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Transcript Q1 2025 presentation, 29 April 2025

Lena Schattauer
Hello and welcome to Billerud's Q1 2025 presentation, and thanks for joining us this morning. Billerud's President and CEO, Ivar Vatne; and our CFO, Andrei Kres, will hold the presentation and, after that, they will take questions from the conference call. So by that, I would like to hand over to you, Ivar. Please go ahead.

Ivar Vatne
Thank you Lena, and good morning, everyone, and thanks for listening in this Tuesday. I'm excited to present the Q1 results, which we think represent an encouraging start of 2025 for Billerud, and we certainly have plenty of results we feel good about. So, let's get into it, please, and next slide.

2025 is the first year of our Way Forward strategy. Hence, I'm excited to see so many of our outspoken priorities already going into the right direction. Recorded net sales growth 7% versus a year ago, with positive growth figures coming from both regions and almost all categories. We make a significant profitability improvement, EBITDA up 19% and EBIT up 42% versus year ago, with a margin uplift of 2 percentage points.

Region North America continues to impress us, and come in, yet again, with a very strong quarter, and 21% EBITDA and 15% sales growth, that is rock-solid. But I also want to highlight Region Europe, which also comes in with a clearly improved profitability with 15% EBITDA margin, and that is 4 percentage points up versus year ago.

Our cash conversion and cash generation is greatly improved since comparable period last year, and that is yet again what is highly important for us. We reached a milestone also in Q1, when we sold our first batch of locally produced containerboard in the US, and more on that later. Next slide, please.

Now, to get a proper read of the market, and that can be a handful these days, but at least for Q1, the sentiment was pretty much what we had expected, with normal or normalized conditions for most categories and channels. So, not strong, not weak, but somewhere right in the middle. Okayish demand and some upward pricing moves towards the end of the quarter, first and foremost, in containerboard, sack and graphic paper. The only exception to call out is cartonboard, and the consumer luxury channel, that is still performing weaker, with slower demand and quite a lot available capacity.

Now, going into next quarter in Q2, we would expect more or less unchanged conditions for what we've seen so far in 2025 and we do have solid order books for most of our categories until the summer. Now, I want to highlight that this is short term guidance for Q2 and not a reflection for the full 2025. Next slide, please.

So, over to the topic that seems to be on everyone's lips these days: tariffs and implications. And I would start with probably the same narrative that most companies refer to. That, if the situation is to stay long term, right now, it's too early to assess any financial impact with credibility.

Now, having said that, Billerud is well positioned and probably one of the better players within our industry. And, looking at the direct impact and starting with Region North America, we have available production capacity at our US mills, ready to serve both current and new customers. We are placed in attractive Midwest region, with close proximity to a wide range of customers, and can offer both high service levels and a reliable and predictable supply chain, and that is of key importance, not least since 25% of the category is imported in competing paper grades. And for Europe, we only export around 2% of our total volume to North America. So our exposure is clearly limited.

Now, the much more difficult question to answer is any potential indirect implications, when you see changed trade flows for the full industry, leading to a new competitive landscape. And it's too early to say anything, but there will quite likely be both opportunities and challenges coming to surface if the situation will prevail over a longer period of time. We will monitor the situation and adjust if needed and continue to focus on items we can control.

So, with that, I hand it over to Andrei.

Andrei Krés
Thank you, Ivar, and we can take the next slide, please. Good morning, everyone.

So our total sales growth of 7% was supported by price increases in our Europe Region and volume growth in the North American Region. For Europe, year over year, the volumes were down with 6%, while the pricing had actually a positive impact of 9%. And, despite strengthening of Swedish krona during quarter one, the year over year FX impact on net sales was minimal. In North America, we had an excellent volume growth of 14% and largely unchanged pricing versus year ago. Next slide, please.

Summarizing our profitability, it was on a solid level in the first quarter, and I'm particularly pleased with the profitability uplift coming from both regions. Our EBITDA margin improved with 2 percentage points versus last year, and was in line with our Q4 performance.

Pricing was the main driver behind the uplift and more than offset total input cost increase. The input cost increase was primarily driven by the pulpwood costs in the Nordics. And strengthening of the Swedish krona during the first quarter of 2025 was a headwind. Re-valuation of our receivables and payables balances had a negative impact of approximately SEK 160 million in the first quarter. And, as a reminder, the major impact was from revaluation of the payables and receivables balance, which is a one-off in nature, now in the first quarter, and we do not expect the same impact heading into the second quarter. Now, the positive other bucket is primarily favorable year over year effect from inventory revaluation. There was no major impact in the first quarter this year, but we had negative impact last year. And now, let's move over to the regions. Next slide, please.

