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KEMIRA.HE - Kemira Oyj Capital Markets Day (Virtual)

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PRESENTATION

Mikko Pohjala *- Kemira Oyj - VP of IR*

Good afternoon, and warm welcome to Kemira's Capital Markets Day 2020. My name is Mikko Pohjala from Kemira's Investor Relations, and I will be a moderator for the event today. We would have very much like to see you all in-person today, but due to the ongoing COVID situation, our event today is virtual.

With me here in Helsinki, I have representatives of Kemira's management who are presenting during the event. It's now 3 years since our last Capital Markets Day, and Kemira has done significant progress since that in terms of profitability, in particular. Also, this year, we're celebrating our 100-year anniversary.

As announced earlier today, we have updated our financial targets and our dividend policy, and these will be mentioned and covered during today's presentation. This event will take approximately 2 hours, naturally depending on the amount of your questions, and we plan to finish by at around 4:00 p.m.

If we now look at the agenda a bit more in detail. So we have 4 live presentations from here in Helsinki. We will start with our President and CEO, Jari Rosendal; followed by Antti Salminen, President for our Industry & Water segment. Kim Poulsen, who is the segment Head for Pulp & Paper, is unfortunately unable to join due to a knee surgery, and he will be replaced by Harri Eronen, who is the Senior Vice President for Pulp & Paper in the EMEA region. After Harri's presentation, there will be a short prerecorded interview with Matthew Pixton, Kemira's Chief Technology Officer. And this will be followed by our CFO Petri Castrén. And this will conclude our presentation part.

Despite the virtual nature of the event today, we very much hope to hear from you in the form of questions. And indeed, there are 2 ways to present questions today. (Operator Instructions)

Still, before we start, I would like to draw your attention to the disclaimer as we might be making forward-looking statements today. With all of these practical details, I wish you warmly welcome to the event. We very much look forward to active participation.

Now I'll hand it over to our President and CEO, Jari Rosendal. Welcome.

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

Hello, and welcome also on my behalf. Kemira is today fundamentally stronger. We have been doing a lot of work on working on our margins and improving our performance. There's a lot of items that go into it and that has allowed us then to today improve our financial targets and also our dividend policy. At the same time, we see that the markets are changing, which means that we need to adapt to those markets and increase focus on sustainability to be able to deliver growth also in the future.

Since last CMD in 2017 and the strategy launch at that time, we have improved and delivered well. Revenue growth has been steady, not so high, but still growth this year due to the COVID-19, a small dip, but we see that as temporary. Operative EBITDA has increased 5 years in a row and will also increase this year. Also margin has reached the targets that we have set, and that has taken systematic work over the past years.

Our safety record has also improved. And I firmly believe that has also an indirect link to our financial performance. As people are safe, less accidents, less management time in sorting out those accidents, that brings productivity. To avoid accidents, better planning is needed, for instance, in maintenance activities. That means when we execute them, we execute them safely and accurately with good quality, and that's bringing productivity.

We have worked also hard on our product portfolio on developing it, but also making it slimmer and less complex. We have also worked in the last few years on rightsizing our sales prices. Still, the customer feedback, as you can see from the Net Promoter Score, has continuously increased and this year, especially, and that has been the reason that we've been able to deliver during the COVID situation and keep our customers operating, which has been vital.

On this slide, you can see some of the actions, maybe some of the bigger actions that we have announced over the years and executed. And those, step-by-step, have come to the run rate over time. Growth investments into new increased capacity, the greenish color dots; acquisitions to consolidate the market and to strengthen our product portfolio and capabilities, blue color dots; operational efficiencies to improve how we operate and how do we work smarter, the grayish color dots; and then the closing of some operations and bringing efficiencies, the pink color dots.

All of these have been done on a way, and step-by-step, all the benefit has come to the profitability and growth run rate. We have -- activity is obviously ongoing, and those will gradually come to the run rate in the future, mentioning, for instance, some ongoing investments that we have under construction.

And looking a bit more short term, the fundamentally stronger position has carried us well during this year, especially shadowed by COVID-19. All the improvements that we've been doing the last years have now started to get into the run rate second half of 2019 and early this year. So we were well positioned to go into this year and then the pandemic hit in the spring.

For the short while only, we had a very poor visibility and didn't know how this will impact the markets and the customer base. But in a matter of months, we could see that what had happened in the dynamics, what situations had weakened and what had strengthened, and we saw that we can operate in these conditions and continue to develop business. We will be operating under these conditions for some time to go.

Having been a water treatment chemical company for decades, sustainability is deep in our DNA, even so we have increased the importance of sustainability in everything that we do. We have 5 themes that are the focus area in Kemira sustainability plan. Safety, safe production, use of products through their life cycle, strong safety culture. People, strong company culture, diversity and commitment to people. Water, we help ensure safe, clean water and to the people and nature. And we produce solutions to provide safe clean water with water-related risk management also effectively. Circularity, we are making the circular bio-economic reality. We use a lot of circular raw materials, for instance. We improve customer resource efficiency, increased bio-based and recycled raw materials. And finally, fifth, climate and helping to build carbon-neutral society, and we made a commitment that we'll be carbon neutral in Scope 1 and 2 by 2045 and 30% in 10 years from now, and that 30% in 10 years means that we are carbon neutral in Europe.

So that's the summary where we sort of stand today and how we've come to this situation where we are. So let's talk about the future a bit. So after several years of focusing on improving the business fundamentals, we are now increasing focus on growth. We have been focusing on the underlying factors and drivers in the future, naturally focus continuous improvement and maintaining our 15% to now 18% operative EBITDA, but we'll also drive growth much harder. Drivers will be on top of our current fundamental strong position, increased focus on growth on water treatment and bio-based and recyclable materials, especially in the Pulp & Paper where the customer base are strongly asking for that.

The known global megatrends are benefiting us, and the sustainability drive is only getting stronger and accelerated now by this pandemic because of stimulus is driving, for instance, in Europe, the green deal activities. Growing middle-class and urbanization continues to drive the need for water treatment and hygiene products. Growing e-commerce drives packaging and board demand, which again drives pulp demand. Reducing consumption and increasing circularity, chemicals are needed. Demand for bio-based and recyclable products by our customers increases our share of potential market to replace, example, plastics in packaging. Regulation getting tighter and tighter, meaning waters need more chemistry to reach increasing order for purity targets. And fighting climate change also requires recycling biochemistry, improving efficiencies of our own and our customer processes. I think we are very well placed in front of these megatrends.

So what does the megatrends mean for us? Changing consumer behavior and tightening regulation. Our customer behavior is changing the focus. And that's true focus that we need to look at: support our customers in the shift to higher sustainability. We will address growing recyclability, biodegradability and demand for product -- those type of products, gradually transfer our product portfolio to more bio-based raw materials and reduce the use of fossil-based carbon. A big part of our products already today do not contain carbon. That's good to keep in mind, like leaching and coagulant chemicals, which degrade very well after their use in customer processes. On the other hand, to increase the sustainability of our own operations, we will increase the share of recycled materials as raw materials for our own products, reduce the use of fossil fuel-based energy in our manufacturing sites and reduce the waste we produce in our processes.

We want to ensure profitable growth by becoming the leading provider of sustainable chemical solutions for water-intensive industries. That's a tall sentence, but that's what we're going to really do. If we look at our carbon-containing products in our product portfolio, we already have EUR 100 million of annual revenue from bio-based raw materials. You heard about our new AKD site in China, where we deliver globally our AKD to our own locations everywhere in the world. AKD is based on a bio-based feedstock and sizing product, an alternative for fossil-based feedstock sizing products. So it goes to show that we've taken steps already a couple of years back in this type of direction.

Through R&D, through partnering and through potential M&A, will during coming years increase revenue from prior based products fivefold from the EUR 100 million that we have today. The demand definitely is already there. So this is an area where we can grow. But obviously, the R&D and all kinds of partnering is needed.

What does it mean then for our segments? In Pulp & Paper, this means increased focus on circularity, customers are demanding that; focus on investment in sustainable pulp packaging and tissue applications; limiting investment in declining printing and writing applications and dry printing and writing as a cash-generating business. For I&W, this means increased focus on an investment in water treatment chemistries. In Oil & Gas, direct focus to growing less volatile chemical-enhanced oil recovery, CEOR and oil sands tailings treatment business. Tailing treatment in Canada is essentially water treatment of old waste from the bitumen mining.

As we now have sufficient capacity after completing ongoing polymer expansion in United States and that we get completed next year, we do not need any additional CapEx in the future for sale. So we can run sales also as a cash-generating unit. In I&W also, we explore new markets for water treatment, particularly more focused on Asia Pacific. And we will explore more competencies and new potential product lines within the water treatment arena.

So if we then look at the profitability and the growth side of things. And what does that mean for you? So continuous focus on the profitability to disciplined price and cost management; capitalize the investments that we have recently started up in China, Netherlands and the U.S.; continue to look at internal efficiencies, smarter ways to work and complexity reduction; the improvement actions on top of the maintaining and developing, so further profitability improvement in our process and functional chemicals, as a lot of that goes also into the declining printing and writing. We still have further improvement in profitability in Asia Pacific that has gone to the right direction. And we have ample plans in place to further improve it. New investments play a key role on this one. Oil & Gas, we have rightsized the organization this year for understandable reasons. And we are ready to take on growth when the market starts to recover.

