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KEMIRA.HE - Q4 2019 Kemira Oyj Earnings Call

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PRESENTATION

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good afternoon, everyone, here in Helsinki and those following us over the webcast. Kemira has today published its Q4 and 2019 results. And during this event, we'll go through the main points of the Q4 and the whole year 2019.

So we'll start with our President and CEO, Jari Rosendal; followed by our CFO, Petri Castrén. My name is Mikko Pohjala, I'm the new Head of Investor Relations since last December. And after the presentation, you'll have the chance to ask questions here in Helsinki and also over the webcast.

But without much further ado, Jari, please go ahead.

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

All right. Thank you, Mikko. Welcome, everyone, and we have now closed and packaged 2019, and you've seen the announcement, so let's give that a bit more color.

If I summarize, 2019 was a good year of development and getting our profitability to the right targeted level. We have, for a number of years, worked systematically in all fronts to improve our performance, and now we can see after '19 that it's visible. We naturally intend to continue on this path and increase our operative EBITDA also in 2020 even if the operating environment, at least short term, looks more challenging. The 2019 good performance actually was follow-up of the second half of 2018, where the performance already started to materialize. In Q1, we had good profitability, but obviously, year-on-year comparison, we had an easy comparison quarter in 2018. Q2 and Q3, especially Q3, are seasonally strong for us, and that's how it showed to be also in 2019. The Q4 is seasonally typically a bit more softer for us, some seasonal businesses and winter comes to the northern parts of Western Hemisphere. And there are some destocking happening in the value chain typically at the end of the year. And this year, the destocking, especially in oil and gas shale, was probably a bit bigger than we estimated, but also demand from the customers were slower, as we already alluded in Q3 announcement. We increased our operative EBITDA for the fifth year in a row, and also our cash flow after investing activities for the year was very strong.

So let's look at some highlights. Demand for the year was good in all areas and most of -- throughout most of the year, but as said, shale softened and Pulp & Paper softened somewhat. Value over volume strategy has worked well, and now we are more in focusing on active price and volume management. Our investments coming online. We're running slightly late, but we have now completed 3 new production lines and ramping or about to ramp them up. AKD and fatty acid chlorination in China, which you know about, CEOR polymer in Netherlands, but then there's a new one which we haven't talked about earlier for certain business reasons. We invested close to $20 million to North America and added a line to our bleaching business, which is going to be ramped up after next week, so this is a new one. The AKD plant and the Netherlands plants are now running. We did have some extra cost from the start-up, but those are now behind us. All in all, if we look at our performance and operations from sales, from sourcing, from manufacturing, from supply chain and delivery, we were doing quite well last year. Also, our customer and employee satisfaction improved, and I'll talk about that a bit more later.

So looking at 2019 numbers, we did lose some volume, partially intentionally, to drive our pricing and catch up with the input cost increase that we saw so in 2018 and early '19. We have now in pricing mostly caught up, some pockets still to fix, but that's more day-to-day normal business. Our operative EBITDA last year increased clearly and was EUR 410 million and 15.4%. And we did improve in all areas and subsegments of our business. So all -- so both segments and the regional areas improved. Biggest improvement in Oil & Gas to previous year. And in all subsegments shale, CEOR and Oil Sands. A real clear improvement historically challenging water business in North America now running at a much better profit level and is a big contributor to last year. But as I said, Q4 for shale was challenging, and then the 2 new plants experienced start-up costs that hit Q4. Earnings per share up by 24% to EUR 0.72 per share, and very strong cash flow for the year. We were struggling with high inventories during the year, and we were bracing for start-ups of the plants and potential hard Brexit, which obviously didn't come. But at the end of the year, we were able to drive the inventories to the right level and driving our cash flow. Based on improved profitability and cash flow, the Board of Directors is proposing a dividend of EUR 0.56. I get to say that for the first time, so after 8 years, an increase of EUR 0.03 per share.

Then a look at Pulp & Paper. Revenue clearly over EUR 1.5 billion, and organic growth came down slightly in Q4 mainly due to our own planned actions and product mix optimization. If I exclude from the full year figures the ECOX closure that we did end of 2018 and the price drop on the caustic soda, which we mostly trade through our books, the organic growth through 2019 was about 2%. Operative EBITDA margin improved to 14.3%, burdened by the extra start-up costs in China in Q4. We improved our operations in all regions, but especially North America in Pulp & Paper, improved last year. Some softness in the near-term markets, however, outlook remains positive. The strike here in Finland for our customers in Pulp & Paper is over as of today, some impact to Q1. The 2 new plants, AKD and the chlorate plant in the United States starts to now contribute from Q1 on gradually.

