

Outokumpu Q2 2023 transcription

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Linda Häkkilä: Hello all and welcome to Outokumpu's Q2, 2023 results webcast. My name is Linda Häkkilä and I'm the head of Investor Relations here at Outokumpu. With me today we have our CEO Heikki Malinen and our CFO Pia Aaltonen-Forsell. Today, as per usual, we will first start with our presentations and after that, we are happy to answer your questions. In the first half of 2023, we delivered a strong result. Today we also announced that we have started our preparations for the third phase of our strategy, which will commence in 2026. Before we start with the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements. Now, without any further comments, I would like to hand over to our CEO.

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Heikki Malinen: Linda, thank you. Good afternoon everybody. Welcome on my behalf also to the Outokumpu webcast. It's nice again to have a chance to have a conversation with you together with Pia. We've had a very busy quarter, a good start to the year. We're excited with Pia here to give you an update on how things are progressing in our company as we implement our strategy. We also today want to shed some light on how we are preparing and thinking about phase three of our strategy that we have announced some years ago. Let me just start first by stating, as you can see on the slide, that we've had a good start to the year. We've made nearly 400 million euro of EBITDA during the first six months. It's a good start. It's a good result in a time which is still in many ways fairly challenging.

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Heikki Malinen: If we then look at the first slide here and talk a bit about the second quarter. As you can see, it stated here that adjusted EBITDA for Q2 was 190 million euros. Again, it's a good performance overall financially from the company. Q2 in many ways is a bit of a bifurcated story. As you hear today, our Americas business has been doing very well. We've had almost 15 quarters in a row of good performance there financially. Again, our Americas business contributed nicely to the bottom line. I'm very happy with the performance that our Americas team and our customers together have been able to generate. Over here in Europe, it's been a bit of a different situation, a different story, a bit more cloudy I would have to say and you'll see from the data in a moment that beginning of the year and accelerating into to Q2, it had quite a number of challenges. Overall as I said, we were able to get through Q2 nicely.

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Heikki Malinen: One of the important statistics that we always like to follow is the commercial side and specifically the price of various raw materials, and price of various products. Let me just focus immediately on the left-hand side where we can see the transaction prices for standard commodity stainless. As you can see from their line and I want to draw your attention specifically to the curve in the middle on the right-hand side. That little gray line. You can see almost two stairs, the first stair down after the summer of 2022, then a bit of a pickup and then another stair down. It really tells you the story of how things have evolved in Europe as we've gone by. Now, of course, where are we today? We knew that last summer when customers started to destock and especially we knew that some of our customers actually had bought quite a lot of volume from Asia, that it would take some time for that inventory

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to get flushed through the system. Maybe, a bit of a surprise I have to say is that it's taken now a year for that process to continue.

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Heikki Malinen: I guess the big question is, where are we today in terms of those inventories especially for distributors and when will they start buying? Based on the information that we have publicly it would indicate that both in North America and also in Europe we have reached already the average or normal level of inventories. Some customers actually have drawn down their inventories a lot more than average. Some of them still have a bit more. Overall, I would say we're definitely down to normal levels. Looking at some data, I would almost ascertain that about May of this year, we were already in the buy window. Then you can ask yourself are customers buying, or if not why are they not buying? There are probably many reasons. It depends on the customer. There is a lot of uncertainty about the economy specifically in Europe. In the US there is a discussion about, is there a recession coming or not a recession coming. That's a bit of an open macro question but specifically here in Europe, this uncertainty of course, makes it easier for customers then to postpone. Let's wait another week.

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Heikki Malinen: Metal prices were also volatile in the second quarter. Just before June ended we saw nickel also dip a bit below 20,000, having now come up again over 20,000. This of course may be makes it more easy for customers to postpone. Of course, we've seen interest rates spike quite a lot. I would assume that for some customers carrying working capital is substantially more expensive than it was let's say, one or two years ago when interest rates were near almost at zero levels. Anyway, what I can state here is as the second quarter ended and we got into the first days of July, we have seen in Europe some pickup in distributor buying. It hasn't spread yet very broadly, we did clearly see some movement among some of our distributor customers. Also, those who we know had bought a lot from Asia, they also started to play some orders. Prior to that, we saw the scrap market also starting to tighten a little bit. Is that sort of a trigger to get customers going remains to be seen, but I personally found it a good fact that orders started to come in during the course of July.

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Heikki Malinen: Now, Europe is moving into vacation, especially in southern Europe. August is usually a quiet month as customers are taking some time off. Then when we come back in September we will get a better sense for what is the mood among customers. As I said it was positive to see in July some of our customers starting to place orders. On the Ferrochrome side, you can see the price levels are fairly flat. There is a bit of a growing delta vis-à-vis the price levels in Asia. At the moment the Ferrochrome market as the second quarter ended it was quite weak. Again, waiting to see some potential movement here as the summer ends and we move into the autumn phase. Now then, if we look at our overall volumes as you can see 502,000 tons we are. Compared to the level we are not terribly far from what we saw even during the course of COVID times. COVID of course was very exceptional because people were almost panicking with the illness spreading around. Now of course, we have more macro drivers and the cost of capital drivers which are potentially driving customer behavior.