And on the growth side, ongoing investments, polymer, in U.S., South Korea; even coagulants in U.K. as U.K. is changing and tightening the water treatment regulation and limits, they need more coagulants to do that; and then the bleaching plant, to name a few; and the bleaching plant in Uruguay following the big investment that UPM is doing there. Our future investment is continue to focus on our 4 top product groups, bleaching, polymers, coagulants and sizing and also focus on water treatment side; selective acquisitions to enter into new regions or add new competencies or products to our portfolio, and capital expenditure to be increasingly allocated towards bio-based opportunities.

As a last slide and summary. So we will focus to -- on profitable growth driven by sustainability. We increased our operative EBITDA target from 15% to 17% to 15% to 18%. So the top end moved, but also the middle point moved. We will drive growth above the market growth organically and potentially also with M&A. We aim to be the leading provider of sustainable chemical solutions for water-intensive industries.

Next, you will hear the segment presentation, and they will give you more detail on that. We are fundamentally stronger, and we are ready to take on this next step in our strategy going forward. Thank you.

QUESTIONS AND ANSWERS

Mikko Pohjala - *Kemira Oyj - VP of IR*

Many thanks for the presentation, Jari. Now as a reminder, there will be a short Q&A session after the 3 first presentations. And then at the end, there will be a longer Q&A session where you can present questions over the teleconference.

But Jari, we have a few questions on line. So if we start with the bio-based products, so do you feel Kemira is well positioned in bio-based products? And where will the revenue of EUR 500 million in 2030 come from?

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

Good question. The -- so we have EUR 100 million. And a couple of years back, we didn't have EUR 100 million. We had much less, and this AKD plant is one increment up in there. We have created other also products that are bio-based. And now we have a number of R&D and partnering things ongoing, where the feedstock will be bio-based. And the customer demand has changed dramatically in the last 2, 3 years. So if we had it today, it would sell. So that's where it basically will come on. But it will be mostly on products where we have carbon as a molecule in there. So we will change that carbon to a bio-based carbon from a fossil-based carbon. But the demand is there.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. And the next question refers to your targeting growth that exceeds market growth. So what is our estimate for market growth in the next 3 to 5 years approximately?

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

Obviously, there's a dip this year due to the pandemic, but we see that depending on an area that we talk about between 2% and 4%. And some areas, even maybe in applying oils and tailings and those might even be higher increments. But the base business of our pulp and packaging and tissue, 2%, 3% a year, and we need to exceed that. And if you look at our track record last 5 years, we have done that.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then there is a question when we talk about profitable growth. So is Kemira willing to sacrifice margins for future growth?

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

In principle, not really. But obviously, when we launch new products to the market from day 1, they won't be that profitable, and we scale it up and so on. So that's a natural effect. Or that we enter into new geographies that we're not that strongly in same thing, ramping up happens there, and then potential M&A takes time to get the synergies out. But the answer is no, we're not willing to compromise, but these dynamics need to be understood.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Then there's a question, can we quantify how much additional growth should we expect in the next 5 years, but you've talked about faster-than-market growth?

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

Faster-than-market growth, that's our aim. And if we can accelerate it also, then we'll accelerate it. But it's a good basis, if we beat the market, then we must be doing something right in front of the customers.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And next question is where do you mostly expect the growth to come from?

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

Well, geographic-wise, Asia Pacific is growing and has been growing over 10% for us, but it's the smallest revenue. So I still see that Americas and EMEA are biggest units. And the absolute growth even if percentage-wise, not so high, will come from there also. And product-wise, our 4 product groups, pulp, polymers, coagulants and sizing, those are the ones that we continue to grow, and there's fundamental growth on those. And obviously, then switching to this bio-based and sustainable products as we launch them to the market.

Mikko Pohjala - *Kemira Oyj - VP of IR*

We have time for one more question from this online questions. And the next question relates to the Oil & Gas business of Kemira. This will be naturally covered in Antti Salminen's presentation shortly. But Jari, if we briefly take this question. So will this business, the Oil & Gas business, remain a key segment for Kemira in the future?

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

Well, key is interesting because it's been sort of 5%, 6% of us, but it's been growing fast before the cycles came down. But definitely, I like the oil sands side because that's water treatment, that's sustainable business. Also, the CEOR is getting more out of oil, and Antti will talk about that. And as I said, we have now about to be completed all the shale investments. So then we can run it again as a cash generator.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And as said, Antti will talk more about this. So for the sake of time, we'll take the rest of your questions that remain unanswered at the end. But at this point, we would like to thank Jari for the presentation, and welcome Antti Salminen on the stage to talk more about industry and water. Antti, please, you're welcome.

PRESENTATION

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

Good afternoon from my side. So I'm Antti Salminen, and I'm presenting to you the Industry & Water segment, which was formed by merging our -- in our previous structure, the Oil & Mining and Municipal & Industrial segments together in 2017. And ever since, we've been then executing on our plans to get the synergies out of this business merger and improve the underlying profitability of the business portfolio.

And now I think it's time to turn our next page in the strategy of the segment and look more to the profitable growth in the future. So basically, what I will be presenting will be a brief look at what we have done, how we have executed, and what are the results. Then a little bit about the markets and how do we see our target markets developing, supporting this growth initiative. And then finally, a few words about our own planned actions at this stage to capitalize on these growth plans.

So basically, we have -- since merging the 2 segments, we have significantly streamlined the business processes and the organization and the product portfolio. So for instance, for those product lines that were responsible for Industry & Water, we have decreased the number of active products by 40%. And we've also closed a few sites to streamline the asset base. And then in Oil & Gas business, we have clearly defined the 3 target businesses that we serve and focused on those and cut out all the other activities, so that we can clearly get the benefits out of that, and we have gotten out of that on the up cycle for oil industry.

Then big part of the work has been going into the profitability improvement. And I think the results speak for themselves. So '19 was an all-time record year in terms of profitability for the segment and 3 quarters into this year. During this really, really challenging COVID year, we've been able to maintain and even improve on that profitability result. And there's been a few areas, especially where we have been working on the profitability improvement, one of them being the water treatment coagulants business in North America. I will say a couple of more words about that, and then also improving the South European part of the water treatment business and then the APAC business. So those areas which we set us targets to kind of improve the profit because it was not where we expected it to be have now improved significantly.

But the results are not only visible in the profitability, the results of the hard work are visible in the other metrics as well. So the customer satisfaction score, NPS, is all-time high now and above our kind of internal targets that we've set it for the industry benchmarks. The safety scores from our employees, they are extremely high, and also the employee engagement scores have improved and are on a high level. So all in all, I think we have executed on those plans that we made and delivered on our promises.

Now looking specifically at our North American business. We restructured the organization, rightsized it in '18. We did a very disciplined customer profitability management program, increasing the prices overall and walking away from businesses, which we could not make to the level that we expect the business to be. And as a result, the business -- the part of the business that historically has been for years the lowest-performing part of the business is now the highest-performing part of the business in terms of profitability.

Now we also promised that we will be investing into polymer products and assets to enable growth. And that we have also executed. So we have now for over a year in Botlek in Netherlands, live; a polymer investment, which supports especially the CEOR business that Jari mentioned already. And we're just about finalizing a capacity expansion in Mobile, Alabama which mostly supports the shale business.

Now it's not only about creating the capacity, of course, but it's capturing the demand and customers. So we've announced that the extension for the offshore CEOR project in North Sea, which is directly supporting then the investment in Netherlands. And then, of course, now our focus has to be then, as the oil cycle turns, to do the same thing with the emulsion polymer expansion in Mobile.

So all in all, as a summary for the performance, we've been able to show that we can keep these high-profitability levels, both in up and down cycle. And I think this is a proof on the basic design that we put in place in 2017 regarding the business portfolio. So we have a resilient defensive business portfolio, which basically where the different parts complement each other. So the basic water business is very stable and very resilient to economic downturns and supports the whole business, but it's inherently a low-growth business. Then the Oil & Gas business is the one, which, in up cycle, can provide the significant growth that we've shown during the few last years before this current downturn and has been also profitability enhancing for us during the past years. So this basic portfolio has now during this very difficult COVID year, I think, proven its strength. And as you see from the Oil & Gas numbers, the hit that we have taken in Oil & Gas business in terms of revenue decline has been very significant this year. And this drop is predominantly coming from the U.S. shale business.

Now I will talk a little bit more about the expectations on the shale recovery, but we already now, in Q3, reported numbers, clearly see that the recovery has started. Now then next, moving into the future, I start, as I mentioned in the beginning, from the markets and looking a little bit at the markets. Also, the impacts of this COVID crisis on our business on a short term and then on the longer term, the other drivers that are driving the market. And then after that, I will move to our.

So looking at the COVID impact into our business, they are very different in different parts of the business portfolio. Municipal water treatment business is very stable and gets very little impact from these kind of an economic downturns. Obviously, there's some very minor impact because of the kind of overall lower activity in the society, but that's kind of negligible in the big picture. And the expectation for the municipal water treatment market is that it will grow with the GDP. So of course, the growth has stagnated for this year, but there's no real hit for the business volumes. Whereas then the industrial part of the water treatment is more dependent on the overall economical activity. And there, we've seen a 5% to 10% drop globally this year, which, I think, is still very tolerable compared to many other businesses and how they have taken this. So again, quite resilient in this part of the business as well, and a full recovery expected when the markets turn up again and the economic activity starts.