So, Region Europe had a broad-based sales growth across all categories, except liquid packaging board. Quarter one last year was a record high volume quarter for liquid packaging board while, we this year, saw a somewhat slower start to the year. Demand for liquid packaging board in Europe is on a normal level, but exports to Asia are somewhat slower as expected.

Pricing has been the key driver for profitability uplift for the region, and we will see impact from earlier announced price increases for containerboard and sack and kraft segments, starting from the second quarter this year. So, in summary, strengthened performance for the region in the first quarter, in line with the region's key objective, to strengthen financial performance from existing asset base.

And heading into the second quarter, we expect overall positive pricing impact of approximately 1% and volumes in line with the first quarter. Quarter two will be the heaviest maintenance shutdown quarter for the region, and we expect total cost impact of approximately SEK 380 million compared to the SEK 40 million we had now in the first quarter. And now, let's move over to Region North America. Next slide, please.

As I mentioned, we had excellent volume growth, with volumes up 14% versus last year and, with that, also the highest sales volume in the quarter in more than two years. The volume improvement moved also our operating rates to 74% for the quarter. EBITDA margin for the region improved significantly versus last year, entirely related to volume uplift and improved operating rates.

The price increases we announced in the first quarter on coated free sheet reels will be materialized, and we expect a positive pricing impact of around 1% for the region into the second quarter. At this point, we expect flat volumes and operating rates for the region in the second quarter. Next slide, please.

Now, we have an overall strategic objective for our Region North America to evolve towards packaging materials and, in that regard, we reached an important milestone on that journey, with first commercial sale of coated liner from our Quinnesec mill. We are now active with several trials with our existing and also new customers and expect to ramp-up commercial volumes in the remainder of this year.

Another part of this project is, of course, the capital investment program of SEK 1.4 billion, and that is progressing according to plan. In 2025, the major investment will be made in upgrade of woodyard at Escanaba Mill and also upgrade of the winders. These investments will enable large scale production of paperboard at both of our mills in North America.

So, very good progress, both from a commercial and investment perspective, and we will, of course, provide more updates on this journey as we go along. Next slide, please.

A couple of words on cost development, and this slide illustrates the input cost movements in the first quarter for both regions. So seasonally higher energy costs in both regions and also pulpwood prices in Nordics were the headwinds, while all other input costs were flat to slightly down, and overall input costs were flat sequentially, with Europe being up by about SEK 20 million, but that was offset by a corresponding decrease in North America.

Heading into the second quarter, we expect input cost tailwinds in the region of SEK 30 million, with majority of it being in Europe and driven by lower energy prices. And I would also like to comment on the pulpwood cost situation in the Nordics, we are continuing to have all-time high pulpwood costs, but expect no changes in costs into the second quarter. Our view currently is that we now have a much more balanced pulpwood market, which should support short-term price stability.

On the fixed costs into the second quarter, firstly, we will have a full impact of annual wage increases, which means sequentially our employee benefit costs will go up with approximately SEK 60 million to SEK 80 million into the second quarter. And also, we have a heavy maintenance schedule, with a cost impact of around SEK 380 million in the second quarter. Next slide, please.

A couple of points on our cash flow. We had an expected working capital buildup in the quarter and change in working capital was also in line with what we saw the last year. With that said, we did improve our cash conversion to 41% for the quarter and we target 80% cash conversion for the year, in line with our updated financial targets.

And I'm also pleased with significant improvement in return on capital employed, with now return on capital employed being at 7%, versus 1% last year, moving towards our target of above 11% over a business cycle. We maintain our solid balance sheet position with a healthy leverage level, and we look to invest SEK 3.5 billion in our operations this year, where approximately one third will be targeted towards strategic investments, primarily in North America.

And now, I would like to hand it back to Ivar.

Ivar Vatne
Thank you, Andrei. So, to round it up, uncertainty has increased since the beginning of the year, but we do enter Q2 with pretty stable market conditions for both regions. It is too early to assess any financial impact of tariffs if they will prevail long term, but we are well-positioned within our industry with local production in the US with available capacity and only marginal export exposure from our Nordic mills into North America. And we do expect higher sales prices for the quarter with lower input costs. And as we tend to have, there is planned an extensive maintenance quarter in Q2, first and foremost, here in Region Europe.