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Heikki Malinen: Overall, as I said group adjusted EBITDA at 190 million. If you look at the right-hand side and you look at that bridge chart, 204 in the first quarter and 190 in the second quarter. I want to draw your attention to two things. One of course is that red bar with prices declining as they were. Ultimately, it flows through our PNL and you can see some of that now in the second quarter results, that negative red bar. Pia will talk a bit about how those orders flow through the system when she gets up here. Another thing to take focus on is those green bars. They relate to costs. I want to just state as a fact that at Outokumpu we are very focused on cost all the time. We run a tight shop. We have a strong procurement organization. I do feel that our buyers have been doing a good job allowing us to then save as needed.

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Heikki Malinen: Then moving to another subject here. Let me just make sure I didn't go through one slide. Let's see if it's page seven. It should be okay. Talking a bit about ESG. I have to first of all state that as you all know safety is the number one topic, we always within Outokumpu prioritize safety over volume. Now, if we look at our Q2 numbers on the first bullet you see that our total recordable rate was 1.2. I would have to stop here and repeat that 1.2 is an incredibly good number. If you scan companies around the world in the process industry, I would be bold enough to say that 1.2 is a really strong number. If you look at the first half of the year, we are at one and one-half. This is a very, very strong safety performance.

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Heikki Malinen: We put a lot of emphasis on this. Our safety organization reports directly to me. We do our utmost to manage the company in a safe way. Obviously, we still have a long way to go to get to zero, but the progress we're making as an organization is solid. It also tells a lot about how we run our plants. There's a strong correlation between the safety performance of a mill and also how they run the shop overall. A little fun fact on the right is animal. It's a new AI-driven safety robot. We basically have started to use these. We're now piloting it in one of our plants and our plan is to roll it out to others. The idea with this robot is basically that it allows us to go work and scan hazardous areas within the plant. By having our animal walk around and measure through its sensors different important physical and chemical properties, we're able to identify risks and then focus our maintenance activities more accurately to those places where there could be safety concern. We have a few of these now and look forward to growing animal family within Outokumpu.

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Heikki Malinen: Then one year ago, we launched Circle Green. Circle Green is a new product. It has the lowest carbon footprint of any stainless steel grade in the world. It's up to 92 percent lower footprint compared to the industry average. Now, one year is gone. We've been discussing with our customers promoting it, and I can confirm to you that we're confident we're in the right direction. Obviously, it takes time for customers to learn and understand what this all means, but the four customer cases that we highlight here from the automotive industry, from the energy and transportation industry, renewable energy industry and so forth conferred to me and hopefully to you as well that we're onto something here. I'm really pleased that we have a product that is interesting for customers, and the marketing and promotion continues. I really believe we're very, very early days in this journey of even further

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decarbonizing our industry and fighting climate change. Outokumpu is really the leader globally in our industry when it comes to this.

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Heikki Malinen: Now, moving on then to our strategy and giving you a bit of an update on where are we now. Pia will talk a bit about phase two, financial performance from the standpoint of how our initiatives are generating financial value to our bottom line. I can just tell you overall as CEO of the company that I think we're making good progress on phase two. We demonstrated in phase one that we have a good system of executing and driving performance in the company, and we're using the same methodology, the same approach also in phase two and we're getting concrete results. In the middle of the chart, there's a horizontal blue line where we say capital discipline and strong shareholder returns. I want to also underscore that capital discipline is very important to us and shareholder returns are on the top of our minds. As we develop the company and we think about the future, we will not forget them. Now, then talking a few words about phase three. Obviously, as you can see from the chart our plan is to start phase three in 2026 under the current plan.

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Heikki Malinen: We've been spending some time this year, actually quite a lot of mental capacity and analysis to start thinking about what concretely phase three could entail. Today I want to just highlight the four areas that we have identified as the core elements of that part of our journey. Now, let me move to the next slide which highlights these four areas. From the left hand side America's expansion. In the following I will talk in a couple of slides what concretely American expansion means to us. That because it's located here on the left hand side as the first bubble, this is clearly number one topic for the company when we think about phase three. European competitive is important. Tornio in Finland is the most competitive stainless steel asset in all of European Union, but overall our system is a very competitive industry in Europe. We need to even further improve our competitiveness. How are we concretely doing that? What we plan to do is also high on phase three agenda. Then we have value chain integration. As you know raw materials play a very important role in our cost structure, and we want to make sure that when we buy raw materials that we are finding sources where the CO2 emissions are low, and where the actual raw material source is sustainably managed.