Then in Oil & Gas business, oils and tailings part and the chemically enhanced oil recovery, as Jari also already mentioned, are quite stable and noncyclical part of the business, whereas the shale business is truly kind of, in up cycle and in down cycle, driving on the Oil & Gas business cycles, which we have been painfully seen this year. But the expectation is that the market will recover. The recovery will not be as sharp as the drop-down this spring was. It will be more gradual, and regardless to whom in the industry, I speak, all the experts, other industry players are seeing it very similarly that the shale will come back gradually during 2021. And we will -- we expect to get to the kind of '19 levels in terms of overall business volume in shale in '22.

Now this is, as mentioned, really driven by the current oil environment. And I think we are in a perfect position now to capitalize on this recovery of the shale market as we have -- we're just finalizing a brand-new investment in Mobile, Alabama. So we have brand-new assets available to serve this market when it comes back and that gives us the kind of also the short-term growth expectation on the segment level. So really supporting -- the recovery of shale will support our first growth steps already starting next year.

Then other part of our portfolio, this is now more product related, look at it. We are one of the few world leaders in the -- especially in the dry polyacrylamides, so polymers. And this is a global market that will continue to grow for several reasons. First of all, the water treatment business in APAC is growing. That's, by the way, already now the biggest water treatment chemicals market in the world and the fastest growing. So that will further drive the need for dry polyacrylamides. Then the tailings treatment in Canada, those tailings with the current treatment space will be there still after 50 or 70 years. So there's a lot of growth potential in that area.

And then the CEOR business, where basically the oil companies are extracting the last drops out of the existing wells, another area which will be growing. Again, driven by the sustainability trends in the society and economy, we will need to utilize our global resources more efficiently. And all of these kind of free growth arenas for the DPAM business are really kind of in the sweet spot regarding the kind of more sustainable management of our global resources. We have really strong position. We are the, I could say, undisputed leader on the oils and tailings treatment. We have very good and strong technological position in the CEOR business, especially for the offshore projects. And in APAC, for the water treatment, we have really strong brand reputation. The product quality is recognized. But our overall market position is very, very small there at the moment, which, I see, as a positive challenge as there's a lot of room for growth for us there if we just take the right access.

Then for the water treatment part of the business, the regulation is one of the key drivers for the future market development because regulation is driving, especially the wastewater treatment part of the business. Now here, we take a look at the European Union water framework because typically in a global scale, the different regulatory changes, Europe is a leader there, and things tend to start from here.

So basically, EU went through the whole water framework, all the water-related directives first time in decades. And the result of that review was that some of these regulatory directives are okay as such. Some of them need -- are okay, but need more focus on the implementation and putting them in force in different member countries and some of them and especially what is important for us in Kemira, the urban wastewater treatment directive needed the kind of bigger review and renewal.

And what this means for us is that due to the upcoming tighter regulation and more stringent implementation of the regulation in the membership countries, there will be a significant growth in the water treatment chemicals demand because the chemical water treatment is the only way to -- really today to get to these regulatory thresholds. And we see that now quite ironically starting from U.K. So basically, they have been the first mover. And for that reason, as Jari mentioned, we have been starting an investment to expand our capacity there to capture on that growth. Overall, in European level, we expect these regulatory changes to create in the range of EUR 40 million of new markets for our kind of chemistries.

Then the customers in the water treatment business. We talked to the customers. We've made this year 2 different surveys amongst the European customers. And clearly, the customer base need in industrial or municipal is focusing a lot on sustainability. The CO_2 emission control is one of the key themes there, energy savings, and we can help in both. What's even more interesting for us is that this surveys also show that customers are willing to pay more for more sustainable solutions in the water treatment and especially for bio-based chemistry. So basically, this is one area, of course, where we need to invest and start now kind of developing the portfolio of bio-based chemistries to implement that in the water treatment business.

Then another key trend is micro pollutant removal and disinfection. There we play also a key role -- a small role today, and this is one of the potential arenas where our role with our strong competence in the water treatment could be growing. And this is one potential area for kind of bigger steps for future growth.

So basically, we are there partly already, as I've been kind of highlighting in several instances, really a big part of our raw material base for the coagulants is circular. So we were circular economy before the whole term was invented. And that's kind of in our DNA. So that -- I think that puts us in a sweet spot to capitalize on this current sustainability trend. But we can further improve on that, and we have ongoing research projects to further expand the raw material base and use more side streams and by streams from other industries. And as I mentioned, we have started to build a bio-based product portfolio. And then the focus on our actions will be to further invest more into the water treatment part of the business and increase the weight of that in portfolio. We've been now, during the previous few years, investing more in the oil and gas and kind of creating the platform for growth there. Now the focus really needs to turn on investing into the growth in the water treatment area.

And then as a kind of a final summary, the actions which we are working on already currently are, first of all, the profitability management, securing cash flow and capital efficiency and then creating the growth. And for the profit, we continue the disciplined price and cost management that we have started. We continue the complexity reduction efforts, speed and product portfolio -- production asset portfolio, organizational complexities. And we capitalize on the capabilities created by the recent investments into the polymer technology. The organizational cost structures have already been streamlined and rightsized in the Oil & Gas business now during the downturn and in North America and APAC previously. So now then the focus really needs to turn on the growth for both of these parts as well as the entire water treatment portfolio.

So basically, APAC water treatment is one area, which we will be investing in to create growth there because, as I mentioned earlier, there clearly is room for growth, and that's a market that grows much faster than any other water treatment market. In Oil & Gas, we will focus on CEOR and the tailings treatment in Canada, and we continue growing on those. And kind of our strong position in the shale will create a short-term growth now with the recovery of the market. There's no doubt about that.

And then we're -- ears and eyes are open looking at potential M&A opportunities as well, especially to strengthen the water treatment portfolio and looking at some of these access and parts of the water treatment market where we are not strong today, but we're basically, with our reach to all the customers in the water treatment industry, we could be playing a bigger role. So these are the kind of key actions ongoing, as I mentioned, to maintain the current high profitability levels, to ensure capital efficiency and then to accelerate the growth going to the future.

Thank you.

QUESTIONS AND ANSWERS

Mikko Pohjala - *Kemira Oyj - VP of IR*

All right. Many thanks for the comprehensive presentation, Antti. We have actually a number of questions coming from online. We will take a couple of them now and return to the outstanding questions later in the more comprehensive Q&A. But if we start with water treatment, Antti. So could you talk a bit more about the sort of the growth drivers behind municipal water treatment? So why is our expectation that it grows approximately 3% to 4% alongside with GDP?

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

Yes. So as I mentioned already in the presentation, the regulation is the thing that is driving. And there's a really concrete example in U.K. right now. So basically, the U.K. government implemented entire wastewater treatment regulation, which directly creates a significant additional demand of -- especially coagulants on that market. So that's the number one driver. Then the -- of course, on a global scale, the other part is the megatrend of urbanization and growing middle-class. So these are basically meaning that on -- especially on a kind of developing geographies, there will be more people that are connected to sewage network and that are using the kind of water sanitation and have a clean water available for them. And all these means that there's all the time growing need for water treatment chemistries.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. And continuing on the water treatment, now moving on to Asia. So the question is, do we need to invest heavily in water treatment in Asia to gain market share? And if this is the case, what kind of plans do we have in terms of capital expenditure?

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

Heavy is always a relative term, but let's look it from the market perspective. So it's a huge market. It's growing. And our current market share is way below 5% there. So there's a market to take there. And parts of that we can do with the production assets that we have currently. And for parts, we one way or the other need further capacity for, what exactly and how much and which year is too early to say at this moment.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Now looking at the time, and moving on to Oil & Gas. So how would you summarize Antti? So would you expect all of the subsegments in Oil & Gas to recover to pre-COVID-19 levels? And when would this be?

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

Yes. As I mentioned during the presentation, the CEOR markets have not really taken a hit during the COVID. So there's no recovery there. We don't need recovery. The business -- the kind of market continues to grow on the growth that it was already on. The tailings treatment, there was a temporary impact, as we have communicated earlier, during kind of a partial exemption year for that oil sands operators, but that will come back because that's kind of a legal requirement in Canada. So that will come back, and we expect it to come back already next year. And then as I said, the shale part of the business is the one that really took a hard hit, and we've seen already -- as we reported in Q3, we've seen already the recovery start, and we expect that recovery to be slow and take all of '21 and continue well into '22. So as I said, somewhere in '22, we expect the market to be back on the '19 levels.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. One more question related to the new President of the United States. So will the election be a risk for the development of the shale business going forward?

