



Stora Enso Oyj - Q3 Earnings Presentation 2023 | GCS | October 24, 2023

Hans Sohlström

Good morning, everyone, and welcome to Stora Enso's Q3 Results Presentation. Thank you for joining us today. I'm Hans Sohlstrom, President and CEO of Stora Enso since 18th of September. I'm here with our CFO, Seppo Parvi, to take you through our performance and outlook before we take your questions.

But before we start the presentation, I want to share a bit about my background. I have over 30 years of business leadership experience out of which over 10 years as CEO, predominantly in the forest and renewable materials industry. Most recently, I was CEO of Ahlstrom, which was formerly the stock-listed, Ahlstrom Munksjo Corporation and, before that, of Ahlstrom Capital and Rettig Group. Prior to that, for over 20 years, I held various leadership positions at UPM, among others, as Mill Director and Business Unit Vice President. During my last 8 years at UPM, I was Executive Vice President and member of the Group Executive Team.

I've been on the Board of Stora Enso since March 2021, and it is a privilege to lead Stora Enso. We have valuable heritage as well as great sustainability-focused values and products, which I strongly support and believe in. Stora Enso has strong foundations, leading capabilities and many growth opportunities. I'm delighted to work with my new colleagues in leading our profit turnaround, increasing shareholder value and delivering on our commitment as the renewable materials company. To further show my personal commitment and confidence, I invested EUR 1 million in Stora Enso shares in my first week in office.

So let's now take a look at our group performance in Q3. After 2 good years in 2021 and 2022, our financial performance and result has quickly decreased to a historical low level. Low demand decreased deliveries in all divisions, which was also reflected in lower sales prices, especially in wood products, pulp and containerboard. Increased fiber costs had also a negative effect on the margins. This led to a year-on-year sales decline of 28% and reduced operational EBIT to only EUR 21 million. Cash flow was mainly impacted by low profitability and large strategic investments. Cash flow from operations amounted to EUR 231 million and cash flow after investing activities was EUR 38 million.

So why has this happened? This was largely driven by challenging macroeconomic environment, which we now need to navigate, mitigate and adapt to. We faced deteriorating market conditions and price pressure for all our segments, inflation and high interest rates dampening

consumer spending, industrial activity and construction in our main market, Europe, while the variable costs remained high and wood supply tight. We do not expect an improved market condition soon, and our weak financial performance needs to be addressed by our own actions. This is my #1 priority.

During the quarter, most of our announced restructuring actions to strengthen long-term competitiveness were implemented. I will now give you an overview of the main factors impacting our result. Profitability was significantly reduced due to lower sales prices and mix impact in all divisions, except for our Forest division, where wood prices remained at a high level. Another factor is that lower volumes in all divisions reduced operational profitability. Increased variable costs, mainly for pulpwood, had a negative impact even though some input costs already started to support profitability.

Next, I want to show you a slide which illustrates our geographical and end-use exposure. Our customers are mainly global business-to-business companies such as packaging converters, brand owners, industrial component manufacturers and construction companies. As you can see in the left-hand chart, almost 80% of our sales is in Europe. And this chart excludes Forest division and Beihai in China. If we then look at our group end-use exposure combined, you can see that the consumer end uses represent the largest group with 65%. The largest share in this end-uses group is represented by daily necessities, such as food and beverage, pharma and health care. These segments contribute to our long-term resilience and growth.

Industrial end uses represent 25% with the largest part being industrial packaging, and the balance of 10% is in the construction segment. Thus for Stora Enso, the main end-use-related demand drivers are private consumption as well as sales in food, beverage, pharma and health care, retail, quick service restaurants and e-commerce, driving together about 2/3 of our demand. Industrial and construction activity drove about 1/3 of our demand.

And now turning to the divisional overviews. Starting with Packaging Materials where low market demand continued. Sales and profitability were impacted by lower containerboard and paper prices and lower volumes for consumer board. We also had 6 of our 11 production sites under planned maintenance, mainly in containerboard, which further impacted volumes.

Consequently, sales decreased by 26% or EUR 364 million year-on-year, and operational EBIT decreased to minus EUR 34 million. In consumer board, there was clear inventory buildup across the value chain during COVID 2020 and 2021 time and afterwards during the turbulence in the global logistics chain. True demand drop is expected to be around half of the total volume drop and the rest of the drop is the value chain destocking. However, destocking is expected to gradually come to an end.