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Heikki Malinen: I'm excited to tell you that in June we announced that we had acquired a minority stake in FPX Nickel. It is a Canadian junior mine located on the western side of Canada, and it is a unique asset potentially because that nickel source is estimated to have very, very low CO2 emission requirements. It's going to be a very exciting asset once the mine development gets underway. Then on the right hand side sustainability leadership, energy efficiency is at the current moment one of our top projects. At the end of Q3 I told you our objective is to reduce our energy or increase our energy efficiency by eight percent. We're making good progress on that and we're allocating capital to unlock that value. Now, let's talk a bit about Americas.

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Heikki Malinen: When I talk about Americas for Outokumpu it's the United States and

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Mexico. Combining that is the market where we operate. As a backdrop, first I want to raise our flight level a little bit here. We've been living over the last, since I would say the early 2000's to late 1990's in a very globalizing world. As we've seen from the news flows over the last one and a half years, there is a lot of discussion increasingly about de-globalization, de-risking, maybe even decoupling. As we see it, the United States is investing systematically to strengthen its domestic economy. They've initiated multiple regulatory initiatives from the Inflation Reduction Act to Buy America Act and so forth. The US government and the states are very serious in bringing back industry to the US to strengthen its industrial backbone and to bring back jobs to the US.

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Heikki Malinen: This is not a one-year or one-quarter evolution. This is a big pivot, a big fundamental change we see happening. Outokumpu wants to be part of that journey. We are one of two leading suppliers of stainless steel in the United States, and so we are in a unique position to participate and contribute to developing the US industrial backbone. I also want to state that Mexico is also a very interesting market. We're clearly seeing that increasingly capital is flowing not necessarily into China but into countries like Vietnam, India, Indonesia and Mexico. Mexico is interesting because we are the only producer of stainless steel in that country. We have a number of customers both from Europe who are expanding their capacity in Mexico and also American customers who are also investing in Mexico. Combining the US Mexico really make an interesting market for Outokumpu. I want to state one fact that I picked up here recently and that is if you look at real total manufacturing construction spend in the US. In 2021 it was about 100 billion dollars and 2023 estimate is 200 billion. On the manufacturing side, expenditures are increasing by 100 billion. While you have these different initiatives here you can clearly see that things are starting to happen in the US.

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Heikki Malinen: Now, in terms of then what are we doing here? Well, we are working hard to evaluate different options. At the top of the list is hot rolling in the US in Calvert. Why? Well, we have 900,000 tons of melt capacity, and we have 900,000 tons of hot rolling which is done by an external party. Then we have 600,000 tons of cold rolling in the Americas. We need to think about how to develop that further. Clearly, in order for us to grow our business we will need to further expand and find a working long-term solution for our hot rolling. For that reason, we have underway a feasibility study to explore the option of investing in Calvert in that. We haven't made any decisions, but the work is progressing rapidly and the readiness to decide is growing quickly.

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Heikki Malinen: That is as far as I can tell you about phase three at the moment. No decisions but the readiness is increasing, and hot rolling has a strategic logic against the backdrop of where the US market and the Mexican market is going during the course of this decade. Then also with respect to our own footprint in the US, and where we see concrete long term needs. With respect to cold rolling, of course you know in phase two we have already announced our plans to expand our existing operations capacity to 80,000 tons, and that work continues. That is roughly where

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we are today. Now, I would like to hand it over to Pia to talk about the numbers and then I'll come back with a brief risk commentary and the outlook. Thank you.

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Pia Aaltonen-Forsell: Thank you so much, Heikki. Having those exciting opportunities in mind and looking forward even into strategy phase three, I thought it could be a good point still to start from our current balance sheet, from our current strengths and what's our starting point to think about the long term future. Let's just dive right into it. I think after Q2, we have paid dividends. During the first half of the year, we also completed our first share buyback program ever and we still stand at a negative net debt at the end of June. We also got a nice credit rating upgrade by Moody's during the quarter. Our current balance sheet is in really good shape and the strongest in the industry. A good starting point but as Heikki has also described, there is uncertainty in terms of the market environment.

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Pia Aaltonen-Forsell: I will still get back a bit also with BA specific comments, but I think on group level it means that the practices that we have set in place in terms of capital discipline, we just need to further enforce them. We need to really work with those. What we have done on top of the excellent work done by a number of projects groups to assess investments and the markets, we have also focused a lot on modeling various options for future developments and in all of those really taking care to see that the commitments that we as management have also done versus the dividend payments remain solid in those scenarios. That takes from us also this constant capital discipline and focus on the balance sheet. In the second half of this year, you will see that we have a focus on the CapEx. What we can do here and now in this market environment is to take a few prudent measures, a little bit reduce the CapEx for this year to 170 million.