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

In the short to midterm, we don't see a risk, and that's kind of a shared opinion when we talk to the energy industry experts. U.S. -- the shale oil is the only means for U.S. to be oil independent. So not dependent on the Saudis and Russia and so forth. So even if you put all the economies aside of it only for this reason, the shale will come back and will be an important part in the energy portfolio of United States for the short to midterm. Then longer term, yes, there may be an impact. So kind of if you look at the growth projections that the industry experts laid out 2 years ago, those were kind of showing a kind of almost indefinite growth for the shale business with the kind of double-digit CAGR numbers. And that longer term kind of a strong growth may be intra-party because of the political changes.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Okay. Let's take one more question since there have been a lot of questions about Asia Pacific port treatment So can you -- in rough terms, still, how big is the business at this point? And what kind of products you are expecting to drive growth there for Kemira?

Antti Salminen - *Kemira Oyj - President of Industry & Water and Member of Management Board*

Yes. So overall, the water treatment business for us in APAC is very small slice of the total Industry & Water business cake. So we're really kind of talking about really small business that we start from -- the products that are used in that market are very, very much the same products that we are -- we have been delivering in Europe and in North America to the water treatment markets for decades already. So it's the same polyacrylamides, same inorganic coagulants. And basically, from a product perspective, we know exactly what to sell and what kind of applications to and how to treat the waters there.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Let's conclude this Q&A session. Now there are a lot of outstanding unanswered questions still, we'll take those at the end. But at this point, I would like to thank Antti for the good presentation. And now according to the agenda, we are moving now on to Pulp & Paper, and I would like to warmly welcome Harri Eronen on the stage.

PRESENTATION

Harri Eronen

Good afternoon, and welcome to Kemira's Capital Markets Day on my behalf as well. As you have seen, we have been improving profitability in Pulp & Paper segment significantly since the last Capital Markets Day. However, now your expectation is more towards how we can generate profitable growth going forward. My presentation today will be twofold. First, I will explain and describe the actions and the decisive measures we have taken recently to improve the profitability and to build a solid foundation, which then we can utilize and leverage to generate further growth. The second part of presentation, I will describe the market dynamics, the market environment and the opportunities we see there for future growth.

But let's look at the recent activities first, what we have done in the past. I'll start with the most important topic first, which is our people, actually. I'm happy to see that our people feel extremely safe working for us. And this is why COVID-19 is out there, and our people are traveling and fulfilling the contractual commitments at our customers. Also, the employee engagement is at extremely high level at 82 out of 100 in our internal employee satisfaction questionnaire. That gives us a good foundation to deliver excellent customer experience, which is actually visible in our Net Promoter

Score, which is 41 and clearly above the industrial benchmark. And where we get really appraisal for is actually our ability to handle the situation during the COVID-19 times.

Of course, we have done systematic work with the team to fix the business fundamentals, focusing on the growing subsegments of pulp, tissue as well as the packaging -- as well as the certain product lines, which Jari was mentioning, sizing, bleaching, polymers. We have streamlined our product portfolio down to 800 from the previous 1,100. And throughout the years, we have systematically implemented organizational changes, which actually have improved our efficiency.

Needless to say, we have carried out quite a few investments to really do a step-change in our profitability, both for bleaching but also for pros and functional chemicals. One area where we have really done a step-change in profitability is Asia Pacific region. So let's take a closer look what we have done in Asia Pacific to turn around the profitability.

The true cornerstone of the profitability improvement in Asia Pacific is our AKD wax plant investment in China. It became fully operational quarter 1 this year. And it's actually besides AKD wax producing water treatment chemicals to the fastest water treatment chemicals market in the world, like Antti was describing. The investment itself will not only benefit China or Asia Pacific region, it actually ensures us a backward integration in other regions as well and actually ensures self-sufficiency in the AKD supply to North America and Europe alike. And of course, the investment is not the only thing we have done. We have worked systematically to improve our profitability and to reduce complexity in Asia. The actions we have taken is disciplined price management. Of course, prudent cost control, and we have actually been able to increase our share of wallet with the most important and biggest customers. We have also installed a fixed cost base in place to capture further growth without inflating costs further. Of course, the AKD wax investment is not the only one we have done.

Let me walk you through 2 other investments that we are currently doing, which will improve the profitability even further going forward. The first one is the bleaching expansion in Uruguay. As we have reported, we have reached multiyear agreements with UPM, one of our key customers, to supply all their bleach and chemical needs at the existing Fray Bentos mill as well as the future Paso de los Toros mills. This will trigger, of course, an investment need to our bleaching plant capacity. So we need to invest more to produce both sodium chloride and the hydrogen peroxide. That investment will be in the neighborhood of USD 30 million. This is very much in line with our strategic long-term focus to grow on the bleaching globally. The financial contribution from this agreement is expected to start coming towards the back end of '23, while the commissioning of the plant will be done during '21 and '22.

Another interesting investment ongoing is our polymer investment in South Korea, together with our joint venture partner, Yongsan Chemicals. It will actually provide us a good platform to become even more competitive, not only the pulp and paper polymers, but also in the water treatment polymer market. And after the completion of the investment, we have a regional manufacturing footprint of polymers in all our key regions. The plant is scheduled to open during the first half of '21 with the full ramp-up towards the end of '21.

I have -- now I have been describing what we have done internally, but let's take a quick look what the market has been for us recently. If we look at where -- we have about 80% of our revenue streams coming from the segments of pulp, board and tissue. That demand has stayed relatively solid despite the short-term impact of COVID. However, the printing and writing segment has been or printing and writing demand has been on a steady structural decline over the last years, and this COVID-19 has only accelerated the development. And we have consequentially seen the revenues However, our internal actions, which we have executed systematically have actually allowed us to maintain to achieve profitability levels or even improve them further on. And this actually provides us a good foundation going forward when we try to capture and will capture profitable growth while keeping the sustainability clearly on the focus.

As promised, at the beginning of the presentation. Let's now focus on the future and where we see the growth opportunities for Pulp & Paper going forward, while keeping the sustainability and profitability clearly in the center of the focus. I will start by describing how we see the market for us that are out there in short and in the long term. Like mentioned already about the graphical papers, structural decline has been existing due to the digitalization and some other factors over the years, and it will continue existing.

The COVID has impacted significantly the short-term demand. We don't go to the offices, we don't commute. So we don't pick up the free newspaper at the subway station or bus station. And when we are working from the home office, we tend to use about 1/4 of the paper that we would use in the office. However, we have 80% of the business in the growing segments of tissue, packaging and pulp. We saw a tissue picking up first half of the year immediately after the first wave of COVID came, the demand has stabilized since, but the megatrends supporting the tissue growth further are still existing, the growing middle class, growing GDP in emerging countries and so forth. So tissue has a good growth potential going forward.

Packaging, there is a short-term impact coming from COVID to packaging demand. If we look at the packaging market as a whole, significant share of the packaging is actually consumed by the industrial value chain. And as the industrial -- general industrial production went down, that impacted negatively to packaging demand, which the searching consumer, consumption, e-commerce is not able to offset in a short period. However, again, the fundamentals for further growth in packaging remains solid, e-commerce to accelerate plus the sustainability awareness of consumers driving us away from the plastics is still valid.

The growth in packaging and tissue will provide a long-term growth projection also for pulp demand. However, for the first time in history, in the short term, the printing and writing decline has been so severe that the growth in tissue and packaging were not able to offset it in the short term. However, as the graphic papers goes down, the demand goes down, the production goes down, there will be less good quality fiber in the so-called recycling loop of paper industry. And that will fuel the demand for fresh merchant fiber, mainly from South America. The increasing packaging demand, on the other hand, will play in the favor of northern producers who actually produce mainly softwood pulp, which provides a good strength properties for packaging going forward.

Let me give you 2 examples of the opportunities we see existing out there for future growth. Let's start first geographically with the Asia Pacific. We all know that the customer demand is increasingly shifting towards Asia Pacific region, and most of the new paper and board production capacity is expected in the region. In the past, we were -- everybody was talking about China. Perhaps nowadays, the capacities will be added a bit more towards Southeast Asia. The market itself is very fragmented, both from the papermakers perspective as well as from the chemical suppliers perspective. As the papermakers -- as there is a consolidation trend in the paper industry, that will open opportunities for companies like Kemira who can supply all the chemistries from the same portfolio to address all the needs of our customers. On the other hand, fragmented chemical market means that there are good opportunities for further consolidation for companies like Kemira to pursue.

Then the second growth opportunity is the pulp. Like described earlier, the fundamentals of the industry drive the demand for pulp further. We see the pulp production to be increasing in Northern Europe and South America, where we have long-lasting, very strong customer relationships, which allow us to participate to this expansion.

As Jari said in his presentation, sustainability is an ever-increasing focus in our everyday activities, and I will explain what it means to Pulp & Paper. In Pulp & Paper, we have an ambition to become the leading provider of sustainable chemical solutions for our customers who are seeking added value from sustainability and biomaterials. We can achieve it by 2 ways, by utilizing our existing portfolio to enhance customers' resource efficiency. The second leg is that we will transform our portfolio towards more bio-based products.

The second leg is that we will transform our portfolio towards more bio-based products. It will be a long road to travel, but we have good examples, like Jari was explaining on the bio-based solutions, like -- and a good example is our sizing agents. We have the sunflower ASA. We have the AKD wax, and we have the tall oil-based rosin and fatty acids, which are completely bio-based.