For containerboard, packaging demand was boosted by stay-at-home consumption during COVID-impacted 2020 and '21. And subsequently, in 2022 and 2023, packaging demand was negatively impacted by redirected consumer spending, destocking and inflationary pressures. Destocking has now largely come to an end. Thus, packaging demand is expected to gradually return to growth

from its current low levels. Variable cost decline continued and production curtailments were implemented to adjust to the lower demand.

Moving to Packaging Solutions, which delivered a stable result but at low levels. The acquired De Jong Packaging Group more than offset the impact of negative sales from the weak markets and lower prices. Sales increased by 52% or EUR 91 million to EUR 266 million. Looking at the profit level, lower containerboard prices and especially the De Jong acquisition more than mitigated the impact of the soft market, which was further driven by lower volumes at the very end of the quarter. This resulted in an operational EBIT increase to EUR 14 million. The European market for corrugated packaging, which typically grows by around 3% per year has been negative since the second half of 2022. The market is currently imbalanced due to low demand combined with new corrugated capacity.

Let's have a look at what happened in the pulp market in the quarter. Pulp faced challenging market conditions with continued low demand, driven especially by lower board and paper production. Tissue, personal care and specialties end uses have been more stable, but demand in these segments was also impacted by heavy supply chain destocking. Lower pulp sales prices and delivery volumes impacted sales, which decreased by 39% or EUR 223 million year-on-year and profitability, where operational EBIT decreased to EUR 5 million. Towards the end of the quarter, there were price increases and demand improvements in some grades and markets, mainly in China. But in Europe, prices declined further during the third quarter until stabilizing and turning gradually up just in recent weeks. However, there is significant new pulp capacity coming onstream during this year.

Now we will take a look at the development in our Wood Products division. We haven't seen any improvement in our Wood Products division as construction activity, which represents around 80% of the market driver for this division remains low. Eurozone construction confidence is clearly negative, and building permits have declined by around 30% to 45% compared to last year. This also clearly reduced the demand for more stable products, such as cross-laminated timber and laminated veneer lumber. However, despite the weak current market, demand in these 2 segments remained relatively stable, but at a low level. Sales decreased by 33% or EUR 171 million year-on-year, while operational EBIT decreased to minus EUR 21 million. However, no major improvement in demand was seen in the quarter as we are entering the slower winter season.

So Forest division continued to be our most solid profit generator. The Forest division continued its stable performance. Wood prices remained high. However, sales were impacted by clearly lower demand and decreased by 8% or EUR 47 million. Flexible use of the group's own forests and efficient wood sourcing continued to secure reliable wood availability, reflecting the resilient and strong operational performance, which led to a stable operational EBIT of EUR 59 million. The wood market in the Baltics and Nordics remained tight, especially for pulp wood in Finland and sawn logs in Sweden. This is due to high demand for industrial and energy wood and lack of wood imports from Russia. Stora Enso has a forest fair value of EUR 8.3 billion, which equals EUR 10.47 per share.

Moving on to our key priorities and actions. We have clear priorities and action plans to tackle the challenges we currently face. This means that we now focus on our profit and cash generation to improve competitiveness and create shareholder value.

Our first priority is to create value by improving our profitability. We will do this by optimizing sourcing and value chain, including, among others, procurement and operations-related savings throughout the whole supply chain. We are enhancing our commercial and operational excellence by a leaner organization with P&L-responsible and accountable divisions and business units to improve decision-making and faster implementation of actions as well as result orientation and customer focus. Furthermore, we are revising and optimizing our commercial strategies.

Our second priority is to release capital by reducing working capital and through divestments. We will do this by optimizing our working capital and cash flow management. The divestment process of our Beihai sites in China as well as its forests is ongoing and according to our plan.

Our third priority is to improve our competitiveness through a revised asset strategy. We will do this by achieving competitiveness through focused, timely and relevant capital allocation in our core businesses and assets, optimizing our asset footprint by rationalizing, upgrading or expanding our production sites.

Our fourth priority is to manage talent and build a performance culture. We will do this by attracting, retaining and developing the best talent in the industry and fostering a culture of collaboration, inclusiveness, accountability and agility.

And now I hand over to our CFO, Seppo, to give us detailed insights on our financial targets, capital allocation, cash flow and our liquidity. Over to you, Seppo.