Then, Industry & Water, and the Industry & Water was obviously our star improver during 2019. Revenue exceeded EUR 1.1 billion and organic growth was above 4%. Water treatment market was solid and continues as solid. Shale markets strong during Q1, 2 and 3, but as said, slowed down during Q4, and it slowed down a bit more than we expected even. There has always been seasonal slowdown, but this one is -- this time, it was a bit stronger, and probably a bit more destocking took place at the end of the year. We already saw some recovery in January. Maybe it's some restocking then. Operative EBITDA, EUR 125 million and 16.9% from revenue, and despite the Q4 start-up cost in the Netherlands. So good performance for I&W.

Then a bit more deeper dive into Oil & Gas. Revenue growth during the year, 23%, and ended up at 929 -- sorry, EUR 292 million for the year. When you look at those quarterly sort of historic revenues, you can see the seasonality from Q1, starting from a lower level, also Q4 on a lower level and then Q2 and Q3 being stronger, and that's pretty much the tendency that we can see. Shale, I talked about, and -- but we expect shale to recover during the spring time once winter starts to be over. That is not only our own assessment. We listen to the customers and the market trends and talk quite a bit, but obviously, it remains to be seen. CEOR in the North Sea is steadily growing and now with the new line and in-source, the capacity, the profitability is starting to be better. And also, we have room to grow our deliveries, and the customers are taking added deliveries. The seasonal Oil Sands business in Canada runs from May to October, and we did improve our game in that business year-on-year and now, the profitability is on an acceptable level. But please take into account that we have some deliveries in Q4, hardly any deliveries in Q1. And then Q2, Q3, early parts of Q4 are the weight point of the deliveries. And now that it's profitable, it also plays into the profits of the quarterly gain. We are also constructing a new EPAM line in Mobile, Alabama, and that will start-up in the first half of '21, so we remain optimistic of the Oil & Gas markets.

Then taking a bit longer perspective. If we look back, and I've been always talking about the 4 main product lines that form 80% of our business. Bleaching chemicals for Pulp mainly does go to other industries also but mainly to Pulp industry; coagulants for water treatment; industrial and municipal polymers for water treatment; papermaking, boardmaking, tissuemaking and oil and gas applications, and oil and gas is the biggest consumer of polymers. And then sizing and strength for paperboard and tissuemaking. So those are the 80% that form the backbone of our business and they are the drivers for the specialties that then form the other 20% of our business. And if you look at our strategy execution of investing into these areas, I won't read through the list, you can see it, but we've been quite diligent on investing to these added capacities in these regions, what you can see on the list. And the idea has been that, that drives our organic growth, but especially our profitability as these new investments need to yield more than our targeted 15% to 17% operative EBITDA.

So summarizing just simply our strategic focus areas. Customer excellence, obviously, being one thing; and pricing and volumes and all kinds of things under that. Closest customers with our expertise is one of the 4 focus areas. Product and service excellence, right product mix, right service, right performance, right side services and expertise in offering not too little so the customers are not happy, not too much so that it's not optimal for our profitability. Operational excellence from end-to-end thinking of -- from sales to sourcing to manufacturing and supply chain. Customer support needs to be on a high level with safe and sustainable operations. And then margin excellence, driving asset, not just our manufacturing assets but all the assets we have in an optimum way, and constantly working on volume planning, pricing, sourcing, logistics and inventories and driving the game that way.

The first one was customer excellence, and we measure customer satisfaction constantly. You can see the results from the last 4 years, and our Net Promoter Score has steadily increased during the last years, so meaning that we are valued and appreciated by the customers year-on-year more. And this is quite a good result as we've been quite strongly increasing our prices the last year, 1.5 years, and still we get improved results. We get higher scores in delivery accuracy, technical knowledge and service level, ease of doing business with us. By far, we're not perfect and we need to continuously improve. But as we measure and get individual and regional customer feedback, we also know where we can and need to improve and obviously, that has resulted into better feedback from the customers.

Also, I mentioned employee engagement. And in Q4, we measured our employee engagement, again, strong results in the engagement of our people, 6 points above the industry benchmark. Clear improvement in employee safety, and our TRIF is 2.1 last year, which is a really big step forward and 2.0 actually is the chemical industry best-in-class benchmarks. So this remains to be a really big point for us going forward; it never stops. But I'm a firm believer that it also drives our efficiencies, no disruptions and so on when we operate safely. So if we look at our customer feedback -- our employee feedback, I feel that we're fit for fight taking on the challenges of 2020.