So, with that, I hand it back to the operator for Q&A.

Operator
Thank you. We'll now go to your first question. And your first question comes from the line of James Perry from Citi. Please go ahead.

James Perry
Thanks for that. Hi, thanks for the presentation. I'd just like to ask a couple about North America and Europe. So, in North America, you mentioned the higher sales volumes in all products and the strong margin. I know it's difficult to determine, but do you have any sense as to whether customers could have been bringing forward the orders, as we have heard from some other players, or are you seeing the good demand sustain into Q2 and the rest of 2025?

And then, in Europe, you said you expect normal conditions, except for cartonboard and coated liner. What do you think it is about those products that's leading to the relative weakness, and what do you think we should be looking for in order to see cartonboard picking up? Thanks.

Ivar Vatne
Hi, good morning, James. I think, on the first point on North America, it's a good question and I have to be boring, in the sense of trying to be too clever of estimating kind of long term. Second half of 2025 into 2026 is just not very feasible at this stage.

I can confirm, as Andrei also went through, that Q2 looks solid, order books are good, and we have no real signs of any inventory buildup or problems per se on the customer side to not be able to pass that through. But, I mean, uncertainty has increased. Consumer sentiment in US trade has taken a drop. But, you know, the key figures still are pretty good. So, you know, order books tend to be, at least for the coming months, in a good place, and that should enable us to deliver a strong Q2. But, just beyond that, it's very, very difficult to say anything certain.

I think for Europe and, in particular if you go into cartonboard and consumer luxury, I think it's a bit of, probably our view coming from Billerud maybe more than what you will hear from some of the other players, we have a pretty large exposure into the premium side of cartonboard and, clearly, that is categories – if you think about that as a fine fragrance or chocolate or champagne, et cetera – that tend to be more sensitive to consumer uncertainty. And, I think, that has still been a little bit of a wet cloth over the whole category and channel going into 2025. I think, if you couple that as well, that there is quite a bit of available capacity out there in that field, it's just pointing towards that that channel is still being a bit more difficult. It's not really bad, but it's certainly not the more normal side as we have labeled the other categories.

James Perry
That's helpful. Thank you.

Operator
Thank you. Your next question comes of the line of Robin Santavirta from Carnegie. Please go ahead.

Robin Santavirta
Yes. Good morning. I was wondering if you could detail what price increases you have made in North America, when it comes to your paper grades and when it comes to pulp?

Andrei Krés
Yeah. Good morning, Robin. So, in terms of the price increases in North America, these were announced during the first quarter, in the beginning of the quarter, and it was up to 5% on the coated freesheet reels, which is approximately 60% of our graphic sales in North America, and we are implementing those price increases starting from quarter two, up to 5%. In terms of pulp, we announced 80 USD per tonne price increase. They are, to a large extent, following the index, and we will have some pricing impact now heading into the second quarter.

Robin Santavirta
Thanks. And can you just – I know it's a bit of a speculation but, with the tariffs on imports, what are you hearing and seeing in the markets related to what the importers will do, or what the exporters will do with their

prices, and could that open up an opportunity to do more price increases, or could you just sort of give some color on those dynamics and what you see at the moment?

Ivar Vatne
Good morning, Robin. I can take that one. The question is good, and I can say that, probably, we see all colors of the pallet in terms of behavior at the moment. That means that we see examples of exporters for the time being absorbing this tariff fully, versus others passing it fully on, and also other players choosing to go somewhere right in the middle. And so, I think it's not really a full theme that you see. I think it also depends a bit on the category and the competitive landscape.

And, I think, our view is that this will stay long term. It's difficult to absorb it fully, and I think there is certainly some speculation going in the industry, players that are thinking, hoping, probably a combination, that this is still some kind of a short-term play and it might go out and they don't want to go overboard too fast. But, again, this is where it starts to get more into speculation. It is not unreasonable to think that this could potentially open up for pricing opportunities, if tariffs are either staying at this level or they are increased in long term. But, again, right now, I think that's just more speculation than anything tangible.

Robin Santavirta
All right, thanks. And two quick technicals; inventory revaluation in Q2 Q-on-Q, what do you see? And also, just to clarify, with regards to FX rates, what is the Q-on-Q earnings impact in Q2 that you see at the moment, including the receivables revaluation?