What the customers are actually doing is that they are looking for improved recyclability of their products and to achieve that, they need more bio content in their end product. And that opens up a lucrative opportunity for Kemira to enter and capitalize, which is the barrier market, this person-based barrier market. There are 2 drivers behind this market. One is the increased consumer awareness on packaging sustainability; and second one is the regulatory market. The consumers are putting ever-increasing pressure on the brand owners to find more sustainable solutions. And that means phasing out plastics basically.

As said earlier, we are entering this market. We have several trials ongoing with the customers in Europe as well as North America. We have the first product out there, but this is an area where we continuously need to assess whether we can do it organically or whether we need to do M&As.

But let me go and recap what has been said and what will be the future. Like I said, we have spent -- we have worked systematically and spent a lot of effort to build a solid foundation by price and cost management, focusing on the customers, increase the share of wallet by offering the full portfolio we have in hand, carried out complexity reductions and of course, we will be -- and have and will be capitalizing on the existing investments in China, U.S. and South Korea.

We are not ready yet. There are still areas where we need to improve further. Jari mentioned about the pros of functional chemicals, there is clear improvement needs there, and we are actually addressing that by shifting even more focused on selling that portfolio to the growing packaging and tissue segments. It's a capital free growth path and profitability improvement path. Of course, restructuring of North American -- sorry, American Pulp & Paper organization is one step that needs to be still executed fully. That is partly a cost saving and efficiency improvement, but partly also focusing on the growing packaging and tissue segments.

I described what we aim to do and how we aim to capture the growth in Asia. Pulp applications will be emerging in Northern Europe as well as South America. We have good customer relations. We have strong relationships with them. And we are continuously in discussions and following what's happening out there and ready to seize the opportunity when it arises.

And of course, going forward, we need to focus more on the bio-based materials, bio-based sustainable solutions. And we either do it organically or we are ready to address M&As as well, particularly in Paris.

With that said, I think it's time for Q&A.

QUESTIONS AND ANSWERS

Mikko Pohjala - *Kemira Oyj - VP of IR*

Many thanks, Harri, for the presentation. And as in the previous presentation, we take a couple of questions now, and we can take the rest at the end.

But if we start with a market growth-related question, so do you expect growth in packaging and tissue to offset declining printing and writing applications in the short-term and in the long term?

Harri Eronen

As we see then the industry experts and market intelligence experts said, packaging growth and tissue growth will not offset the decline in printing and writing in the short term. The earliest we see offsetting a turn like we are talking about '22, '23 towards the end of '22, later in '23.

Mikko Pohjala - *Kemira Oyj - VP of IR*

If we move to the barrier market, and this, I guess, as a term is not familiar to all. So could we Harri still define what does barrier as a term mean? And what is Kemira's competitive positioning on the barrier side?

Harri Eronen

Yes, barrier is a functionality on paper or pulp. It protects the content of undesirable -- from the undesirable components like extra odor or prevents the content from spoiling or actually the other way around as well. When you have a fast food wrapper, it actually prevents the grease from the fast food coming to your hands and clothes.

As I said in my presentation, we are still early on the path. We have a product out there. We are trialing. We have some regular ordering customers already, but we need to assess the situation continuously whether we can capture the growth fully organically or do we need to execute M&A.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Then a bit more short term question. So could you still discuss a bit about your current pricing? So how have you been able to maintain prices so well this year despite the COVID situation?

Harri Eronen

Yes. Of course, price is always a priority for the customers, but there is a price, and there is a value. And now the customers have valued our ability to operate under these challenging conditions, ability to deliver on time on full quantity despite the difficulties, more than the individual price of the product.

Mikko Pohjala - *Kemira Oyj - VP of IR*

So delivery reliability is key here. We take one more question before moving on to the next agenda item. So where would you see the most interesting M&A opportunities for Pulp & Paper?

Harri Eronen

For Pulp & Paper, it has to be in the bio-based, actually. And of course, I mentioned already the barrier is truly lucrative for us. But then there are already products which are, by inherited nature, lucrative like the strength chemistry, which actually substitutes some of the fiber in the product. And then, of course, sizing agency portfolio is already quite well bio-based but further enhancements there as well.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Now we thank Harri for the answers, and we conclude this Q&A session and continue later. But now we'll move on with our agenda. And next on the agenda, we have a pre recorded interview with Matthew Pixton, Kemira's Chief Technology Officer with the theme bio-based products and chemistry. And after this prerecorded video, we'll return here to Helsinki, and we'll conclude the presentation part of the event with our CFO presentation by our CFO, Petri Castren.

We move now on to the prerecorded video.

Welcome to this pre recorded interview with Matthew Pixton, Kemira's Chief Technology Officer. Matt, welcome to the interview and to the CMD.

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Thank you, Mikko.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Thanks. As a short introduction, Matt has been with Kemira since 2016. And he's been the Chief Technology Officer since 2018 and is leading Kemira's R&D department at this point.

Matt has a long career in R&D and before Kemira used to work at Delcor Incorporation and in General Electric.

Now if we turn the focus to the interview today, so as you have heard, sustainability has been a key theme at the CMD and how sustainability, and more particularly how bio-based products are expected to be the growth driver for the market and for Kemira going forward. This will be the topic for this brief interview with Matt now.

So to set the scene, Matt, could we start with a short definition? And what do we actually mean when we talk about bio-based chemistry?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Sure, Mikko. When we say bio-based, what we mean is based on renewable carbon typically coming from a plant-based source. And our target and goal is to convert fossil-based chemistries to renewable plant-based alternatives. We should also differentiate between bio-based or plant-based materials and biodegradable materials, which are materials that decompose easily in the environment.

Both of these products could potentially come from plants. But our goal is to go after and focus our efforts on biodegradable products because we believe that these will be preferred by our customers over the long term.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then if we think about the world around us, so what are we seeing in terms of our customers when we think about bio-based products and sustainability?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Well, at a high level, we're seeing strong customer pull towards bio-based chemistries. Number one, because they want to reduce their overall carbon footprint. And number two, they want to improve end-of-life property such as compostability or biodegradability and these kind of things. One thing I would like to note is that we've had sustained and even an up trend in demand for bio-based products from our key customers in 2020, even given the global pandemic, brand owners and consumers are pulling nonfossil solutions and are now talking about adopting bio-based products, even if they're more expensive than fossil-based alternatives.

Another thing I would say is regulatory changes are driving the desirability of bio-based options, and we expect this trend to continue, particularly as the technology advances.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And could you say that bio-based products and sustainability will be a differentiating factor now and going forward as well?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Yes. We believe so and the current market pull from most of our major customers reinforces this. We also believe that it's key to talent acquisition and retention and improves employee engagement. If you think about the short-term sustainability and bio-based products really give us the right to win. We can get to market first. We can have some significant market upside. And longer term, it's really the right to just play. It's a strategic necessity and those who don't have bio-based products will be marginalized, we believe, in the marketplace.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Now if we turn our eyes to Kemira. So where are we in terms of bio-based products at this point? And what kind of renewable materials do we already use?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Looking at our current portfolio and raw materials coming into the company, 12% are based on renewable carbon today. And we expect that number to increase as our bio-based projects deliver. For example, in paper sizing, most of our products are based on palm oil or sunflower oil. We're also major users of starch, rosin and other biosource feedstocks.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And then if we look forward and when we want to build a more bio-based portfolio, so what are the building blocks for that? And what are we planning to do with these raw materials?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Novel new building blocks are going to be required for a lot of these applications. For example, we're working on a bacterial-built polyester called PHA. We have a sugar-based product called glucan. And we're working on a plant-based structural product microfibrillated cellulose. All of these are part of our plan.

We're also looking at existing traditional bio-based building blocks. But how do we extend their performance? Things like Lignin, Hemicellulose and starch. And as we expand their performance, we're going to give them additional market opportunities.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And are we planning to do this all by ourselves? Or do we have partners or partnerships ongoing?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Well, of course, partnerships are essential to all new building blocks because we need to generate speed, shared risk and have an efficient supply chain. For example, we're working with major universities on options for plant-derived waste streams such as Lignin and Hemicellulose and how to use those effectively. We're working with start-ups to speed development of bio-based polymers. For example, we have a collaboration with industry leader, Denmar Scientific in bioderived polyesters for paper coating.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And if you think about Kemira's R&D., so how is the focus on bio-based products concretely visible? And if you can give any concrete examples, I think that would be much appreciated.

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Sure. Kemira's actually doubled the amount of R&D resources working on bio-based research since 2018. And we expect to continue this high level of investment for the foreseeable future. If you think about focus areas, paper strength is one. Barriers is another. In particular, we're looking at barrier coatings for food packaging. And our goal is to provide a bio-based and biodegradable alternative to polyethylene.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then if we think about the next steps. So what would be the next steps for us in building a bio-based portfolio in concrete terms?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Yes. So fully understanding the potential of the building blocks we're currently evaluating and looking at their key applications and developing those, it's obviously something that we'll be doing over the next year or 2. Another key focus area is taking products from the lab where they look promising and pilot testing them at key customers. And despite COVID-19, we actually have additional major trials planned before the end of this year.

Mikko Pohjala - *Kemira Oyj - VP of IR*

So to summarize, Matt, what would you say is our vision for bio-based products? And then do we have any concrete targets for 2030?