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Pia Aaltonen-Forsell: There's many and quite significant cost saving measures. I think Heikki will get back to those still and obviously cash control in terms of working capital. We have a good team to consider all of these and to have this constantly on our agenda. Let me take you through a few of the key financials of the quarter. I was thinking that what would be the most important ones to pick from here? In terms of the market environment, I will also get back with some BA specific comments. You can also see from this chart that the actual volume even though it was aligned with how we were also seeing the second quarter upfront, it is a low volume and I think especially looking at Europe, it has this COVID time feeling of it. The really low volumes that we are approaching also versus Q3.

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Pia Aaltonen-Forsell: Still looking at some of the highlights of the quarter, I would pick up here some of the result related figures. Also looking at the earnings per share at 0.21 euros. You may remember that for the previous year our base dividend was at 0.25 euros and so I think we have already accumulated a good starting point during the first half of the year for the earnings per share here. As I said, net debt remaining is negative. Heikki said I would come back to some progress that we are making in terms of our strategy execution. You remember it's now one year ago that we launched the second phase of our strategy, and before that we had completed a

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pretty cost focused phase during the years of 2021 and into 2022. With that we already made EBITDA run rate improvements of 250 million euros.

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Pia Aaltonen-Forsell: As many of those were cost driven, it's also a really good support now in this current market environment and also in this inflationary environment. Looking into the projects that we are working with right now, I think the best utilization of scrap along with the energy efficiency improvements are obvious candidates for the top of the list. We do have a lot of projects in the pipeline as well. You see we have accumulated 82 million euros worth of improvements to date in the second phase, and I think we have a good pipeline of initiatives here to reach the 200 million by the end of this phase at the latest. I would say there's also a few really interesting ones, for example, in Americas enabling the volume growth that we are targeting in the second phase already. All of those are in good shape in terms of the preparation even though we are not seeing the volumes of those realized yet as per today. From what we can see in the second quarter, I would say there was a pretty big emphasis on improvements out of BA Europe.

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Pia Aaltonen-Forsell: That brings me to the status of the financials and the situation in BA Europe. Heikki already pretty strongly shared this message here that we did see a pretty fast weakening of the market environment during the second quarter. This is certainly reflected already in the second quarter results. Just looking into the second quarter there was a lower volume, there were lower prices and also some negative raw material impacts maybe specific for Europe. You may recall there was this Moly spike as well that started already in February, but some of that was winning out during the quarter with some negative impacts as well. We still had really good utilization in Tornio. This also now continues as we even are in this seasonal low point in Q3. We still continue to have a part from the schedule maintenance break, a good loading in Tornio, but we are indeed seeing a very weak European market.

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Pia Aaltonen-Forsell: It means that at some other sites we are clearly now at some lower volumes into the quarter. The market environment as I said, it almost has a little bit of this COVID type of vibe in it. When Heikki said that there are already just now in July some improvement here in the order intake. With that happening in July, and I would say what we are quoting right now in Europe is more later part of September, it's like September and October. It really means that if there's any improvement now, that something then that we will see in our financials as realized invoicing more really towards the end of the quarter or I would more say Q4. What we feel in the third quarter in our result is then the outcome of anything that basically happened in the order intake during the later part especially of the second quarter when the market was clearly softening.

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Pia Aaltonen-Forsell: This European environment for Q3 is clearly very challenging as we have also stated here. I thought I would still comment on the maintenance in BA Europe and we are seeing regular shutdowns at most of our big sites here. I think quarter on quarter, the sequential increase in maintenance costs in Europe is something, 7-8 million, maybe up to 10 million. That's the magnitude of the direct

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maintenance cost increase that we can see. Let me then take you next to BA Americas. Obviously, there are a lot of really positive things we could say on the growth opportunities and the dynamism in the market. If we really look at the here and now, if we look at the second quarter and going forward into the third quarter, the headline story here is still one of destocking and is there a story already of restocking? Just looking at the absolute level of inventories based on the statistics that we all can find out there, it's clear that we are already at those historic average level. We are even in absolute terms back to pre-COVID levels. However, there is this macro uncertainty as well that Heikki also talked about. It's putting a little bit of lid on the happiness so to say. The market environment is not particularly strongly rebounding, and when we as a group are guiding for volumes to be decreasing, it's the seasonal decrease and you know that's particularly Europe, but we do not see any rebound in the volumes in Americas either for this quarter yet.

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Pia Aaltonen-Forsell: The market remains somewhat cautious at this point in time but you can see from our realized excellent results that we have kept the good margins. The price level remained robust also through the second quarter. We also had some positive raw material impacts. Again, I would not be too bold in promising that those repeat in the third quarter, but I do think they benefited us during the second quarter here. Ferrochrome, this was a good quarter of rebound. In two ways we managed to do full production again with energy prices being back more to normal. That both impacted the production volume, it also impacted our cost side which clearly improved. At the same time we have some impacts here from just having to build inventory. It's visible in the group's balance sheet, a bit in the working capital and it's also visible in the somewhat lower delivery volumes because we need to prepare for the bigger maintenance stop that we will have during the third quarter, and the overall impact of that.