Andrei Krés
Yeah. I can take those, Robin. In terms of inventory revaluation, really, no drama. I mean, we have previously talked about a normal variation there of SEK 0 to SEK 50 million, both positive and negative SEK 50 million. In quarter one this year, it was positive SEK 20 million. So, really, no drama, but we had a slightly higher inventory revaluation impact last year. So, that's why we had a positive deviation year over year.

In terms of FX and the impact heading into the second quarter, now first of all, we, as you know, hedge our FX exposure and we have approximately 80% of our euro exposure hedged for the coming 15 months and closer to 70% of US dollar exposure. Now, in the first quarter, the revaluation of our accounts receivables and accounts balances – payables balances – had the biggest impact, and that is determined by the FX rates on the last day of the quarter.

So, if we look at end of the first quarter FX rates, and assume that those rates prevail for the second quarter, we would have a positive impact of plus SEK 200 million within Other, by not having the same hit on accounts receivables revaluation, but we would have a negative impact from transactions within Europe region of SEK 100 million. So, net, a positive impact of SEK 100 million heading into the second quarter. Again, this will be dependent on the rates ending up at the end of the quarter. So, this is an early indication for the Q2 impact now.

Robin Santavirta
Thank you very much.

Operator
Thank you. Your next question comes from the line of Linus Larsson from SEB. Please go ahead.

Linus Larsson
Thank you and good morning gents. I'd like to continue on North America, if I may, and you have been commenting on the price increases in the coated fine reels business. Could you just walk us through what's going on with the coated fines in sheets and the specialties business? What are the dynamics? Why aren't we seeing some similar price moves there? So that would be my first question, please.

Ivar Vatne
Yeah. Hi. Good morning, Linus. I can take that one.

I think the simple answer on the first one is on the parts of the graphic paper. You do have the coated freesheet sheets, as you mentioned. You also have the groundwood. But, again, those are smaller in comparison to the freesheet reels. And that part of the business is certainly slower. It's also exposed to pretty heavy competition. So it's simply our view that these categories are much more challenging to take pricing in the same manner.

I think, on specialty, the situation is a little bit different. I mean, specialty is going well, as you know it's first and foremost our label business. I mean, we are fully sold out on the E3 machine in Escanaba, that we produce that on. Margins are still pretty good and there is also pretty intense competition pressure. There has been pricing moves also there for the last couple of years. So, right now, our view is that that market is still all right. It certainly is something we continue to evaluate but, right now, there's no immediate plans to also do pricing on specialty.

Linus Larsson
Okay. And, if you compare, say the import share in these various categories, how do they differ roughly?

Ivar Vatne
I can give you a bit more directional figure. It's around 25% on graphic paper which we see is coming from import, and that is a bit of a diverse market of where it is coming from, quite a big piece is coming from Asia, but not the usual suspects, and this is actually Korea a pretty big market, and it's also coming quite a bit in from Europe, Germany and Italy and, in particular, also Finland. I think on specialty, it's a bit higher, t is more in the 30%, 35% range of import share, and that we have mainly coming in from Finland. That's the big piece of import source on specialty.

Linus Larsson
Great. That's super helpful. And then, just also in North America, on volumes, you had a pretty decent operating rate, comparing history at least, in the quarter. Do you expect that to increase going into the second quarter and if you have any thoughts beyond the second quarter as well? And, as part of that question, what type of contribution or what's the pace of ramp-up in containerboard? Is that, you know, in any way meaningful for the remainder of the year? But maybe start with Q2 and then, if you like, some additional comment on the second half, please.

Andrei Krés
Yeah. I can take this, Linus, and good morning. So, in terms of the volumes for our North American region, as Ivar was mentioning earlier, really difficult to assess anything beyond quarter two. Right now, we are looking into the second quarter and flat volumes compared to quarter one. This is the best estimate we have now, based on continued solid order books in the region.

In terms of the containerboard ramp-up, as I mentioned, we have made the first commercial sale and are now in several trials. The uncertainty surrounding tariffs is certainly increasing interest in locally-produced containerboard, but we will just need to do the trials, prove ourselves with North American production within those segments, and ramp up those volumes for remainder of the year.

Anything to add, Ivar?