We, in 2013, set our ongoing sustainability targets. And by the end of this year, the targets come to an end and then mostly, we are reaching our targets. So we'll be updating them this year. During the last 7 years, if I think of greenhouse gas emissions, we've taken them down by about 20% per ton product produced, so we're about to reach our targets that were set in 2013. So today, we are updating our greenhouse gas targets, and we intend to work on scope 1 and 2 from our manufacturing operations and from our energy purchases. In scope and 1 and 2, we intend to decrease emissions by 30% in the next 10 years. Our 2018 level, which is the comparison point, was 0.93 million tons. And by '45, we'll be carbon neutral. We'll obviously work on Scope 3, that's our suppliers, and there's more work to do, but we've looked at our product recipes and what we can do there and how we can push our suppliers. Especially, we will work with our customers to help them to drop their greenhouse gas emissions, and I think this is a bigger absolute area where we can benefit the world as the 1 million tons is a rather small number, but we still take it very seriously. We support the Paris Agreement targets, and we have clear science-based plan how to reach these targets. They're plausible and they're also economical, so we have really thought through how we will go forward in these -- with these targets.

So summarizing and looking at the focus areas for 2020. Continue the active pricing and volume and utilization management as, if volumes drop, production variances go up. So we need to optimize those now and look at the markets. Continue to improve customer satisfaction with right products and right level of service, meaning improving our competitiveness where we need to improve it. Continue to optimize our product portfolio and service offering to the right level. That's really working with our margins and with our capacity on how to get most out of our assets. Continue to work on operational excellence. We have gotten better in our value chain, but it's a complex operation. So there are more opportunities to improve, and I believe we have good opportunities to improve. We capture the benefits of the 3 new assets that are coming online and get them to contribute to the bottom line. And then we continue the ongoing polymer investments in United States and in South Korea. And have, obviously, prudent cost control. And there are things, obviously, happening in the marketplace, so we need to carefully follow what's going on, and adapt as need be to the market environment.

I conclude here, and I'll ask Petri to come and give some more light on Q4 and 2019 figures.

Petri Castrén *- Kemira Oyj - CFO, Member of Management Board & President of Americas*

Thanks, Jari. So 2019 was a strong year and good cash flow, with perhaps some weakness in the Q4. And the way I see the issues that we need to address or we're trying to address today is what is happening with the shale demand or what happened with the shale demand, the start-up costs for the 2 new plants, also the capacity utilization and, I would call, fixed cost absorption for those 2 -- for polymer plants, in particular. And also, the way I see no issue or positive should be pricing and variable cost environment because that is really continuing in a good way. Our CapEx and our new investments, Jari talked about those. I think that's a good story. And then obviously, cash flow. But anyways, I'll try to address all of those points.

So let's start with the traditional price cost picture. So even if the growth was slightly negative -- a slight negative as the continued positive sales price impact was quite -- was not quite enough to offset the volume decline. And really, we can say that the volume decline was mostly associated with the demand dropping in shale. And if we look at the profitability bridge, I think the key 3 points are, again, like I said in the opening: good momentum in the -- continued momentum in the sales price development. We're still getting the benefit of some of the price increases that we have done throughout 2019. So on a year-on-year comparison, we'll continue to see the good story there; variable costs. The direction is still -- is quite positive. Actually, the variable costs coming down. In fact, I believe, this picture is perhaps a bit too positive because like Jari was saying, a lot of that is caused by the caustic price -- global price of caustic coming down and mostly, it's a pass-through product for us, and so that doesn't really help in the profitability in that way. And actually, we believe that the caustic is still coming down in 2020.

The other part -- other thing in this chart is, obviously, the significant other costs. And this is now where we -- where you can see the start-up costs from the new -- from the 2 new plants. So this includes some of the extra fixed costs that we really needed to incur, and this is also where we see the unabsorbed fixed costs when the production was down when we were ramping up these 2 plants. And if you look at this chart and compare this to previous quarters, you'll see this number is clearly bigger than it traditionally has been. So I would say, about EUR 5 million or so was really -- can be associated with those start-up costs. And the good thing is that, honestly, based on January results and knowing what we know, this is largely behind us, so these costs are really -- was mostly onetime and they should not repeat themselves. The plants are running much steadier now in Q1.