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Pia Aaltonen-Forsell: The full impact is about 10 million negative quarter on quarter from Q2 then to Q3, but good rebound here. Then on the cash flow here. On the right-hand side you see that we are now stating in our report that the CapEx for this year is now forecasted at 170 million euros. When you look at the 2022 graph, you see that we still have this significant share of the Kemi deep mine strategic investment still in 2022. Around 50 million euros and I think there's only a small tail of that remaining in our cash CapEx in this year or maybe 10 million. You see that there is still room for other investments also within this 170 million.

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Pia Aaltonen-Forsell: On the working capital, during the quarter we had some increase. There is a normal seasonality to a little bit increase on the working capital side here but if I really look into the details of this quarter there are some of these other market dynamics in the background. Because if you look quarter on quarter the biggest impact here was the negative impact from a decreased accounts payable. That's testimony then to the market situation where we have maybe also been buying a little bit less but we have built inventory in Ferrochrome, and we have also built some other inventory ahead of the annual maintenance stops in Q3. With that said Heikki, I would hand back to you.

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Heikki Malinen: Thank you, Piia. Based on what you just said we can see that as a company we're managing the changing conditions with confidence, are we not?

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Pia Aaltonen-Forsell: Absolutely we are.

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Heikki Malinen: Exactly. I like this picture because I think, for those of you who do sailing, you know that in sailing what's really critical is how you manage those turns. In the steel industry and stainless in particular, it is a bit like sailing. You're turning the boat left and right, and you really have to manage the turns quickly and effectively and if you can do that you can compete very well. As a company, we're pretty good at turning the ship. We're agile when it needs to be the case. As an example of that, I want to show you the following slide which is that we are accelerating even more and putting more energy and focus on procurement. I'm very, very happy to tell you that Marc-Simon Schaar, who's been heading among others our raw material procurement is now the new chief procurement officer of the company and a member of our leadership team.

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Heikki Malinen: Marc-Simon and his team have an interesting and very important task to really fight inflation. What we're saying here today is, we aim to reduce our consumable costs by 15 to 20 percent in Q3. In addition to that, sustainability and being able to manage the raw material procurement in the most sustainable way is important. Marc-Simon and his team are also working a lot on that. I already talked about energy efficiency work. Also on that front, we're making good progress. Maybe to take a bit of a step back here at the end and look at risks both upside and downside risks. On the positives clearly, as we've discussed here, we did see a bit of that pickup in order intake in July. Let's see where that takes us as folks come back from vacation.

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Heikki Malinen: A lot of headlines out there on China's stimulus. Many of us thought things were going to start post-COVID in January and February. Then Q2 was weak. Now, the Chinese state has stated that they intend to stimulate also the local economy again and maybe with some concrete and sizable measures. Let's see how that flows into the markets and whether those actions then really also move China forward. China is over half of the Asian GDP. What really happens in China is very material when it comes to demand of stainless steel and metals among others. Low distributor inventories, as we've said when will restocking begin? Are we close to that point now? Then we've talked about our own actions and then circle green.

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Heikki Malinen: On the uncertainty side, scrap markets are tightening. We do however feel that we are well sourced. We have good supply sources, we have good partnerships, and we have a very professional and good organization buying. I feel good about our situation on scrap. As you saw our amount of recycled metal was 94 percent which is the highest of any company in the industry. Inflation pressures seem to be moving downward, and we're going to take advantage of that as we head into the fourth quarter. Then of course, energy and electricity was the big topic last year

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or last winter. It's very good that in Finland now Olkiluoto 3 Nuclear Power Plant is running full. As we head into these winter months, we are going to be taking advantage of Olkiluoto's electricity supply in the Nordics, which make the Nordic market much more balanced in terms of supply and helps keep a lid on the price of power here up in the north.

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Heikki Malinen: Against those facts let me summarize the outlook for the third quarter. Group stainless steel deliveries in the third quarter are expected to decrease by 5 to 15 percent compared to the second quarter in line with the seasonal pattern. For business area Europe the market environment is challenging in the third quarter. The planned maintenance break in business area Ferrochrome is expected to have an approximately 10 million euro negative impact on the business areas adjusted EBITDA. Maintenance costs for the rest of the group in the third quarter are expected to increase by up to 10 million compared to the second quarter. With current raw material prices, some raw material related inventory and metal derivative losses are expected to be realized in the third quarter. The guidance for Q3 2023: Adjusted EBITDA in the third quarter of 2023 is expected to be lower compared to the second quarter. With that outlook and background, Pia and I are happy to take your questions. Thank you.