Ivar Vatne
No, I can just add quickly. I think it's not going to be a very meaningful volume now in the beginning. It's maybe not unreasonable to say that, you know, 15,000 tonne for the full year might be a bit of a stretch goal that we put out for ourselves, and most of that coming into second half of the year.

Margin-wise also for this, it should be solid, but it's not unreasonable to think that it will be a little bit lower than the average that you see for the total region, given that also that this period includes quite a lot of trial and errors and also a re-loop of trying to get the qualification through, but we will come back to this with decent intervals to update on the progress and how we are doing.

Linus Larsson
That's great, super helpful, thank you.

Operator
Thank you. Your next question comes from the line of Cole Hathorn from Jefferies. Please go ahead.

Cole Hathorn
Good morning. Thanks for taking my question. I'd just like your thoughts on the European packaging market by area. I'm just wondering if you're seeing any kind of re-stock or ordering from customers because we've seen quite a big divergence between the US and European markets. I mean, the box data was something like down 5% in the US and it's been pretty robust in Europe. So, I'm just wondering what you're seeing across your containerboard segment, what you're seeing across sack and kraft, and any thoughts around customers kind of restocking or any inventory effects impacting what is a decent Q1?

Ivar Vatne
Hi. Good morning, Cole. Again, another good question and, I think, in general, we're not picking up any big worries or tangible items around inventory being built up. But, again, I'm continuing to kick in the most open door in the world that uncertainty has certainly increased. Consumer confidence is probably a bit more troublesome and, yeah, situation is certainly worried and you know what it might even start impacting on consumer demand, it's just very difficult to say at the moment. But if I do a quick round the table, if you may, per category, of what we're seeing right now.

I mean, containerboard, the demand is what I referred to a bit earlier as lukewarm, right in the middle, between strong and weak, and you probably expect that going into Q2. We have pretty specific niches also within our containerboard proposition, in particular on fluting, that is performing still well, we are moving up on pricing. I think also Andrei touched on that on fluting, on coated liner but, in general, the situation is pretty okay. Uncoated liner still for us is doing relatively well. Coated liner is still a little bit of the black sheep. It was weak going into the year and it's still relatively weak. That's also partly because a chunk of our coated liner is exported into US and, surely, that is now more troublesome with everything happened also on the tariffs.

Cartonboard – I still come back to that it's a bit weak, and that's our part of it, with also a relatively high exposure to the more premium side of carton. Europe is doing all right, just maybe smallish steps that we could see improvement but, right now, it's still on a relatively low level. We are taking some new business opportunities, specifically within the kraft side of cartonboard. But also here, we do export some of it into US and seeing the situation there now is much tougher. Might create opportunities in Europe if there will be counter-tariffs on import from US. There is quite a lot of both virgin and recycled carton coming into Europe but, you know, at the moment, we don't see any big impact, either of counter-tariffs or any implications there.

On our kind of kraft paper and sack family, still solid. We had a good quarter in Q1. We would expect also relatively stable conditions going into Q2. Yes, some risks for tariffs, but for us at least, it should not be too bad and repricing up the white sack and kraft paper now really getting impact from Q2. But pretty normalized conditions on demand in our geographical side on paper, I mean, Central Europe, not necessarily doing too well, they have quite a bit exposure there on some of our cement bags, and construction is certainly now a bit more back to this wait and see mode.Latin America and Southern Europe for us is doing better, and in general, food for us within paper, so that will be dry food and any deliveries to food service, actually doing quite okay. Same for medical, good, the smallest segment for us, but they're growing and, you know, good conditions in a resilient channel, and e-com also pretty solid. And, you know, sacks, in general, still what I talked about this turmoil around the construction, it's actually performing pretty okay. So, again, all in all, mostly stable but slightly different temperature based on the category that we have exposure to.

Cole Hathorn
That's very helpful color. And then, maybe if I just follow up on how are you encouraging your sales team not to get carried away and kind of run production to demand? How are you kind of managing the risk so, you know, you don't overproduce if there is a demand softness, firstly? And then, secondly, you know, it is nice that you are not calling out incremental wood cost inflation for the first time in a long time, but your recycled peers are calling out higher wastepaper costs. Are there any categories that you, as a virgin producer, might be able to benefit from better margin or future pricing? Thank you.