The other thing which I'd like to make here, make the point that, obviously, we had low capacity utilization in our North American polymer plants, one that was providing product for the shale. And obviously, that's really driven by the shale demand down. So obviously, we did not produce all that much. But we also, because of the seasonality of the Canadian Oil Sands business really in Q4, we had very low production. So again, those -- that market situation caused really extra fixed costs because there was no production to offset the stranded costs. And already now, we -- under the long-term contract, we're already now producing full steam for the Canadian Oil Sands, so that issue is really solved, I would say. And then obviously -- shale is somewhat obviously uncertain, but like Jari was saying, we did see some more pickup already in January. But there, I think, we -- it's fair to say that there's clearly uncertainty regarding how the market will develop over the full year.

Final comment I'd like to make about fixed costs on this chart. At least I'm very happy about the fixed cost management. So if we ignore or eliminate currency impact, also the fixed cost for the new plant in China because that's not really comparable, and then higher incentive accruals, which we incurred in 2019, eliminating those, the fixed cost increase was approximately 1% for the full year. We have about EUR 600 million-or-so fixed cost basket or total fixed costs, so the increase was roughly EUR 7 million against that whole basket. So that is clearly lower than the rate of inflation. So obviously, we have been able to achieve sort of efficiency savings in many areas. And this is not headcount primarily. There may be some headcount efficiencies, but really looking at fixed cost savings in all areas. And again, this is done without any sort of major restructuring program. There were some of that, but obviously -- and this is something we will continue. And it's a steady state part of the cost containment that Jari was sort of talking as one of the focus areas for us going forward.

I think the main point here is that there is really no change. So this picture is really very positive, continues to be, so that even while we see the rate of increase for sales price is coming down but actually, the rate of decrease for costs is coming down at the roughly same level, so the net positive was still approximately EUR 30 million for the quarter. This is what you can see on the right hand of the chart. And obviously, the left hand is a cumulative 12-month picture of the same. So that shows the same picture. So in that sense, our story is good. And the way we are looking into 2020, the raw material environment, this looks relatively benign. So the -- overall, the whole basket that we buy is rather flat or slightly even negative. There may be some, and there are some individual items, which are going up and which may actually trigger some of our own pricing moves, going up meaning. But over the basket, it's relatively flat to slightly negative. And that typically is a good environment because really big changes up or down, those are the ones where the pricing is much more difficult.

Then I have a slide on items affecting comparability. So we actually took 2 provisions or -- one was a new provision and one was an increase to an old provision. Anyways, these are dealing with old known liabilities. I'll take the litigation reserve first. So those of you who have followed us longer, remember that we used to have 3 old -- 3 cases coming from this old alleged infringement of competition of law coming from the 1990s: one was Helsinki, one was in Northern Germany and one was in Amsterdam. The first 2 ones were settled, and now we took a reserve or a provision for the third one. I think we're still ways before the -- actually, the case will be decided on its merits. But nevertheless, it was a time that we tried to estimate what the provision should be, and this is the provision that we have booked.

The second thing is an increase to an existing provision. So we -- in 2013, we closed the site in Finland, actually in Vaasa. And we estimated the environmental cleanup costs at that time. Now that we actually have submitted plans how we will do the actual cleanup, we obviously updated the cost estimate and realized that we need to increase by roughly EUR 8 million the provision for that cleanup. And again, we are now -- with the authorities granting us permission, we'll be starting to cleanup already this year. It has been a long time waiting for the plans to be approved.

Cash flow, clearly, very strong and big highlights for the quarter and for the full year. So even if we want to adjust the comparison has a EUR 28 million impact -- positive impact for the 2019 cash flow figure. But even if you eliminate that, you'll see that we improved cash flow approximately EUR 150 million versus last year. I didn't go back to Kemira's history, whether we have had a bigger operative cash flow at some point, but nevertheless, at least the time horizon that I'm looking at, this is a really a great achievement and the best number there. And really, the key points or how this was achieved: one, of course, improved profitability. We talked about that already; efficient working capital management. For example, we reduced inventory by more than EUR 40 million from June or in Q2 level to Q4 to end of the year. Our capital expenditures were right in the middle of the guided range. We have been guiding EUR 180 million to EUR 220 million. We were right in the smack in the middle of that range. And also in 2019, we did have a EUR 15 million sort of onetime positive, which came from the capital return from our pension fund, which is still well funded.