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Operator: If you wish to ask a question please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question please dial star five again on your telephone keypad. The next question comes from Tom Zhang from Barclays. Please go ahead.

00:39:02

Tom Zhang : Hi. Good afternoon, Heikki and Pia. Thanks very much for taking our questions. The first one just on Ferrochrome. Obviously, the Q2 contract price in Europe was reset quite a bit higher so I'm a little bit surprised the revenue per tonne wasn't a little bit stronger. I recognize as you say you did have to build some inventories in there, but is there anything else that we're missing on the Ferrochrome division? That's my first one. Thanks.

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Pia Aaltonen-Forsell: Thank you, Tom. I think when you're asking if you are missing something, then obviously this was a quarter of starting up things again after having a lower production in the first quarter. Even though we had the positive from the sales price and a bit of boost also from the energy, please remember that on the energy, as we have said, we are also hedged to two thirds or even up to 70 percent. A lot of this was still already agreed upon earlier at what cost level we would end up at. I think on the balance of all of those things and building inventory, this is where we ended up.

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Tom Zhang : Got you. I guess there's still probably a few cost items that roll off through the second half of the year. Then the second question was just on the timing of some of these investments. I know you've only just started the feasibility studies, but maybe in the context of you've set phase three to start from 2026, should I read that as that's when the CapEx should start moving up more materially? Or is that

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when you want to be ramping up some of these expansions and raising your EBITDA run rates, in which case we should expect a bit more of a pickup in CapEx already next year in 2025. Thanks.

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Heikki Malinen: The factors that drive the timing from our standpoint are, I would say two things. One, of course, is the overall readiness that we have, the right resources in place. We have finalized our discussions with various equipment suppliers and contractors, and we have just finalized the actual business case ready for a decision making. I don't want to, at this stage, give an exact date. I want to reiterate what I said earlier, which is that our readiness to invest is growing and is fairly high. The specific timing where it hits the calendar, what year at this moment, I will refrain from stating more accurately what it could be. We'll have to come back when we're really ready.

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Tom Zhang : Fair enough. Thank you. I'll turn it back.

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Operator: The next question comes from Anssi Raussi from SEB. Please go ahead.

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Anssi Raussi: Thank you and thanks for the presentation. I have a few questions and maybe the first one about Q2 and actually more about Q3. The last quarter was strong in the Americas, but do you think we could see a similar quarter in Q3 as well? Or how should we think about that one?

00:42:14

Pia Aaltonen-Forsell: Hi, Anssi. Maybe if I can start on that one. I think on the market, even though seasonally we don't have the same decline as typical in Europe. Still waiting for that really restocking sign or signal. Haven't seen that. I would be cautious on just not assuming that there will be some volume pickup yet at this point. Then if we consider cost elements, there were some positive elements on the raw materials side in the Q2 that I don't think we can just say they will just repeat. With that said, on balance, those elements, at least I could take into account. Then obviously we still saw very resilient pricing in the second quarter. We'll have to follow up with the market now how that continues into the third quarter.

00:43:08

Heikki Malinen: If I can just build on that and just state that there two things. First of all, for many of our large distributor customers in the US, they don't really have that much visibility with respect to their own demand. Many of them supply small quantities of stainless steel and the orders really come and they supply them within 24 hours or 48 hours. Things actually can change quite rapidly. Just as you've been looking at the headlines on macro forecasts on the US, is the recession coming? Yes, it is. No, it isn't. It's kind of moving back and forth depending on what analysts is next. I would say it's been a bit the same with the customers that they're a little bit uncertain should they accelerate or still wait? This back and forth situation seems to be also going on in the US. News in the last few days have been again a bit more positive. Let's see what Autumn will then bring.

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00:44:08

Anssi Raussi: Okay, thanks. That's really helpful. Maybe then about the BA Europe, I understand that you're guiding Q3 to be weak, but maybe to give us some a ballpark here. Like are we talking about single digit numbers in terms of EBITDA or maybe even close to zero or what kind of ballpark we are looking at here?

00:44:31

Pia Aaltonen-Forsell: Ance, I think it's a fair question. As you know, we can see that second quarter results were already starting to decline. Then at the same time, we still have a volume drop. We are operating in a market environment where actual realized prices were falling during the second quarter. Any pickup that we may see right now would just impact more actually into the fourth quarter. There is a number of, let's say, pressured items. That is why we really wanted to say very openly that this is a very challenging environment. I don't want to give a figure, but if we think about COVID, if I recall right, BA Europe was down to a single digit figure in that third quarter of 2020. I think the market environment in many senses, the touch and feel here is the same. There's a lot of similarity.

00:45:27

Anssi Raussi: Okay, thanks. The last one from me is about your annual contracts. Can you remind us what pricing mechanisms you have in these contracts? Like are these alloy surcharges and fixed base price based contracts or what kind of structure you have in these?