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Well, we expect our demand for bio-based products to continue growing, and we've set an internal target of sales of at least EUR 0.5 billion in 2030. Working with our key customers and our technology partners, we know this is achievable.

Mikko Pohjala - *Kemira Oyj - VP of IR*

All right. Many thanks for the interview, Matt and insights into Kemira's R&D.

Matthew R. Pixton - *Kemira Oyj - CTO & Member of the Management Board*

Thank you, Mikko. I appreciate it.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Thank you.

PRESENTATION

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

Good afternoon from my part as well. I will focus on 3 key takeaways, which I believe are the most relevant for investors. First one is, of course, the updated profitability target, meaning EBITDA target of 15% to 18%. And then secondly, go back over time, a little bit of how we built this fundamentally stronger company and how this now actually -- and how we brought the profitability to a totally new level, and how this actually allows us to now focus more from the profitability improvement towards growth. And thirdly, I will cover our new dividend policy.

Typical feedback that we got from our investors about 3 years ago at the time of our CMD was that Kemira is an interesting company, has good products, good market position, but our profitability was weak. Perhaps our cash flow generation was not quite sufficient, particularly compared to the dividend payout ratio that we had. And thirdly, that our capital efficiency was, as a result, not the way it was meant to be.

Obviously, took those seriously and really started to look at fundamentally how we can improve our business. And as you can see, it has taken some time. So the change did not come overnight. In 2018, we still spent a lot of time in these quarterly calls and explaining to our investors how it actually takes time to get some of these fundamental improvements visible in the P&L. We have customer contracts so that some of the changes that Harri and Antti talked about regarding customer pricing, it took time as we were pruning our portfolio and improving the profitability. Secondly, a key aspect of our profitability improvement has been some of the most recent capital expenditures where we have improved and backward integrated. And now we are really starting to see those benefits.

So if you look at it, so 2019, clear visible improvement in the profitability, really a step change at that time. And now during '20, even regardless of the difficult times in the environment, we've been able to maintain that profitability. Same story with the cash flow and with capital efficiency. And we typically look at the capital efficiency on how we -- as a key KPI is the operating return on capital employed. And you've seen that this ratio has now improved from below 10% to 11% and above.

Some people often ask me, what's the right level of ROCE that we can aim at. And considering that we have still about EUR 500 million of goodwill in our balance sheet. I would say that 12% is a good level to target in the relatively near term, and it's also quite a realistic goal. This profitability improvement has been taking place in both segments. So you see on the left, our Pulp & Paper, how the EBIT ratio has improved over time, and which has obviously been driving the return on capital employed. Similarly, in industry and water, Antti talked about the very difficult year that we have had in Oil & Gas. Also with the expansion of capital, meaning the polymer expansions that we have had in Netherlands and now ongoing in the U.S. are reducing the ROCE for this year. But this return on capital employed's still at a good level considering the times where we are.

Then looking at the -- what have we really done. And maybe one of the things which we are -- we typically quite transparently report during our quarterly reports, what is happening in the raw material prices and what is happening in our customer pricing. And I believe that, that transparency perhaps even works against us because it ignores and underappreciates the longer-term improvements that we have done to the business. So you heard examples from Harri and Antti about the customer profitability. But really, the -- in these 3 or 4 years, this has been a dramatic change.

So some numbers here. So low-margin customers reduced by 40%. So it's not only that we have been able to improve the customer pricing overall. But really, we have been also pruning the customer portfolio in the way that we have now 25% less customers than we had in 2016. And it means that we have directed some customers towards distributors who are better served by distributors compared to us. Efficiency of operations. We went from 3 segments to 2. This was mentioned by Antti, that alone was something like a 15 million saving for us. You may remember, we're talking about our boost program that generated about 20 million of savings from us and most of that savings came from the transport cost savings.

Reduction in variable costs following the investments. So these are the investments in China, investments in Netherlands. And actually, part of the investment that we are doing in Mobile, Alabama is also towards backward integration. So these investments are improving our cost base, even without taking into fact the capacity expansion by some EUR 20 million to EUR 30 million. So if you combine these efficiencies alone, that's something like a EUR 50 million saving, and that's very permanent parts and mostly visible in the variable costs that maybe some of you are looking at on a quarterly basis.

Another example, revenue per sales person, up by 13%. And Harri mentioned that we are restructuring -- doing a program in North America. This will actually improve this a bit further. For portfolio mix, similar impact, 30% fewer products. And with that, we are now more heavily concentrated in those core 4 product groups that we focus on. And obviously, that will give efficiencies and scale.

Solid foundation obviously requires a healthy financial position as well. And with a good cash flow, with good access to capital, we have been able to build or construct a nice liability picture. So you see that our debts that we have are nicely maturing over an extended period of time. We have some short-term debt that we typically roll over. But for example, next year, only practically no debt coming due, only some commercial papers that we have and that we typically roll over. And at the same time, we still have our EUR 400 million revolving credit facility undrawn and available for use if needed. Leverage ratio has reduced to below 2x, and we're well within our financial guidance of 75% gearing ratio.

But moving a bit to the future. So financial targets, we are aiming at growth. And you heard about the growth opportunities from Harri, from Jari and from Antti where we have opportunities. So now with a solid foundation, we are looking to invest into that. We can look more aggressively regarding inorganic opportunities, whether they are really M&A or whether they are partnering with some people. Matt talked about partnering, particularly in the area of bio-based chemicals, and that's quite possible there. One area, I'm a big believer in incentives. 3 years ago, the company's incentives were really directed towards cash flow and profitability. And that's how you change the mindset. That's how we changed the mindset, for example, in our North American water treatment besides the restructuring of the business.

Now we will be directing our incentives more towards growth. I'm not saying that we're going totally towards growth, but we will be focusing in our incentives more towards growth, but not forgetting about the profitability and cash flow targets as well. With that, I think regarding the operative EBITDA margin update, I think the key aspect of it is that we are within our range. We're not above that because some people have been saying that what will happen now going forward now that you're above your target?

No, we're not. We're within our range. And that's an important message to you all who are looking at it externally, but I believe it's also important message internally that this is the type of range. It's not abnormal. This is the type of range that we can maintain. And with continued look at efficiency and by serving the customers well, that they appreciate the value that we bring, again, visibility in the NPS scores, we should be targeting towards the end of -- towards the high end of the range there.

Regarding our financial targets, we did not make any changes. So we believe that we are -- the gearing target below 75% is a prudent target. And that gives us -- and now that we are well below that, it gives us some flexibility to do inorganic actions and as talked about by others already.

So capital allocation principles. We will continue to balance allocation between investing into growth and then providing competitive returns to our shareholders. And I'll come back to the dividend policy on the next slide. But investments will continue to -- in CapEx, roughly at the same level. I think over time, we will need to direct capital expenditures towards the bio-based investments. This will not happen in the next year or 2. But obviously, we will not be able to bring or build a EUR 500 million business or fivefold business in bio-based if we don't invest into capital on top of the investment that we are now doing in R&D. However, that still needs to and will take place within the sort of a EUR 200 million CapEx frame that we have been doing in the last few years.

M&A inorganic activities, like I said, a solid balance sheet that we can do some incremental M&A. So we are talking about incremental, not transformational M&A in this context. And the area of interest is really opportunities that build on our existing portfolio, whether they are water treatment or something like that Harri mentioned and geographic footprint. Asia is certainly an interesting market as it is highest-growth region as a geographic region. And secondly, if we can grow or as we are growing in APAC, it actually leverages our profitability because currently, we're still sort of subscale in APAC. It's roughly between EUR 200 million and EUR 250 million business there. And we have the infrastructure to build -- or carry a much larger business. So obviously, there is a benefit of leveraging that scale in APAC.

Dividend policy. So in the -- we have had this EUR 0.53 in dividends. We had it 8 years in a row. And last spring and eventually in our AGM, this increase was approved to EUR 0.56. So it was paid in 2 instances. At the time, the Board did not review the policy itself. But now as a part of the strategy, that is more -- and the capital allocation principles, the Board reviewed the dividend policy as well. And again, I think it's sort of a demonstration of our solid foundation that even with this sort of capital allocation dilemma of how did -- do you invest in growth, and we see lots of growth opportunities, or do you provide returns to shareholders. We can continue this -- both of this and actually feel comfortable enough that with this sort of a conflict that we can communicate a policy that is, over time, increase such dividend.

Capital Markets Days are typically focused on long term. And we have heard long-term aspects from others. I know that a lot of people are interested, analysts, shareholders, invest in what will happen in '21. We aim to provide our business outlook for '21 at the time when we release our Q4 results in February. But here are some of the factors that you can sort of already start to incorporate into the thinking and factors that will impact. Some of them are -- or most of them are supporting. Some could be negative, and there are obviously some uncertainties and because of the economic situation, because of the COVID-19 situation being what it is, the uncertainties are quite large, but they are totally out of our control. So we have a -- these uncertainties really relate to external macroeconomic and much, much less towards our business.

First of all, let's capture the supporting things. So one is the -- we still get the benefit of the recent investments. And now I'm talking about the backward integration benefits. So improving our variable cost base. We probably see another single-digit million benefit next year compared to this year. Restructuring that Harri mentioned in Pulp & Paper Americas, that's another mid-single-digit type of a number. And this will be seen next year. None of it really will be seen this year yet.