So some guidance for 2020. CapEx estimated to be approximately at the same level, so roughly EUR 200 million. And again, the biggest expansion investment is the polymer new line in Mobile, Alabama that Jari was talking about. The pension fund return will not repeat itself in 2020. And then fair to note that our incentive accruals in '19 were roughly EUR 20 million higher than 2018, so that means that we will pay about EUR 20 million more during Q1 and Q2. So this will be a cash outflow in the coming years, so perhaps so when you think about your cash flow modeling, so don't put all of this and then plus because there are those 2 things which will impact to the other direction. And again, I'll remind that we do have a seasonal rhythm in our business and in our cash flow, so cash flow will be stronger in second half of the year versus first half. And by the way, that's clearly one of the reasons -- or the key reason why the dividend, which we are now proposing to increase, will be paid in 2 installments: one in April and one in November, obviously assuming that the AGM so approves.

Capital efficiency. So clearly, a big step change to 11.2% ROCE, and this was driven clearly by the -- mostly for the I&W, Industry & Water; profitability improvement and obviously, step change from the 9% to 10% level where we have been. Also looking at the debt level and sort of financial flexibility. So even as we are reporting that the debt -- net debt increased by EUR 70 million, in fact, when you look at apples-to-apples basis and eliminate the IFRS 16 impact, there was a reduction of EUR 64 million with, obviously, associated profit improvement, which then turns that the leverage ratio, we report 2x. But again, if you compare apples-to-apples, we were 2.3x in '18, and sort of pre-IFRS 16 numbers would show us 1.7x. So more than 0.5 turn leverage reduction in 1 year. And obviously, that's a very good achievement. Obviously, it gives us also some additional flexibility should we see opportunities whatever they are. Not that I'm hinting that we're right working on an opportunity, but nevertheless, it does give us some flexibility.

And okay, Jari already mentioned the dividend. So dividend policy has been to pay a stable and competitive dividend. And regardless of our history, it does not mean that dividend is carved in stone. So now after the good year of profitability and cash flow, the Board is proposing to increase the dividend to EUR 0.56 per share. And again, I mentioned that the seasonality aspect of our cash flow, and that is obviously the logic why we are proposing 2 installments. And also like to note that this is only a timing issue, so our Board is not withholding discretion to not pay the second half. So this will be paid and it's just a timing issue.

Jari was -- obviously talked about some of the things in the business environment and how our investments are expected to improve and contribute in 2020. There are some risks, of course. The coronavirus, the most recent one. Fortunately, the paper industry strike got settled yesterday, but we are not fully through the strike season, if one would say that, in Finland, so that is a potential risk as well, but we believe that these risks are still manageable. And against that, we have given our guidance. Also, you noticed that we have dropped the mid- to long-term from our financial guidance, so now these are financial targets. They used to be mid- to long-term financial guidance. And obviously, the logic is that now we are at 15%. 15% to 17% EBITDA range, so there is no point of guiding you to think of some time -- some period in the future. The future is now, in that sense. And finally, our outlook for 2020 is that Kemira expects the operative EBITDA to increase from the prior year's EUR 410 million level.

With that, I'm turning to questions now.

QUESTIONS AND ANSWERS

Mikko Pohjala - *Kemira Oyj - VP of IR*

Many thanks, Petri and Jari. So we can start with the questions. We'll start here in Helsinki. (Operator Instructions) Anssi, go ahead.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

It's Anssi Kiviniemi from SEB. A couple of questions from my side. First of all, starting with shale. Some destocking, some weakness, some restocking perhaps in Q1 and some positiveness after that perhaps, but kind of what are the customers saying? Has the shale market kind of reached the level that it's going to be flat going forward for your products, or are the customers looking for further investment opportunities to -- and basically, which could provide growth for you? So is it a decline, flat or growth kind of indications you are getting from customers?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, they are also a bit puzzled at the moment, so -- especially the service companies are in a situation where their visibility is not that long out. And there are several types of end customers in the shale gain. The small and medium are pressured by their investors to drive their cash flow. So that's what we think they were doing at the end of the year and driving then their -- also their destocking. A couple of previous years also, us the suppliers are now -- our peers and competitors -- we have been tighter with capacity. So even if they wanted to destock at the end of the year, they didn't dare to because they didn't know if there's the capacity to restock in the beginning of the year. I think that might have been a bit stronger thing, this year change.

We think and believe on the longer-term viability of the shale. If you look at the output of U.S. oil, it's peaking at 30 million barrels per day at the moment. It's come in the last 2 years from 10 million barrels, so all the difference is coming from shale. And now the question, obviously, is that WTI is at around $50, $51, so then that also drives it. So not a great visibility, but we are a firm believer that the summer season will be an active season again. And the difference from 2015, '16, '17 is that the oil majors are also now in shale, where they weren't at that time. And they're thinking in the shale. And especially, in all things, longer-term than quarterly gain.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Then a question on the provision related to the infringement of competition law. Is this basically a counterparty risk? Or could this escalate to be in a more European Union-level risk? No?