00:45:48

Heikki Malinen: There is no one fixed rule. It very much depends on the customer and the end use sector and also the country. In Europe, of course, it's been moving a bit back and forth between alloy surcharge and fixed, and so you've had these movements. I would just say in general, when we fix the contracts, usually you make a commitment on volume and then you will have different types of volume rebates. Then in terms of the pricing, there are different arrangements depending on the customer. This is something that as we head into the end of the year, fourth quarter, we will then start to get a better sense for what the world looks like for 2024. Still too early to say at this stage.

00:46:35

Anssi Raussi: Okay. Thank you so much. That's all from me.

00:46:46

Operator: The next question comes from Tristan Gresser from BNP Paribas Exane. Please go ahead.

00:46:54

Tristan Gresser : Yes. Hi. Thank you for taking my questions. I have a couple on the phase three that you started to talk about, starting off with the US. You flagged such a large deficit for the region, and I'm wondering why you're not exploring, let's say, a new greenfield facility with new upstream capacity and also with the current feasibility study you're looking at on the rolling side, what's the potential volume increase without adding another electric arc furnace? That's the first question.

00:47:28

Heikki Malinen: I'm not sure if I heard exactly the beginning of the question, but

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please, come back if I don't answer it accurately. In terms of the current site, we have plenty of space to expand within the current geographic location. It makes sense for us to maximize the scale of Calvert in many respects. We also have a logistics chain from Calvert into Mexico and back. Calvert is very well located also for scrap sourcing. It's a good place to be. We really want to scale up Calvert further in terms of the capacity, if and when we make a decision, for example, on hot rolling. That amount of capacity it's still under consideration, obviously, with the current 900,000 tons, that's the minimum level we obviously need just to maintain our existing production, but then to develop the asset further for future expansion, of course you would need to have more. That amount is something that, when the day comes that we announce a decision, we'll then tell you.

00:48:44

Tristan Gresser: Okay. That's clear. You haven't ruled out necessarily further, let's say, upstream capacity or you just looking at rolling?

00:48:53

Heikki Malinen: No, as we've said here specifically, the focus is on rolling at the moment. That in itself as a project it's a lot of work to do in itself and it's better to focus on one thing at a time.

00:49:10

Tristan Gresser: All right. No, that's fair. My second question is also on phase three, a little bit on Europe. Can you give us maybe some early indication of what could be done to improve competitiveness there? Also interestingly, you also flagged some potential capacity expansion in Europe. Of course, the market currently is pretty depressed. I was curious to what you have in mind and what's your view on the medium term demand outlook in the region, that tells you that maybe further capacity may be required? Is it also maybe tied to the carbon border adjustment mechanism? Thank you.

00:49:49

Heikki Malinen: Many very good questions and a very comprehensive list of topics which are very relevant. If we look at Outokumpu assets, as I've said, we have this unique position with the chrome mine where the investments have now been completed, Tornio and then we have Krefeld and the rest. This, of course, is very much a question or it's always a cost game. I mean, these are commodity products on the stainless Europe side and cost competitiveness is key. Obviously, we're looking at all kinds of solutions where we can of course reduce our variable costs, but also fixed costs. That work is still so underway that I really don't and I cannot really open that up anymore.

00:50:35

Heikki Malinen: I do, however, want to come back on this carbon border adjustment mechanism, because once that is installed, it does, of course, mean that for companies like ours with very, very low emissions, it should give us a relative competitive advantage. With the high amount of scrap, the chromium, we are well positioned under phase two. We have said that our plan is already to increase our capacity in stainless Europe specifically because we are debottlenecking and we're simplifying the portfolio and we're trying to increase the throughput. That was in itself already growing the supply volume by that phase two action without putting any

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major CapEx into that. Just by making things more efficiently, we are able to generate more or extract more volume out of the existing system. That's a phase two. We're not commenting on phase three anything on volume.

00:51:37

Tristan Gresser: All right. That's fair. Maybe the last one on you. I'm sorry, it's all about phase three but it's very interesting. You're not necessarily looking at developing alloys business like certain peers are. I was potentially expecting to see more interest on the phase three when you look at growth opportunities, if you can maybe discuss a little bit why the alloys business as a whole is not necessarily something you consider at this stage. Thank you.

00:52:08

Heikki Malinen: Within business area Europe, we have the advanced materials business where we have what we call in our system the duplex grades, the pro grades in general which go to more sophisticated complex industrial applications. That is something that we're developing currently actively, but we see sufficient opportunities internally to organically grow that without at the moment any major capacity expansion. We still have work to do there to grow globally, in these pro grades and therefore they are a very high focus, but they're not a phase three CapEx thing per se. America as I said it's unique in the sense that the big global macro changes, the big trends we're basically seeing a pretty fundamental shift in our view globally. We really want to be riding this big wave as it gradually moves forward over the next decade.