Ivar Vatne
Why don't I start, well on the last part, maybe I should take that first. I don't know if there's any specific categories right away that comes to mind. I think there is always a bit of a delta between what you would expect from recycled versus virgin. And, if that starts to go out of line, surely, it creates kind of like this magical market, yeah almost like a hand who take care of that. We don't really see that right now. It is so, as Andrei also went through, that we are at all-time high prices for fiber. But, you know, the market is much more balanced and, right now, we would expect that to be pretty stable. So, I have nothing further there.

Now, on your first part, what I can say is, you know, it's quite linked into the strategy that we just launched, as you know, end of last year in, you know, value over volume. Our cash generation is very important and we have a clear target to deliver 80% cash generation of our EBITDA. We're not going to be able to do that if we produce much more than we sell, and this is a quite moving target because, clearly, if things change on the market, you need to adjust. I can say that we've gotten better of getting used to this over the last years, with these fluctuations going quite hard.

So, I can only say that our cash generation is a very important target. We will continue to do that, and that should drive the sufficient discipline across the organization to not go overboard.

I don't know if you have anything else, Andrei?

No. Okay. Thank you.

Operator
Thank you. Your next question comes from the line of Lars Kjellberg from Stifel. Please go ahead.

Lars Kjellberg
Thank you for taking my question. Most of the ground has been covered, but I just wanted to come back to that your demand outlook, because it does seem, given all the uncertainty, relatively positive compared to what one maybe could expect. So, I'd maybe rephrase the question a bit. Have you seen any changes in the order patterns as we enter increasingly a more uncertain environment? And also, are you seeing any differences in the customer behavior in North America, where the consumer sentiment seems to be turning down quite sharply while, in Europe, it seems to be holding up? So, any directional changes, overall patterns and any meaningful differences between the regions?

Ivar Vatne
Yeah. Hi. Good morning, Lars. I can only reiterate the point, because I think, you're touching on something very important. The comments that we provide are, first and foremost, for the very short term Q2, where we can say with a pretty high certainty that, you know, that should look pretty solid as we had in Q1. And we can say that also because our order books are still in a pretty solid manner and you know, that tend to be a very strong indication that, you know, we would land that order also well.

It is very difficult to start predicting into the second half and, you know, we also saw that last year, how things could change relatively fast going into the summer and then coming out of the summer. The situation might be a little bit different this time, but it's certainly something that we are extremely aware of, how fast this can change.

I mean, the main KPIs of the US economy are still solid. You know, production is well, in general, it's a good low level of unemployment. So, right now, there is nothing really that screams out short term but, as I already mentioned, the consumer sentiment has changed also in US, and it's taken a short and sharp dive downwards and to the level even we saw in the pandemic, and that's clearly a sign that people are a bit stressed, worried. And, again, this uncertainty that the tariffs bring certainly doesn't help.

So, surely, there is a question mark of the solidity of the North American business when we're coming into second half or going into 2026. But, right now, it's not something that we wanted to try to get any numbers into because it's just very, very, very difficult to do that.

In Europe, slightly different, I mean, you know that Europe’s economy has not performed as well as we've seen in North America. You know, for the last couple of years, I think there was a hope, going into 2025, that, you know, with falling interest levels, you would start to see consumer confidence picking up. It may be a notch better still of what we saw for 2024, but I can only confirm that it is now starting to be shaky, more uncertain, and it's again very difficult to say anything else than for the next couple of months. We don't see necessarily a big change of consumer behavior, but we are picking up comments from certain customers to say that hey, let's wait and see. Meaning again, for most of the customer side it's a little bit of a worry about how strong now the full end-market really is, and that's not what you want to hear. So, there's surely also a question mark in both of the regions about a bit of this wait and see mentality, but nothing that should at least impact us going into Q2.

Lars Kjellberg
And just to be clear, you're not seeing any of those uncertainties in your orders as of yet, but they continue to come at a fairly regular basis and no particular change from what it's been in the prior months?

Ivar Vatne
Yeah, I can confirm that.

Lars Kjellberg
Then, I just wanted to lean in a bit on liquid packaging board which, of course, is the only category in Europe that actually saw a decline. Can you comment a bit about how that translates into mix effects in your EBITDA margin, but also should we read anything into this? Is this market behaving differently from the other markets or is there anything else that is driving that number down, for example, your price increases that you've implemented in Q1?

Andrei Krés
I can take that. Good morning, Lars. I mean, we will not comment profitability per our segments but, I mean, if we look at the situation here in the beginning of the year, we guided for lower volumes heading into the first quarter compared to the fourth quarter of 30,000 tonnes to 60,000 tonnes and we come at a lower range of that, and there were really two product groups impacting that.