Petri Castrén - *Kemira Oyj - CFO, Member of Management Board & President of Americas*

No. This is an old case, which actually was -- EU gave its own verdicts years ago, both -- long time before Jari and I were here. So the EU level thing is in the history, and this is now a private claim about this. And it is the only case which is outstanding of the original 3 ones that were there.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay. Then the last one, first-in-line focus area, I wrote it down here, it was active price management and improved capacity utilization. There's a little bit change in wording in Q2 -- Q3, you still was all about active price management. Does this mean that the kind of value over volume idea, you are kind of phasing it out? Or how should we read the change?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, you sort of read it correctly in a sense that we also have to look at volumes because it drives then manufacturing variance up. So utilization rate in certain products, especially now, polymers and shale is important. And there, we need to look at how we take business. Remember also that the North American oil and gas is most spot-like business, it's not contracted business, except in our in our Oil Sands and CEOR businesses. So when you think of our Oil & Gas business, Oil Sands and CEOR is steady as she goes, with the exception that the Rotterdam line is now up and running and has a better price point for us.

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

Markku Järvinen, Handelsbanken. First of all, can I ask you about the dividend policy. Congratulations on increasing the dividend, but you're still sticking with the old policy of stable dividend. What would have to happen for you to have a policy of increasing dividend?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, that's a different topic then. We didn't think about this time of touching that point. We just thought that it's right that we increase it, and we can come back to the policy maybe later after we rethink it.

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

So you are thinking about it?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Obviously.

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

Good. Then if I could ask about the strikes in Finland. Did these paper industry strikes have an impact on you?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Absolutely did. So Pulp & Paper and board mills are down for 2 weeks plus the shutdown days and now the ramping up days, so we can look at it more as 2.5 to 3 weeks. We were able to run our plants. So I'd say [Oil Sands and Oil], mostly bleaching and some other chemistries. So we do have other customers also for those and we can export some of the products, but we definitely will feel some millions in the first quarter. I can't even give you the number if you ask at the moment because we're still evaluating the impact. And then how fast and how high will they ramp up in the coming week.

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

It's Harri Taittonen, Nordea. Can you recap the start-up or the ramp-up impact with these 3 projects, particularly now that one of the projects was a bit sort of new information? So can you -- you have talked about this before, but just to do a quick...

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, the Chinese technology's new technology for us. So we had some extra cost on starting and then noticing issues and shutting down, fixing and starting again. So pretty normal sort of things, but it's a big plant. We have 280 employees there, and it's one of our biggest plants with high complexity. So it was the variance side that we didn't get product out, but we had all the costs in basically. Now we're running steadily and ramping it up nicely. And even with the coronavirus, our plants have been running in China, and our people are safe. We have some logistics issues on incoming raw materials, outgoing products and people getting to the site and out from the site. But none of our people are sick or infected, and we are up and running. We even sent face masks from outside of China, all 27,000 of them, to help those people. It sounds like a big number, but if you think that we have 800 people in China, you count couple of day per person, it's not that big a number. But anyway, so that was it.

Then in Botlek in the Netherlands, again, a polymer line, same type of issues; some shutdowns and so on, getting it up and running and optimizing. But there we also produced some off-spec material, which we had to write off. And so that's counted as the start-up cost, which is -- unfortunately sometimes happens. So that was it. We do not expect any new cost even with the line that should be starting up next week or the other in the United States. That's more of a known technology for us.

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

Basically remind what the sort of target returns for these 3 all together would be when they are sort of running through...

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, as I said, much higher than the 15% to 17%. And we're looking at -- from China, EUR 50 million to EUR 60 million of revenue when we're fully ramped up. The Botlek one is more of an improvement in profitability and a very steady growth of demand. So that's not month-by-month growth. That's quarter and year-by-year growth, but this is a profitability impact. And then the close to $20 million investment in U.S. also a chlorate type of return.