Seppo Parvi

Thank you, Hans. Let's start by looking at our long-term financial targets. Due to the challenging business environment and unsatisfactory financial performance, we are falling behind most of them. And as you have just heard from Hans, we are taking immediate actions to strengthen the business, short, medium and long term in order to turn around the negative trend of growth, leverage and returns.

Very critical going forward is a healthy balance sheet. Our target for net debt to operational EBITDA to 2x was not met this quarter and ended up slightly above at 2.4x. One of our focus areas is to release capital through working capital management and divestments like Beihai. These actions are helping us to keep leverage down and to increase liquidity. All divisions with the exception of the Forest division are falling behind the return of capital targets. We have also been getting questions of potential impairments due to the financial performance. This is something that we review annually during the fourth quarter. We shall return to the topic in due course if there is any need for impairments or write-offs.

Next, let's take a closer look at our capital allocation. Our strategic initiatives are progressing according to the plan. We have put some initiatives on hold as part of the ongoing cash flow enhancement actions until the underlying market improves. This year, as you can see in the

left-hand chart, we estimate the CapEx level of EUR 1.1 billion to EUR 1.2 billion, the majority of which is due to transforming a paper line into consumer board at our Oulu site in Finland. It is an investment that is estimated to bring approximately EUR 800 million in annual sales and strengthen our position in the attractive segments of sustainable, renewable and recyclable packaging materials.

One of our long-term targets is to keep CapEx at or below depreciation over the cycle. And after these large strategic investments, they need to quickly revert to the average range of EUR 600 million to EUR 800 million after 2024. Due to the current business environment and to protect our balance sheet and cash flow, we are continuing to be restrictive on new strategic CapEx initiatives for the foreseeable future.

In the prevailing challenging market conditions, our strategic initiatives, mainly ongoing Oulu conversion, was a great short-term pressure on our cash flow and balance sheet. This year, our cash flow after investments has reduced significantly due to poor financial performance, affecting operational cash flow and mentioned high investments.

We now focus on profit and cash generation, and we will act decisively and swiftly. Working capital management, asset portfolio optimization, noncore business divestments like Beihai and complexity reduction will be essential success factors to improve cash flow and profitability. We'll also review the investment priorities for this next year and reduce this year expenditure by some EUR 100 million. And we will come back to 2024 capital expenditure guidance in connection to our Q4 report.

But we have strong liquidity to navigate the stormy conditions. So let's take a look at that. We are maintaining our strong liquidity position to ensure that we have sources to meet our obligations and to support our growth investment plans. We have currently just above over EUR 2 billion in cash and cash equivalents. We also have other unused credit facilities up to EUR 1.9 billion. Important to note is that there are no financial covenants on any of our debt.

I will now hand back to you, Hans, to give an overview of our sustainability targets, innovation and market demand outlook.

Hans Sohlström

Thank you, Seppo. Sustainability is what drives our demand and growth. Sustainability is our strategic business enabler and a competitive advantage. We have clear and ambitious sustainability targets on climate, circularity and biodiversity. And these will remain intact until we achieve it.

Let's now look at how we are progressing towards our sustainability targets and some examples of recent initiatives on our pathway to meet our high ambitions. For climate, in the left-hand column, we are enhancing our energy efficiency and using more clean energy for Scope 1 and 2 emissions. And at the end of this quarter, our production emissions measured quarterly were down by 41% since 2019 levels. For our development in biodiversity, we monitor and report annually on the quality of our forestry operations using impact indicators for biodiversity. Our goal is to have a net positive effect on biodiversity in our own forests and plantations by 2050.

And for circularity, we have achieved 94% recyclability of our products last year and aim to reach 100% by 2030.

I will now provide an overview of our sustainability-driven innovation. I want to show you some examples of bio-based materials and products we are working on to create incremental growth opportunities for the group longer-term. In Biomaterials innovations, we focus on bringing innovative and sustainable materials to the market to replace nonrenewable materials. Through know-how, strategic collaborations and partnerships, we're working to accelerate breakthrough innovations in areas such as biodegradable packaging foams, lignin-based carbon material for energy storage and bio-based binders.

New solutions of renewable materials replacing fossil-based materials are needed. As you can see on the left here, we support brand owners by developing plastic-free protective packaging with our wood-based recyclable and biodegradable packaging foams. Referring to the image in the middle, our lignin-based anode material aims to replace fossil-based or mined graphite in, for instance, car batteries, handheld electronics and large-scale storage systems.