So, first of all, half of it was market pulp, where we had very high deliveries in the fourth quarter, and now they are more in a normal level; and the second half of the decline was liquid packaging board. And the liquid packaging board demand in Europe is looking solid, but we talked about high inventory levels in Asia, and also a slower demand, and this is also what we experienced now during the first quarter, and we expect that to actually continue into the second quarter. So, a bit slower demand in Asia, also due to tough competition and, generally a lower demand from the end customers.

Lars Kjellberg
A final question for me then, if you’re looking on the carton segment, of course Stora is now starting to launch

the order products, are you seeing any heightened competition? I mean, you commented that demand remains weak. Of course, right now, we've got incremental supply. Does that make any difference or not?

Ivar Vatne
I don't think that piece yet would impact, but it also so that, when you ramp up a new facility it takes time to get to the certain grades, which can match some of our more premium propositions, but there is no doubt that that would be another pillar, a bit further down into the future that again, put more capacity out there but, right now, we don't. The other caveat just to add on this is again, if these tariffs will stay and also there will be potentially some import tariffs into Europe, it could also then just open up some new opportunities and challenges. Again, a lot of the export of cartonboard from US goes to Europe, and we would expect that to change the whole flow within the industry, but nothing that we see big signs of at this point in time.

Lars Kjellberg
Understood. Thank you.

Operator
Thank you. Your next question comes from the line of Johannes Grunselius from DNB. Please go ahead.

Johannes Grunselius
Yes. Hello, everyone. It's Johannes here. I have a question on volumes in Europe, which were down, I think it was 5% here year over year, and is the volumes or shipments influenced by your sort of pricing strategy of being very price-disciplined or does this sort of reflect your end market development?

Ivar Vatne
Yeah. Hi. Good morning, Johannes. I can start by taking that one. I mean, in general, as you know, we've had a pretty clear outspoken strategy that we also talked in the Capital Market Day about, you know value over volume, and we do evaluate continuously certain positions that we just won't be able to fight for given the low margin that it potentially generates. But, I think, in the case of what we see right now, I think Andrei also touched upon it. You know, we came from a Q4 level where, you know, the pulp sales was unusually high. That's much more now on a normalized level for, you know, Q1 and onwards, and there has also been a little bit drop in the liquid packaging, which is, again, related to higher inventory levels and more fierce competition particularly in Asia. Most of the categories is performing well. Liquid packaging in Europe is performing well. So, there's not a lot of movements that we have. And also, keep in mind, Q1 last year comparable base was very, very high because some unusual one-off deliveries. But, yeah, this is now the level that we saw in Q1 we would expect pretty much for Q2 as well.

Johannes Grunselius
Okay. Yeah, that's helpful comments. Thanks for that. I also have a question on your ramp-up of packaging now in the US, if you could remind us about what kind of volumes you are foreseeing for the coming quarters? And, I mean, does it have any sort of real impact on the divisional earnings or even group earnings or is it more smaller numbers, smaller dollar tickets? Yeah. Thanks.

Ivar Vatne
Yeah, I can. I can repeat that one. We have a, call it, stretch target of around 15,000 tonne for the full 2025. That should come, first and foremost, in second half of the year. So that is not significant, but again, you have to start somewhere, and it should be gradually coming up quarter by quarter and, you know, clear ambition that going into 2026, this should be more. But, right now, for 2025, this should not be, in any way, a meaningful impact of either the region or the group.

Johannes Grunselius
Okay. Thank you very much for helping me. Thank you.

Operator
Thank you. Your next question comes from the line of Martin Melbye from ABG Sundal Collier. Please go ahead.

Martin Melbye
Yes. Good morning. A couple of questions. First, clarifications on FX. So, you say plus SEK 100 million. Is that also including the underlying FX exposure or is that just the FX hedging quarter over quarter and the inventory revaluations etcetera?

Andrei Krés
Yes, Martin. Good morning. So, the positive SEK 100 million is really a combination of two things – negative impact of SEK 200 million within other or currency hedging, etcetera, as we report; and positive SEK 100 million within Europe Region, and that's the transactional exposure we have in the Europe Region.

Martin Melbye
There's also the underlying exposure. So, the quarter-on-quarter effect from FX is plus SEK 100 million for you?