And Antti showed quite a bit of confidence in the shale markets recovery and also the tailings treatment market is expected to recover in '21 from the levels. And obviously, we've already seen and actually see continuing signs -- positive signs of the recovery in the shale market.

And then we were prudent with our cost structure. We'll continue to look at benefits that we can. Basically, we have killed inflation in our G&A costs from 2016 onwards. So our function costs, excluding sales and manufacturing costs are basically at the level of 2016. So that's -- and that when we are fighting against 3% inflation growth and at the same time, investing more into digitalization, including investing more into digital processes and tools so I think that's a good achievement, and we'll continue to do that.

Negative factors could be that if there is an environment of rapid raw material increases, which, by the way, we don't see that. But if there was such an environment, there is a time lag for us to pass on raw material price increases to our sales prices. And then the uncertainties, which I think are well-known. We don't know what happens with COVID. We don't know what happens with the economy, and that can drive raw material price as well as then is the FX, the FX development, which can be either way.

And as a reminder, there's a rule of thumb that about -- that 0.01 change in the euro-dollar ratio is about 1 million EBITDA impact for us per annum.

I'll conclude quickly with the investment highlights. So we have been able to improve profitability. So I would call that a strong profitability improvement track record, attractive dividends and now increased focus on sustainability, always been sustainable operations, but now more on bio-based products.

With that, I'll finish -- that's my prepared remarks, and we are ready to move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes form Anssi Kiviniemi from SEB.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

It's Anssi from SEB. Thanks for the great presentation. I have 3 questions or 3 themes. I'd like to take them one by one, if that's okay for you. First of all, you seem to focus now on bio-based products and raw materials. And Petri highlighted that the investments, they are coming at later stage. But in what form of investments they are? Are you investing in transforming current capacity and current plans? Or are these directly growth investments when you look at the growth opportunities? That's the first question.

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

Okay. So yes, there are 2 sort of types of things. There are dropping raw materials that are bio-based that we can use in our current assets, even without modification or with small modification. And those, we are doing most, Harri mentioned the sunflower ASA, which is -- has been historically fossil-based 100%. And now there are several tens of percentage of bio-based in there and that's dropping. So that's one thing.

But then when we get to more advanced feedstocks of biomaterials and bio molecules. We probably need some new type of assets. And there, it can be through partnering also that we do it because one of our advantage is -- to some of the players in the market is that we have a very good supply chain to our water and Pulp & Paper industries, and that cannot be easily replicated. So can be some joint investments with some partners or then investments by ourselves.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

And on the 500 million sales target by 2030, how much in your view is related to sizing and polymers business? And how much potentially other new solutions that perhaps not yet are in your portfolio?

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

There are many kinds of polymers with different type of use cases. The Oil & Gas polymers, the Pulp & Paper retention type of polymers, the water treatment polymers, the barrier type of things and strengthenings and so on. So it's mostly the bio-based will be in the products that contain carbon, and we convert that fossil carbon that there is today, we convert that mostly to bio-based carbon.

So pretty much the same applications, but also the customers are bringing new needs. So they are making different type of products instead of lining things with polyethylene, meaning plastic in their packaging, they will do it with the new innovations in the future and are starting to do that already now.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Then the second thing is a good EBITDA margin target. And I appreciate you better -- new highlight that you have done a lot of different measures supported the margin. But could you give us a little bit more concrete flavor, how much of the margin improvement in past 3 years has come from -- through your own actions? And how much from, let's say, more favorable market situation or margin development?

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

Anssi, that's a fair question, but it's really, really difficult to differentiate the answer. Certainly, there has been some improvement or tailwind, if you will, from the raw materials side. But as typically is that over the long term, those sort of balance out. So those -- whether it's a raw material tailwind or headwind that actually impacts on the short term. So while it is positive, but certainly, the internal actions, I would say, are the majority of the benefit.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay. And then just clarifying why the EBITDA margin has been raised? Is it just due to the fact that you have exceeded your own expectations on what you really can do? Or has it -- is there something fundamental that has changed in your -- perhaps your investments? Or how should we look at the margin increase?

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

Well, maybe it's showing the self confidence that we have in ourselves in this new position. And we always saw it coming a couple of years ago. And as Petri was explaining, it comes in slow. We know what contracts we have made, what contracts we have left on the table and how we've changed the mix, how we changed the product mix. And we've been talking earlier that we have now much better analysts tools on product level, customer level, and that gives us more information also looking forward. So that and the dividend policy is just an increased confidence level going forward since even in a difficult year like this, we still have been able to perform as we are performing.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay. And then the last question is on the dividend policy. You aim to increase the dividend. So should we expect the dividend increase even if earnings come down?

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

Well, it's over time. So we didn't say annually. And we were able to keep the EUR 0.53 dividend for 8 years, even over the cycles. So maybe that shows our track record. It's over time, but not increase every year necessarily. So let's see how things go and how our potential investments develop, but it's still going from historic flat to over time growing.

Operator

(Operator Instructions)

Mikko Pohjala - *Kemira Oyj - VP of IR*

We have a number of questions coming from online. So I would propose we take a few from here that I will read out aloud, quite the number of questions. And if we start with the high-level questions, this probably, Jari, will be for you. So if we start with a very high-level questions. So what are the differentiating factors in general for Kemira compared to our competitors?

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

Well, our portfolio is full. Not all of our competitors play, for instance, in pulp and paper in the pulp cycle, some are in pulp only, and some are in the packaging board and printing and writing. So we are benefiting from the both value chains.

If you also think of the printing and writing going down, which is foreseeable, that's away from the recycled paper also. So that is a benefit also to the pulp side. Also, we serve very strong pulp makers around the world. So not the 450 pulp mills that use bleaching roughly around the world. We use about 50 -- we serve about 50, 60, and that's how we've been growing in that area.

Also our know-how and global presence. There's only a few players in the Pulp & Paper side that are global players, there are regional players or local players. So that's -- the other thing is credibility. If you think of food packaging, human contact packaging, tissue and hygiene thing, they get from us, what we say they get from us. And that starts to get really higher and higher, and we can solve their problems. By the way, during COVID, we are doing it remotely, via digital tools and systems. So a number of things. And this year, especially a really proven delivery track record. So not miss the delivery, not let the customer be in trouble because that's the -- their plan stops if we miss deliveries.

On the water side, we're undisputedly #1 in EMEA and North America. So there is just our critical mass. We're #1, and there really isn't #2 or 3, the size class is so different. And we have, again, not only polymers, but we have the inorganic coagulants and then some specialties on top of that. So puts us in a different place.

Mikko Pohjala - *Kemira Oyj - VP of IR*

If we continue with this topic of differentiation, so the next question is, how can we differentiate from competition when it comes to growth in bio-based offering and whether our target of EUR 500 million revenue by 2030 is in line with what we're seeing with our peers.

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

Well, I think we're already well positioned. And because of our technological background, our polymer know-how and being able to adapt those, like we've seen in the Oil & Gas applications and developing other ways. So I think we are well positioned from a differentiation point of view. Also as A market leader in some areas and B market leader in some other areas, the customers will always call us and we get a place at the meeting table.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And continuing with this bio-based product, so it was mentioned in the presentation, the customers are willing to pay a certain premium for these products. So can we provide some kind of -- or can we quantify somehow how big this premium is and whether we expect where will this go from here in the future?

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

Well, obviously, I don't talk about pricing at this point. But I think the premium word is something that needs to be, and then it's a case-by-case thing. It depends also on the performance and the illusion has always been up till now that the bio-based products do not perform as well as the fossil-based or synthetic-based products. And we've shown already to ourselves in some products, especially that we can meet the performance of those products or even exceed. And that's the next step of having better and more sustainable technology in the market.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good and continuing from the online questions here. Now this will be more financial-related questions for Petri. And if we start with M&A. So what kind of headroom does Kemira have for M&A? And what kind of targets are we looking at? So is it small acquisitions or potentially a big one?

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

Okay. I mentioned that we're primarily looking at incremental M&A. And if you look at our balance sheet and look at our financial ratios, leverage wise, which is typically used as a ratio, we're roughly 2x levered or a little below that. I think we are quite comfortable to go to around 2.5x. So that would be something between -- that would mean that we could do an M&A between EUR 200 million and EUR 300 million. So that's perhaps a proxy. And maybe one thing that I forgot to mention regarding our financial target. So as the 75% gearing is our target. It's not a covenant. So if there is an attractive M&A opportunity, for example, we can exceed that. But as long as we have an over time, a sort of a line of sight or path, how we will come within the 75% gearing ratio.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Yes. And then the next question would have been, does the gearing target of 75% hold you back in terms of acquisition size? And what must happen for you to sacrifice the 70 -- 75% gearing target and this Petri already answered. Continuing with the M&A question. So do you want to still, Petri, quantify what kind of financial criteria do we have for doing M&A multiples before and the kind of synergies that we would be looking at?

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

Well, I think, particularly as we are looking at M&A in some of the new technology or product areas, whether it's barriers or some other water treatment technologies, it's really the key is that how does it fit into our strategy and how well we can leverage and run with it. So in that sense, it may not be the most best use or worthwhile to look at sort of historic multiples but actually what we can do.