We have recently also invested in a minority stake in a startup company, which develops a promising technology to produce sustainable biographite from renewable feedstock made from wood chips. It is a sustainable alternative that will complement Stora Enso's existing bio-based hard carbon materials development in the Biomaterials division.

And lastly, the right-hand image illustrates various applications using our bio-based binders made from lignin. They can replace fossil-based chemicals that are used, for instance, in furniture, wooden building materials and asphalt.

Now I will move to the outlook. We see continued weak overall sequential market demand outlook for the fourth quarter. For Packaging Materials, demand for consumer and containerboard is expected to be stable at a low level, affected primarily by weak consumer spending and retail outlook. However, destocking is expected to come to an end in the fourth quarter. The same demand trend is also expected for Packaging Solutions where demand for corrugated packaging in Europe is expected to stabilize at a low level.

The demand for pulp is, on the other hand, expected to be slightly stronger, but remain at a relatively low level. Global pulp inventories are decreasing from peak levels, but the global pulp market is also impacted by new capacity entering the market. The demand for sawn wood and building solutions is expected to be weaker due to continued low construction activity. And the demand for pulpwood is expected to be slightly stronger and remains strong for pulpwood for energy use, while the sawn logs market is tight because of high demand in the Swedish market.

So I will now conclude before we move to the Q&A. We are now focusing on actions for profitability turnaround and capital release. Our immediate priorities and actions are to improve our profitability through optimizing sourcing and value chain and by enhancing commercial and operational excellence. We are releasing capital by reducing working capital and divesting our board mill in Beihai and forest assets in China. Our asset strategy aims to strengthen our long-term competitiveness and value creation. Our people are our most important asset, and we are building a high-performance culture and organization across the

whole group. We are progressing with the earlier communicated ongoing restructuring actions. These restructuring actions will improve Stora Enso's operational EBIT by EUR 110 million annually, reduce our workforce in total by 1,150 and make our divisions more accountable and autonomous.

For Q4 2023, we expect continued weak overall sequential market demand. We reiterate our guidance for the full year 2023 operational EBIT to be significantly lower than the EUR 1.9 billion in the full year of 2022. So we are now looking forward to take your questions, and I hand back to the operator.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Cole Hathorn from Jefferies.

Cole Hathorn

I'd just like to follow up on some of the actions that you're taking to improve cash and profitability near-term. On your strengthening long-term competitiveness and asset strategy, how are you able to -- if you divest Beihai, how can you reallocate some of your production in your consumer board business and improve that operating leverage as volumes come back into the future years?

Hans Sohlström

Yes. Thank you for your question. Yes, of course, we have analysed and looked into the possibility to divest our Beihai board mill. And we are convinced that it is not an optimal asset in our portfolio of mills. And when looking at our business, the way we can serve our customers in this segment, we see that we are better placed to do it from other very well-placed assets which are very cost competitive also. And therefore, we clearly see that there are better owners for these assets in China than Stora Enso. So clearly, this has been a part of the analysis.

Cole Hathorn

And then maybe just following up on Seppo with the working capital. Can you give a little bit more color of how you see that developing through the back half of this year and into 2024?

Seppo Parvi

Yes. Like I said earlier, especially in the first half and quarter of the year, working capital was creeping up. And as you can see from today's report, working capital has been coming down already significantly, some EUR 400 million and that continues to release further. And we see -- if you look at the inventory levels, receivables, payables that we should be able to knock out another couple of hundred million euros at least going forward, then continuing to focus on various actions that we are implementing and have started to implement already. But that is, of course, critical when you look at the cash flow and opportunities to improve cash flow going forward.

Operator

Our next question comes from Charlie Muir-Sands at BNP.

Charlie Muir-Sands

I'll stick to two as requested. Firstly, on Packaging Materials, I wondered, given that you're saying for the fourth quarter, you expect the impact of destocking to be behind us, do you have an estimate as to what kind of drag that placed on your performance in the third quarter so we can understand perhaps the underlying run rate as we go -- progress quarter-on-quarter? And then the second question, particularly for Mr. Sohlstrom, given that your -- I think your opening remarks and your comments in the statement this morning talk about asset portfolio optimization, noncore business divestment and complexity reduction, obviously, acknowledging the ongoing plans to dispose off Beihai, but can we be anticipating that perhaps other material assets in value might be put up for sale in the market as well going forward?