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

Okay. Okay. One of the points about the complexity that you sort of reduced the complexity, is that sort of the name of the game that it will be with the current asset base or sort of reduce the number of -- sort of the client mix or the product mix? And -- or does it possibly also include some sort of asset restructuring?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Basically all of that. So we -- I used to run a couple of years ago, 2,400 products in our product mix. Now we're at 1,600-plus. So we took that out of the capacity and consolidated that thing. We also did sell and close some operations last year, not big impacts, but small things here and there. Petri mentioned that we did some restructuring in Pulp & Paper related to our European business, so there's sort of care and maintenance going on all the time. We deliver from 64 sites to 100 countries, so you can imagine the supply chain demands that are there. And with today's modern technologies, we can optimize and analyze it much better than trial-and-error type of thing. So that's what we're doing all the time, and that's the BOOST project that we used to have that actually yielded these type of benefits, but we continue to look after those benefits going forward.

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

Okay. Well, the final question, it's a bit sort of broad in a way. And you talked about it already, but I mean you gave the guidance for the full year and just sort of, if you could summarize what other kind of the main blocks that you know that are happening? And well, obviously, things can go differently always, but what would be the main reasons to be able to say that EBITDA will improve after pretty good improvement last year?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Yes. So if we just take the anomalies out from the last quarter and look at our base run rate, look at our base pricing, look at our -- Petri talked about the input cost type of thing. We have some fundamentals there. We have 3 new lines coming and contributing to the top line and bottom line. Our water business is steady, and we have really good line of sight on how that's going in North America, in Europe, even in Asia Pacific. Our Pulp & Paper is mostly steady. We play with strong customers and the [18] customers. So that's more dependent on the world development than what we see ongoing at now. Also, we've seen, at least I believe we've seen, the pulp prices bottom out or should be bottoming out pretty soon. Unfortunately, these finished strikes might have even helped it a bit. And so our Oil Sands business is steady she goes, our North Sea business is steady as she goes. So the real question at the moment is in the shale business, and that's not that huge in the scheme of things, but obviously, we want that to improve. We took the strikes into account, we took the corona into account and so this is how we are confident on giving this kind of guidance for this year.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Any further questions here in Helsinki? Then before we go to the audio line, we have one financial question for Petri. And the question is what is inside the total adjustments in the cash flow statement?

Petri Castrén - *Kemira Oyj - CFO, Member of Management Board & President of Americas*

Total adjusted?

Mikko Pohjala - *Kemira Oyj - VP of IR*

Yes.

Petri Castrén - *Kemira Oyj - CFO, Member of Management Board & President of Americas*

Now that's a tough one because I don't remember exactly. Maybe we'll take that offline. We'll take that offline and give you the number.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Maybe we'll check and get back to this one later on, but then we can do the audio line. And please, operator, go ahead.

Operator

(Operator Instructions) Our first question is from Martin Roediger from Kepler Cheuvreux.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

I will ask them one by one so that it's easier for you. I'll start with the greenhouse gas emissions. And I understand your 30% reduction target for 2030, but you have a long-term ambition of carbon neutrality by 2045, and you said this is science-based. So how do you want to achieve these targets for 2045?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

There, our Scope 1 is only 0.15, and that's mostly that we burn in some of our boilers, gas and such type of energy sources. So those, we will gradually electrify and then we will have that type of emission out. The main point is the Scope 2 in how we buy energy, steam and so on. And there, we have things ongoing. For instance, here in Finland, we're a shareholder of a next nuclear plant planned to start up next year, so that takes us a big step forward. We also, just last week, signed up for -- Petri -- 5 megawatts of wind power from Norway. So testing that market also; so how we buy energy. And so we have a clear road map on what we need to do in what factories.

Our challenge is our bleaching chemistry, and that's why we only have 30% by next 10 years in North America because the North American market is not the European or Nordic market for electric power, and their power is produced to us. Basically, it's a local monopoly, and you can go to Texas and buy wind power. You can deliver it to the southeast. The U.S. has a 7-district power grid system. So we have nuclear, we have gas and we have coal, but that's up to us driving and others driving the power companies to go towards cleaner energy. But those are the steps on how we're going to do it. On plants, transfer those to electrified from (inaudible) and then talk to our power suppliers on how we can go to that direction in 10 to plus years.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

The second question is a clarification question on your statements about the coronavirus. I know that China is rather small, only 4% of your sales. And you mentioned some logistic issues. Is it fair to say or is it fair to understand that you do not expect any material impact for your Chinese business in Q1?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