Andrei Krés
Yes. Again, based on the currency rates at the end of the first quarter, and of course the revaluation will be determined by the FX rates at the last day of quarter two.

Martin Melbye
Excellent. A second question, so there have been several pulpwood price increases announced, yet you say that the price will be flat for you in Q2. Does that mean that there is no price increase, or does it mean that you have a lag and you get it in Q3-Q4?

Andrei Krés
Yeah. So, in terms of the pulpwood, there were price increases or price list changes announced during the first quarter. First of all, if we look at who announced or the players that announced, we do not source that much from these suppliers, which means that, if we look at our sourcing mix and our outlook for quarter two, we see stable pulpwood prices, for our part. We would not stretch to any comments into the second half. As I said, we now see a much more stable situation on the pulpwood market in terms of demand and supply, which should support a more stable pricing also going forward.

Martin Melbye
Excellent. And a similar question on outgoing prices. So there's a 1% price increase in Q2, and you have announced more on sack kraft and the coated fine in the US. Is there a spillover effect in Q3 or is everything handled in Q2?

Andrei Krés
The absolute majority of it is within Q2 and, again, those are parts of the segments. So, 1% is for the whole region. So, it's 1% both for Europe and 1% for North America. But of course, the announced price increases are not on all the categories.

Martin Melbye
Sure. Thank you.

Operator
Thank you. We will now go to the next question. And your next question comes of the line of Oskar Lindström from Danske Bank. Please go ahead.

Oskar Lindström
Thank you. Good morning. Really, just one question left here from me, and that's talking a little bit about how you will handle the more long-term effects of the strengthening of the Swedish krona versus euro, US dollar.

And, I mean, this will, everything else being equal, move your mills relative to foreign competitors up on the cost curve, maybe not immediately but, you know, once hedges have run out. Do you see the need for you to take further action in terms of either, you know, more incremental cost reduction or perhaps structural actions to mitigate the cost increase or the worsening competitive position of your mills in Sweden.

Ivar Vatne
Yeah. I can start and maybe Andrei jumps in. And, I mean, it's another good question. I can say the following, though, that to also give you the perspective, right, I mean, we had a weakening Swedish krona for more than 10 years, and that certainly has helped in many ways the competitiveness, you know, for Swedish export business. And, you know, now it's gone slightly the other way around and, I think in that sense, it's not a major drum-up for us. We don't have tremendous exposure into, you know, US dollar. But I can say that, as a more of a principle, more as a kind of overall theory that, if you would see the Swedish krona appreciating more against both the euro and the dollar, you know, that just means that we need to evaluate the options, and that can be everything from further going into pricing, as I think you alluded to, you're absolutely right, what even further can we do with internal cost base, as if this is just a Swedish krona phenomenon, it does impact the competitiveness.

So you know, right now, not anything that causes a lot of alarms and drama for us. But, again, if it will stay, accelerate and also, you know, spread in many ways to the euro, surely, that is something that we will then look what options could be. And, probably, the answer is a mix of certain actions.

Oskar Lindström
All right. Thank you. And then, just more of a check with Andrei on the bridge going into Q2, just so that I have everything or that we have everything. So you said price is up 1%; energy costs down; and then, volumes flat; and then, wages, between SEK 60 million and SEK 80 million negative in the quarter; and then, FX, a positive SEK 100 million; and then, maintenance, negative, I guess, SEK 330 million. Is that a good summary of the impacts that we should have?

Andrei Krés
Yeah. Now that's a good summary, Oskar, of what we went through. Yes.

Oskar Lindström
And, on the ramp-up in North America for the packaging lines, is that going to give any one-off costs or heightened Opex, either in Q2, or second half for that matter?

Ivar Vatne
No, it shouldn't. The only thing to keep in mind is, you know, when we build up new positions, as people do in these cases, it tends to be a bit margin dilutive on the total. So, again, the margins probably should be a little bit below the average we see for the region, maybe a bit longer payment terms to get, you know, our foot fully through the door. But, given this is so marginal now, at least for 2025, this shouldn't impact and move the needle in any shape or form.

Oskar Lindström
Wonderful. Thank you very much. Those were my questions.

Operator
Thank you. There are currently no further questions. I will hand the call back to the room.

Lena Schattauer
Thank you, everybody. That concludes today's meeting, and our next earnings presentation will be on the 18th of July. So, thanks again for participating and goodbye.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.