Hans Sohlström

Yes. Thank you for the question, Charlie. So first of all, when it comes to the impact of destocking, if we look at the full -- this year, the first 3 quarters of this year, when we look at the volume decline, our estimate is that about half of that volume decline is due to destocking taking place and then the other half is due to, let's say, weaker underlying demand. As you know, our packaging business is to a large extent -- the demand is driven by consumer spending, so retail sales, food, beverage, pharma, health care, daily necessities. And 80% of our group sales goes to -- roughly 80% goes to Europe. So basically, it's very much driven by consumer spending and consumer confidence. And this, of course, has been impacted by the macroeconomic climate with high inflation rates and high interest rates.

And then your question about divestments, I mean, we are -- we don't have any other plans of divestments. But for sure, as a part of our asset strategy, as a part of our group strategy, we are revisiting, we're looking into what is the optimal asset structure within our company and -- but it's too early to talk about any further, let's say, tangible outcomes of that at this stage.

Charlie Muir-Sands

And -- sorry, just briefly to follow up to clarify a comment from earlier around your CapEx. I know you said that you'd come back to us by Q4 on the 2024 guidance. But did you say that it will be after 2024 that the company would sort of lower CapEx to around 1x depreciation?

Seppo Parvi

Yes, exactly. That's what I said that after these two relatively high years, this year, and we expect next year, as you know, to be higher as well because of Oulu investment still moving forward next year. And once that is finalised end of next year or early next, we expect to come back to earlier year's normal level, which is following depreciation and normally the range has been, say, between EUR 600 million and EUR 800 million.

Operator

Our next question comes from Justin Jordan at Davy.

Justin Jordan

I've got 2 quick questions, firstly, for Hans. On Slide 11, you talk about a revised capital -- sorry, a revised asset strategy. Can you sort of elaborate a little what that means in terms of potential changes to capital allocation going forward relative to what Stora Enso's capital allocation has been in the last 5 to 10 years? And then secondly, specifically in Packaging Materials and actually specifically in consumer board, I'm aware, clearly, consumer board demand globally has been impacted by inflationary pressures in addition to clearly destocking. Prices for various grades of consumer boards have fallen dramatically in recent months in both the U.S. and Europe. Specifically for consumer board, can you give us your thoughts on demand outlook? I know you talk about easing destocking, but specifically in the consumer board, what are you seeing? And when we think about 2024, should we be factoring in lower levels of pricing across the various consumer board grades?

Hans Sohlström

Yes. Thank you very much. So when it comes to our asset strategy, it is really -- we are really taking a very close look at how can we maximize the competitiveness of our core assets in our core business. And that is something that we are now really focusing on so that we can develop our asset base and really have the most competitive and the highest quality assets longer-term in our core businesses. That's what we are aiming at.

And when it comes to the consumer board, I think it's one of the strengths in our companies that we have such a large part of our end-use demand driven by consumer and retail, so consumer spending at retail, and it's very much the daily necessities like food, beverage. And therefore, we see that this is certainly contributing to the resilience of Stora Enso longer-term. But as we know, in Europe, consumer spending has -- there has been a slight dip here and that, let's say, a slight dip in retail sales and consumer spending has also had then an impact on our underlying demand for consumer board.

Operator

Our next question comes from Linus Larsson at Enskilda Securities.

Linus Larsson

Yes. I have 2 questions. First, regarding the consumer board business. In your comments, you say that you expect the demand to decline when going to the third quarter of this year. Could you please remind about the contract structure when you talk about the liquid packaging board and folding boxboard or therefore, how much of your, let's say, contracts will be renewed during next 12 months or something like that?

And the second question is related to Packaging Solutions. In your report, you mentioned that the IFRS net profit impact from De Jong was something like EUR 73 million negative during the first half of this year. But if we go to the comparable operating profit level, what was the impact, for example, during the second quarter of this year?

Hans Sohlström

Yes. Thank you for the question. Well, I mean, we see the outlook quite stable, so continued slow demand on a low level. That's how we see now moving from Q3 into Q4.

Linus Larsson

Okay. Great. That's helpful. And then just one more question on the near-term outlook. When you comment around variable costs, you expect those to be down, excluding wood costs. And I'm just curious if you include wood costs, is it still -- is the aggregate still down sequentially, Q4 and Q3, when it comes to total variable costs?

Seppo Parvi

Well, look at the cost pressures, those clearly are easing at the moment, and they are coming down a bit sequentially, nothing significant. So they remain at high level, but the cost pressures are easing.