We certainly will see some impact. I would say, on revenue line, we're talking on a couple of million there depending on how things develop. And we obviously follow the situation carefully. But the situation is much better than I feared when I started to look at -- into this beginning of last week after we had -- sort of had a week of finding out what's going on. So our plants are running. We do have some logistics issues. We have most of our customers -- so far most of our customers in China running. We don't yet know the situation how our Chinese competition is doing and are they running? Is it giving us opportunities in China and outside China? So there are some pluses and minuses in this plan. But I'm sure we'll suffer a loss of some millions of revenue in the first quarter. But on the group level, that's not a material impact, as I see it now.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Okay. And finally, about the visibility of your contracts when it comes to selling prices and raw material costs and putting caustic soda aside, because I know this is just a pass-through effect, so just looking on the -- basically, all the rest. And you mentioned already, you expect some flat or negative basket of raw material costs in 2019. What is your expectation for selling prices in 2019 excluding soda -- caustic soda? And maybe you can also come back to me on remembering me what is the time duration of your visibility of all these contracts? I think I remember it was something between 6 and 9 months, if not longer, of course, excluding shale oil.

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Most of our contracts are annual or multi-annual, and that's in Pulp & Paper and the water treatment. Also, the Oil Sands and the CEOR, those are formula prices based on certain input costs. So that's the way we do it. If it's multi-annual contracts, typically, there's a price check every year. And the more sort of spot type is the shale market. But there, we obviously look at input costs volumes and then sales prices. So we're pretty confident at the moment on the input costs that they're going to be pretty neutral going in, maybe even some benefit in some pockets, but we certainly know some pockets that are going up. And sales prices are quite well now, now locked in. Not for the full year, but for the most part, looking pretty steady. So it's -- I'm not that worried about sales prices, input prices. It's a question of what is the customer demand, what is their production and what is their volume that they're going to need from us because that, we haven't contracted out. We promised them a certain volume, and if we can do more, we'll do more, but prices are a lot, so it's all about volume now.

Operator

(Operator Instructions) Our next question is from Robin Santavirta from Carnegie.

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

I was wondering about this -- the comment on the Pulp & Paper business slowdown or sort of somewhat softer outlook now start of the year. Is this related to the strike in Finland because obviously, that is, as you said, something that impacts you a bit? Or is it related to what is going on in Asia? Or just overall a bit of softer market in that area?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, it's more overall. It's not related to the strike. That's sort of an unfortunate onetime incident. And the length of it couldn't be estimated easily. But it's more related to how the pulp prices came down last year. And then the customers were a bit -- curtailing a bit more and having longer shutdowns. And also the trade dispute between U.S. and China. So that volume has come down, so affecting packages. We're talking small increments here. But we do have EUR 1.5 billion business a year, so watching that sentiment carefully. Then we also have to look at that. We don't serve the world of pulp. We serve certain customers. So we follow the general trend on what's happening in the markets for our customers, but then we follow what's happening with those individual customers. And it's not everyone in this world, so I think we have really good quality customers and plants that we serve.

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

Sure. And then related to that, there's 2 to 3 new pulp mills planned in Latin America. You mentioned you have sort of a solid base of customers and you are very strong in that area. Are these -- any of these projects, I know you can't talk about the single one, but any of these sort of projects that might sort of need a chemical island and that could be of interest for you?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

It might.

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

No more comment on that, I guess?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

No more comments on ongoing negotiations, unfortunately.

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

All right. I understand. And then I was just wondering about this shale business slowdown. You obviously highlighted it already earlier in 2019. But is the concern now the volume or the price? And how has the price acted? Because as I understand, the price actually in this area can sort of move quite rapidly in times of weaker or stronger demand. So what -- has the price changed in that segment? And what is the outlook if the rebound is not coming?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Well, it's prices versus input cost versus volume and mostly, we're focusing now on volume and how much demand there is.

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

Okay. And then maybe for Petri, just briefly. On the CapEx, can you, on the top of your head, split that EUR 200 million basically to grow or improvement CapEx and maintain, I guess, maintenances? Is that a bit more than EUR 100 million, and the rest is sort of growth or improvement CapEx?

Petri Castrén - *Kemira Oyj - CFO, Member of Management Board & President of Americas*

Again, I don't remember the exact split, off the top of my head, but that is directionally correct, yes.

Operator

And as there are no further questions, I will hand the room back to the speakers for any final comments.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And before we conclude, there's one more question online. This is for the CEO. And it's more of a strategic question. And where do you see Kemira in 5 years' time?

Jari Rosendal - *Kemira Oyj - Chairman of Mgmt. Board, President & CEO*

Bigger and still in chemicals and still in serving mostly these customer segments. But why not thinking of some other opportunities that are out there also and also improving our profitability and hopefully, increasing also our dividend in the future.

Mikko Pohjala - *Kemira Oyj - VP of IR*

With this, we thank everyone and wish everyone a very happy afternoon. Thank you.

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