So obviously, in those situations, we would be looking at really top line synergies so that we can actually bring a technology where we have a good access to a large customer base and can leverage faster than whatever the -- who was the current owner of that business or perhaps a start-up who cannot -- doesn't have the same access that we have.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Continuing with financial questions. Moving on to capital allocation now. So I guess this is for Petri as well. So would you be willing to consider share buybacks? Or do you see -- do you see dividends and possible M&A actions as the main ways to allocate capital?

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

Well, I would say, never say never to anything, but our Board is typically -- has been typically looking at dividends as a way of rewarding shareholders, so it has not really considered buybacks. And I would say that we would perhaps even benefit of having more liquidity than less. So in that sense, qualitative now to buybacks.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then a question regarding CapEx. So are possible acquisitions included at EUR 200 million CapEx. This excludes acquisitions, right, Petri?

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

Yes.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Yes. Good. We have still a number of questions online. So it will likely be that we'll go beyond the 4:00 that I mentioned previously, but we'll still take these questions online, and we'll turn on to the audio line still at the end if there are further questions from the telephone line.

But moving on to sort of margin-related questions. If we start with raw materials. So what is our best guess at this point now for raw material inflation in 2021?

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

I would say flat to a small increase, but really nothing major, and that's for the basket. I mean our basket has about 50 raw materials in it, and you understand we have to weight them on revenues and so on. But flat to small increase, nothing dramatic seen at the moment. And then FX plays also into that equation. But yes, that's the answer.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And continuing with profitability-related questions, there are quite a few forward-looking questions. Petri -- Jari answered to the extent that we can. So going to Oil & Gas first. So how do we see potential profitability of the business in 2022 if shale starts to recover back to 2019 levels? Do we see same margins as in 2019 or lower?

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

Okay. It just depends how the market works. But as Antti explained, we have a brand-new, world-class asset coming online next year. And then '22, it would be fully ramped up. And if we can really utilize that, I should think that we are in a competitive position. Also, our product portfolio is sort of really good. Our premium products are well liked in the marketplace, and they also enjoy a premium. So whether it's on a '19 level, a bit lower or a bit higher, hard to estimate, but somewhere in that region.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Continuing with future margin-related questions now in water treatment. So what are our expectations for margins in 2021 compared to this year? Of course, we don't give guidance on margins for next year and maybe some comments on the drivers behind.

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

Well, as Antti explained, the demand is quite steady. And on the municipal side, we're in a good position at the moment. We tend to have contracts well in place. It's a contracted business. And as the industrial side is gradually returning, the volume demand there is growing. So maybe that gives a general picture.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then a backward-looking question on profitability also. This time also related to Oil & Gas. So how did Oil & Gas profitability develop this year given the sharp drop in sales? And whether there are still measures we can take in order to improve profitability if volumes remain low going forward. And here, as a starting point, we don't disclose Oil & Gas margins at the group level, but maybe some general comments if -- from Petri or Jari.

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

Well, if you think that your revenue goes down by 60%, 70% compared to the previous year or your utilization rates go down. And one can imagine that the bottom line is not exactly beautiful. But we have done a couple of steps of readjusting to this. And now we have seen that the market is starting to recover. Run rates have gone up, not hugely yet, but going up. And we also see that next year, the lower consumption of tailing sense that was down this year will recover to higher. So that gives you the picture.

Mikko Pohjala - *Kemira Oyj - VP of IR*

And continuing with the same -- similar questions. So if there is a rebound in Oil & Gas and shale demand, in particular, so do we see a need to bring back some costs when volumes pick up? Or can we run the business with the current organization?

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

We probably need to then gradually start-up a couple of lines, but the added cost there is then well covered by the volume demand that is in the marketplace. The Oil & Gas commercial team is a very tight team. So we are talking of not a big amount of people. As we don't serve thousands of customers, we serve rather tens or max 100 customers, it doesn't take a huge team to handle the growth. And then we take it step-by-step as we need it.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. Now we still have some questions here from online, but I also understand we have the questions on the telephone line. So if I turn now to the operator for the potential question on the line.

Operator

(Operator Instructions) Our next question comes from Harri Taittonen from Nordea.

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

And you've been answering a lot of questions already. But one, I mean, can you just remind, you've been talking about the correlation of shale demand to oil price and there's been kind of the set of rules of thumb. And now you've pointed out that there are also other drivers and the price alone. But where would you -- I mean, in that light, can you kind of just refresh the view on where the oil price should be before the oil shale business sees meaningful recovery prospects in your view?

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

Yes. So basically, what we're looking at around $40 WTI at the moment, that is a sufficient price level. So that's not the holding back thing, and that's why some of the drilling starts to come back. It's really the capital structure and financing that is now something that has been the reason for them. So negative cash flow for a long time, a lot of investments and so on that's been holding back. Also a structural change of the marketplace. It used to be, years ago, small and medium player customer field, if I put it this way. And now it's sort of getting more and more to major and large players or medium players. So there's a different dynamics to it. But this price level starts to be okay for many players that have good fields.

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

Okay. Very interesting. And another quick one on -- it's a bit sort of -- but if you kind of describe your business environment during the year, in the spring, there was a sort of unexpected shock to demand then we had economies opening up. And now people are worried about the second wave in the pandemic and how that -- what that impact might be on the business. But do you see -- what do you see in your sort of order patterns or demand picture? Is the second wave of what we are seeing now in the current lockdown? Is it somehow different from what we saw in Q2?

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

Sorry, I didn't hear, did you say for a segment for the whole group?

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

Well, I mean, it's a very broad question. I mean what you choose to pinpoint there for the group or the kind of notable changes, what you have seen now compared to the spring?

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

Yes. So spring, it was just so much uncertainty in many areas, even operational sort of security that -- the visibility was there. There was risk of not getting raw materials that logistics wouldn't work. Customer industries would would've been put or shut down and so on. And none of that happened in our case. So I think we have quite solid customer sort of segments like the municipal water side that had really no effect, and it's in strong position. Oil & Gas is slowly recovering. And the packaging board tissue also driven by pulp has been quite resilient. So even if there are further sort of COVID-related complications, I'm pretty confident that there won't be a major shock from these type of things.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Are there further questions on the audio line?

Operator

And there appears to be no further questions at this very moment in time.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Then we'll continue with a couple of questions still from online. One question, a specific question for Petri on Petri's presentation. So Petri, could you still elaborate what did you mean with EUR 50 million savings you discussed on your third slide when we talked about the fundamental changes to the company?

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

So in that -- with that EUR 50 million, I was sort of adding up 3 bullet points number. The first one was the EUR 50 million savings that we got from we combined from 3 segments, business segments to 2. That was about EUR 15 million. About EUR 20 million, we got with the Boost program. Again started, I think, 2017, but really, the benefit was -- came in 2018 and '19. And the third part of it is the backward integration benefits that we are receiving from the recent investments, meaning the Chinese investments, the Botlek Netherlands investments. And also now with the benefit that we are getting, the backward integration benefit that we are getting with our Mobile, Alabama investments. There, combining those 3 investments, the backward integration element is something between EUR 20 million and EUR 30 million. And those, I combined as a EUR 50 million. Then importantly, then those investments have capacity that we can -- extra capacity that helps us grow or serve the growing markets.

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

And maybe I can follow-on that one. So obviously, some of them are part of the run rate already last year and this year, but that was a demonstration from Petri of the self-help things that we have done over time, whether in cost base, whether in efficiencies or the backward integration goes into lower variable cost because we're not buying from outside, we are making ourselves.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. There are still a couple of questions online. Some specific R&D questions for Matthew, but we will get back to these questions personally due to lack of time, but I'll now take the final question as a general question. So how do we see our R&D spend going forward? So do we see a need to increase our R&D spend in the future based on the need -- based on sort of the focus on bio-based products?

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

We spend about EUR 30 million, EUR 31 million a year in R&D and technical support, which is important part of the R&D, giving feedback and launching new products. It might be that we can and will add some single millions there, but not a huge jump. We'll just wind down the -- not the older product develop and then move that resource and that investment into the new areas. We also are doing much more co-development with customers and other partners, which brings also efficiencies that we then can share with the partners.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. May I still check with the operator, whether we have any outstanding questions on the line.

Operator

There appears to be no current questions on the line.

Mikko Pohjala - *Kemira Oyj - VP of IR*

All right. Then I would say this concludes our Q&A session. And as mentioned, some outstanding detailed questions, we will get back to you personally later on.

So maybe to summarize, as mentioned at the start, we would very much like to see you here in person, but we do hope that also this virtual CMD was beneficial for you in your research. And we also hope that our message of a fundamentally stronger Kemira was clear. So in terms of practicalities, we would still very much appreciate your feedback. So in the coming days, you'll receive a feedback questionnaire from us, and we will very much appreciate your answer so that we can still further develop our financial communications and Investor Relations.

But on behalf of the whole Kemira team, I would very much like to thank you for your participation and for your good questions. And should there be any outstanding questions still after this event, please do reach out to me. We're happy to help at Kemira's IR.

But with these concluding remarks, I do thank you for your participation and wish everyone a very nice afternoon. Thank you.