Linus Larsson

Okay. That's good to know. And maybe if you compare that with the price pressure that you may be seeing in the fourth quarter, what's the net of total variable costs and total price pressure for your products, please?

Seppo Parvi

Well, we are not really ready and willing to comment on the sales price developments. But like Hans said, the market conditions remain challenging. And then that, of course, has an effect both on volume and pricing side. But the positive thing is that when it comes to input costs, the worst is over but like I said, they still remain on a relatively high level historically.

Operator

Our next question comes from Ephrem Ravi at Citi Research.

Ephrem Ravi

Two questions. Firstly, on the point of reducing CapEx 2 years out, and you are also developing the biomaterial kind of businesses and especially I'm thinking about the Lignode project. So if you bring down CapEx to roughly 1x depreciation, I mean, does this mean that projects like Lignode would be funded -- the plant predominantly off-balance sheet or through JV partners? Is that the way you're thinking about kind of proceeding with both the growth and also the CapEx control that you're talking about? And the second question, again, this may not have been top of the mind for the last 6 months, given that you've taken over pretty fresh. But in terms of the equity market, there's a lot of handwringing about impact of GLP-1 on consumer board demand. So given food and beverages is about 35% of your sales, are you seeing any early signs of concern or customers pulling orders, that kind of stuff?

Seppo Parvi

Well, if I start by first commenting on the capital expenditure outlook and at the levels, so like I said, after these 2 high years, '23 and '24, and Oulu investment is ready, we are planning to bring down the CapEx to the EUR 600 million to EUR 800 million level. Now after Sunila closure, we are continuing our Lignode project and continue to run the pilot plant at Sunila. We continue to work

on the production process. We continue to work on the quality of the Lignode and testing that with our partners. And obviously, then once we are ready, we'll come back to the plans for the industrial production sites once time is matured. Now we're obviously also working on looking at the supply chain, what are the optimal locations for the Lignode production once we get there. So that's something we have to come back to once we are further in the project.

Hans Sohlström

And if I continue then on the question about consumer spending, the impact on our Packaging Materials, so it is, of course, a mixed bag. I mean we can see that during this year, there has been slightly reduced volumes in Europe for milk and juice consumption, retail volumes, but there has also been less e-commerce after the upswing in -- during COVID 2020, 2021. But then on the other hand, we see strong, even increase in quick service restaurants, in-house and takeaway type of dining. So that is driving then demand for our food service board grades. So it is a mixed bag. But all in all, let's say, the reduced, let's say, consumer confidence and spending has an impact on our Packaging Materials underlying demand. On the other hand, longer-term, we are confident there will be growth in these segments as we have sustainable, renewable and recyclable solutions, and there is clearly an increasing demand trend for these good solutions.

Operator

Our next question comes from Oskar Lindstrom at Danske Bank.

Oskar Lindstrom

I have a question for Mr. Sohlstrom. You mentioned the book value of the forest lands of Stora Enso, which is obviously quite high relative to the market valuation of the shares at the moment. Do you foresee, I mean, there needs to be some sort of structural change in order to get the market fully appreciate the value of your forest lands or something else?

Hans Sohlström

Thank you for the question, Oskar. Yes, I agree, I mean, you know the methodology for valuing - for the evaluation and valuing our lands. And you are absolutely right. I mean they are representing almost EUR 10.5 per share if you look at the forest land ownership value. We don't -- we are not planning. We don't have any plans for any restructuring or structural actions around this theme here.

Seppo Parvi

But, like earlier, we have been trying to become more transparent when it comes to forest assets we have, how we run it operationally, how the valuation is done. And as you can see, the forest values are holding well even in the current business environment here. And even though the interest rates have been going up, they seem to continue up, but forest prices, if you look at the deals done in Sweden and Finland, they are holding well.

Operator

Our next question comes from Henri Parkkinen at OP Financial Group.

Henri Parkkinen

Just one question regarding the De Jong Packaging. In your report, you mentioned that if we exclude De Hoop, the impact from De Jong was clearly positive, what comes to your operating profit during the first 9 months of this year. Can you specify a little bit more what means clearly positive? Or in the other hand, where we are at the moment, have you been able to lock those targeted synergies when taking into account that market situation has been weak during this year? And what do you expect when going forward regarding the synergies and possible other actions?

Seppo Parvi

Maybe I can take the question De Hoop first and then hand over to Hans on integration and synergies of De Jong. We don't comment single mills and the unit's performance as such. But as you know, De Hoop is a plant that we are now closing. And if you look at the performance of the corrugated business of De Jong, that performance is reflected in Packaging Solutions results that Hans commented also earlier in his part.

