.

I don't know with you, Seppo...

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

If I understood your question correctly, you asked about the cost of the temporary layoffs. And actually, there's no cost as such. There's more a question of how much cost you can avoid. And that depends from country to country. In Finland, for instance, temporary layoffs, you can avoid the salary costs totally. While in some other countries, it is up to 40% or 30% or depending on the local laws and regulation. There are no onetime costs as such when it comes to temporary layoffs.

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**Annica Bresky Stora Enso Oyj - President & CEO**

Sorry, I misunderstood your question.

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**Cole Hathorn Jefferies LLC, Research Division - VP**

And then just on the dividend. I know you've changed where you are now disclosing your adjusted EPS. Should we be thinking of any difference in your (inaudible) declaring your dividend policy medium term or not at all?

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**Annica Bresky Stora Enso Oyj - President & CEO**

No, we are not changing our dividend policy.

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**Ulla Paajanen Stora Enso Oyj - Senior VP & Head of IR**

Okay. Thank you. And thanks for everyone for the very active participation. It's difficult times we are living or extraordinary times we are living. So I understand the number of questions. So Annica, back to you for the final words from Stora Enso's side.

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**Annica Bresky Stora Enso Oyj - President & CEO**

But as -- thank you very much for all your questions. I know that it is a challenging time, but we continue focusing on what we can impact and, as I said, strengthening our resilience and ability for a quick recovery. That is our main focus moving forward.

And with that, I would like to wish you all to stay healthy and stay safe, and talk to you again next quarter.

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**Seppo Parvi Stora Enso Oyj - CFO, Deputy CEO & Country Manager of Finland**

Thank you.

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**Ulla Paajanen Stora Enso Oyj - Senior VP & Head of IR**

Thank you.

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**Operator**

Okay. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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