Hans Sohlström

Yes, and regarding synergies, we are proceeding according to plan regarding capturing the synergies from this business and the acquisition. However, when it comes to the performance in total of our Packaging Solutions business, including the acquired De Jong business, we are not happy. We are still looking to improve and enhance our profitability margins and performance also in this area.

Operator

Our next question comes from Joffrey Bellicha Meller at Bank of America.

Joffrey Bellicha Meller

I have 3. The first one is, what do you expect to be the contribution from the restructuring program in your Q4 EBIT, if any? The second one is considering your focus on shareholder returns or shareholder value creation, how are you thinking about dividend for this year? And then the third one is about the CLT business in the Wood Products area. Now I was just wondering if you could underline or explain to us how the performance has been in the past 4 quarters there and how you see it over the coming few ones as well?

Seppo Parvi

I can take the restructuring part and the benefits. So like I communicated earlier, we expect EUR 110 million improvement compared to this year out of the restructuring actions that we announced in June and have been implementing now. Taking into account that the implementation has now taken place to the extent of Q3 and some of the actions are still pending and to be finalised, majority -- material part of this EUR 110 million is coming into the result next year. This year, we are talking about relatively small amount effect in Q4 results.

Hans Sohlström

And regarding the question about dividend, you know that our target is to distribute about 50% of earnings per share, excluding fair valuation, over the cycle. That's our target. And it is -- of course, dividend is an important element of total shareholder return. And the question about CLT, we are a world leader in CLT business. And it is a more stable business within our Wood Products division. However, we don't guide on any specific, let's say, profitability numbers for the subsegments within our divisions.

Operator

Our next question comes from Robin Sebastian Santavirta at Carnegie.

Robin Santavirta

Now, first of all, Hans, you spoke about the importance of internal measures to improve profitability and cash flow. Could you shed some light on some concrete measures you plan to make? Should we expect closures of mills, cost-cutting or changes in the business mix? Or what are the key measures you are looking at?

Hans Sohlström

Yes. Thank you for the question. So we don't have any plans for any further mill closures currently. Having said that, of course, it doesn't exclude that, that might also happen longer-term. But there are no plans. We are finalizing the current restructuring program now during Q4. And as said, we see that the EBIT impact of these restructurings will be EUR 110 million on an annual basis. But we are -- in a very systematic way, we are working on margin improvements in all our divisions in the whole group. We are focusing on sourcing -- optimization of our sourcing, optimization of our total supply chains in the various businesses. And we are also looking into various operational excellence and commercial excellence programs to enhance and improve our margins across the businesses. So there is a wide span of various actions that we are now taking in all the various areas to improve our margins and improve our competitiveness.

Robin Santavirta

The second question I have is related to the Finnish production platform and the competitiveness of that going forward. If we look at wood raw material costs, the most important cost item of your business, it's gone up quite significantly during the past few years, partly due to the lack of Russian wood raw material imports. How do you see the competitiveness of your production platform in Finland? What can you do to offset potential higher wood cost down the road?

Hans Sohlström

Yes, you are quite right that wood costs are high in Finland and partly, it is due to the lack of imports from -- of wood from Russia. However, I mean, we are -- it's a part of our asset strategy that we are really looking into within these conditions to have -- to be able to develop our core assets so that they are cost competitive also in the current circumstances. So it is really about improving your operational efficiency, it's about capital allocation so that we clearly develop a debottleneck, and we make clearly targeted capital allocations and investments in our core plants and operations in order to see to it that they are the most cost competitive also in this higher-cost environment.

Operator

[Operator Instructions] Our next question comes from Peter Ossowicz at Serone Capital.

Peter Ossowicz

Just want to follow up on a couple of things. So first of all, could you give us a bit more color on how the trading developed over the quarter? And we have heard from some of your competitors that summer was particularly weak with August being very weak and September seeing a meaningful pickup in volumes and the destocking situation that may be continuing into October. So it will be very helpful just to get a sense how you have seen this progression into the next quarter. And also on the margins, it seems like the margins -- the contribution margins continue to deteriorate. I don't think that the sequential decline in EBITDA, especially in packaging, can be fully explained by the volumes. But we don't have all those numbers. So could you maybe give us a bit more color on how you have seen the contribution margins on the high level developed?

Hans Sohlström

Yes. Thank you for the question, Peter. So well, first of all, regarding the market development, our trade development throughout the quarters, in general, we can say that the part of the business in Packaging Materials that really led the volume decline was the containerboard where we could see the first signs already during end of last year. And then throughout this year, there was a volume decline. And also in the containerboard area, so for corrugated packaging, the market and demand stabilised first, whereas then in consumer board, we could see a slight demand decline continuing. So clearly, containerboard was leading in this weakening market conditions.

And then regarding the contribution margins, I think we cannot really give any further or more precise guiding here. I mean there are differences, of course, in how the costs develop in various countries and various operating areas for us. As we just discussed here, one thing that is still a burden on our cost structure is the pulpwood costs in Finland specifically, which have come slightly down but are still on a relatively high level in a historical perspective.

Seppo Parvi

Maybe I could add that on margins, obviously, especially on containerboard, but also in some other businesses, because of the challenging market conditions, there has been quite a lot of price pressure. And in containerboard, especially it has been felt on virgin board because of the wood prices, especially pulpwood, still in the last quarter rather creeping up. Now it's stabilizing, not going up so much anymore, while recycled paperboard has been going down as a material cost. So that has caused some additional pressures, especially on virgin fiber side.

Peter Ossowicz

Okay. That's very helpful. But just maybe following up on the first one, have you seen any progression within the quarter as in like September being better than August or than July or the quarter was more or less -- all the months were similar?

Hans Sohlström

Well, we don't give any more precise guidance there. I think when you go on a monthly level, it starts to be very, very precise. So...

Seppo Parvi

But if you look at Q3, I think it's pretty much still in line with our guidance of the Q2 report that the challenging market conditions have continued.

Operator

Our next question comes from Andrew Jones at UBS.

Andrew Jones

I just wanted to ask about your broader views on the pulp market because I noticed -- I mean, you seem a bit more downbeat in terms of the commentary compared to maybe what we're seeing in pricing. I mean, apparent demand in China seems to be through the roof. There's rapid price appreciation going on at the moment. I saw you sort of call out some of the potential negatives about capacity additions and so forth. I mean how do you see Chinese demand and demand overall shaping up in the coming months? And do we -- do you see the market still being in an oversupply situation? What's driving that sort of apparently slightly cautious comments around pulp?

Hans Sohlström

Yes. Well, it remains to be seen, of course, so how the pulp market develops. I mean, you are absolutely right that pulp prices have been moving up in China since the bottom end of Q2. And -- but we believe that there is a part of this, which is due to restocking at very low pulp prices and probably also a part, which is driven by some recovery in underlying demand. However, I think it's also important to remember that there is a lot of new capacity coming on the market during the second half of this year. So we just want to be cautious also here. And I think it's too early to say that there is like a sustainable continuous, let's say, now upward trend there. So -- and I think it's also important that we will do whatever it takes to improve our margins and profitability with our own actions. So that's what we are focusing on.

Andrew Jones

Okay. And just a question on broader strategy. I mean, you've communicated a few things today, but it seems like the restructuring and asset closures, you're comfortable with where you are on that. The existing projects are sort of continuing. I mean I'm wondering just big picture, like -- and maybe it's early days, but like what -- how do you see potential for the company to change under your leadership compared to your predecessor? And I'm thinking about some of the things that maybe your competitors are doing, like we've seen SCA adding wind capacity on their forest land. Is that an opportunity you see? Or I mean, how do you see your approach to the company differing from Annica's?

Hans Sohlström

Thank you. Yes, I mean wind power absolutely is an opportunity also for us. As such, we have a strategy. We continue to execute on the existing strategy and certainly will at some point also be reviewed by our Board of Directors, but we continue now to execute on the current strategy. And certainly, there will be an occasion to talk more about that then later on in due course. Now our focus is very much on restoring, improving our margins and focusing on cash flow improvement.

Seppo Parvi

And just to that, you mentioned the new wind projects, that's obviously something that our forest previously is also working on. But just to keep in mind that those are quite long-term projects, takes quite years if you take into account the permitting and the whole process.

Operator

This concludes the Q&A session. I will now hand back to management for closing remarks.

Hans Sohlström

Thank you very much. So as a summary, our top priority is to improve our profitability and cash flow, and we focus on delivering value to our shareholders. Thank you all for joining, and we wish you a great day. Thank you.

Seppo Parvi

Thank you.

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