00:53:17

Tristan Gresser: All right. That's really clear I jump into queue. Thank you.

00:53:24

Operator: The next question comes from Krishan Agarwal from Citigroup. Please go ahead.

00:53:33

Krishan Agarwal: Hi, Heikki and Pia. Thanks a lot for taking my question. On the Americas strategic growth plans, would you help us breaking down the current cost structure? I mean, incremental cost which you are incurring primarily on the logistic for the melting product to go and for the HR to come back, and also what are the savings you would be expecting if the HR production were to be in-house versus the current arrangement?

00:54:00

Pia Aaltonen-Forsell: Thank you, Krishan. In the current arrangements we are doing the hot rolling with a partner but on the same site. In that sense the logistic costs are perhaps of a smaller nature here. There is something but I don't think it's something worth describing in further detail here. Overall, we are here also looking for the growth opportunity into the future and considering this. I do think it's very interesting to think about the cost positioning and the various scenarios, but this investment is only one scenario, I think maybe then at the later stage if applicable we would come back with more details.

00:54:45

Krishan Agarwal: I understand. Then moving on to the existing business in the

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Americas raw material gains which you mentioned was one of the source for the better performance. Could you help us know what is the magnitude of those gains? Because that will help us to get a perspective on Q3 expectations for Americas.

00:55:05

Pia Aaltonen-Forsell: It's a low double digit figure.

00:55:11

Krishan Agarwal: Okay, low double digit. Then the third question you mentioned that you have repaid a pension loan into the June. Does it mean that the book value of the pension liabilities go down or this was just an ordinary course of the loan?

00:55:27

Pia Aaltonen-Forsell: Thank you for asking that. That's a very good question to specify because this is a little bit of a special Finnish funding type. This was a loan. It was in our debt but you are right that it's connected with pension payments that we have done into the Finnish legally regulated pension system. Then when you have paid then we can borrow it back but it doesn't impact the pension liability that we have on the balance sheet. It was really debt. Like interest bearing debt, and it doesn't impact our net debt position because basically we have taken down our cash position and repaid this loan. Of course, there's a small saving then in the interest rate for us by doing that.

00:56:15

Krishan Agarwal: I understand. Then the final question is on working capital. I mean the volumes going lower in the Q3, prices going lower, this is kind of ideal condition for the working capital release. How should we think about the working capital in Q3?

00:56:31

Pia Aaltonen-Forsell: Your assessment is right and looking at multiple years of history, yes, maybe there was some anomaly when there was the very quick COVID rebound. Other than that the typical pattern for us says end of Q3 inventory at its lowest when we have been going through this cycle of maintenance breaks, et cetera, and end of Q4 overall working capital lowest point and then again building working capital in Q1 and Q2. I was pretty specific to say that during last year, we had some changes in the supply chain because of the war in Ukraine, and because of change of some supplier relationship and that's when I said there's probably like 100 million or maybe even a bit more than that, that will stick because we have these new arrangements. This year we haven't been going through that kind of structural changes. I would assume that you know we have the pretty normal annual cycle here for this year.

00:57:36

Krishan Agarwal: I understand. That's it for my side.

00:57:39

Pia Aaltonen-Forsell: Thank you.

00:57:45

Operator: The next question comes from Bastian Synagowitz from Deutsche Bank. Please go ahead.

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00:57:55

Bastian Synagowitz: Good afternoon all. I just have a quick follow-up on the Ferrochrome business and how we should be thinking about the next quarter. Pia obviously walked us through a couple of the points here, which caused the slightly lower than expected performance in Ferrochrome in the second quarter. If we think about the third quarter, we obviously have the maintenance break. That's 10 million. We get the price cut obviously from the benchmark price. Usually that would be probably another 20 million that would bring us very close to break even. Yet in a normal environment at these price levels historically you've probably made closer to 60 million EBITDA. Could you just help us a little bit to understand the balance of this? Should the performance be a little bit more flattish and stable into the third quarter in Ferrochrome or should we indeed assume that we could slip towards levels very close to break even?

00:58:47

Pia Aaltonen-Forsell: I have two observations. Thank you, Bastian for that question. The first observation is that we already benefited from somewhat lower electricity costs but you know there was also unfortunately a really high level in that earlier, and now it is rebounding but we had some of these levels already set before. With that said, I wouldn't expect between Q2 and Q3 any major boost, but gradually we will still get some boost from this deflationary impacts and then also our own actions. They don't necessarily all come yet in Q3. When we then go forward to Q4 and bit into next year, we can still benefit a little bit from this level here going down. That's one thing and the other thing is obviously following this uncertainty that we have in the market. If you follow the spot pricing of Ferrochrome that has been a fairly a depressed story lately. The market itself doesn't seem very vibrant at the moment.

00:59:57

Bastian Synagowitz: Okay. Perfect. Thanks for that. That was my question. Thank you.

01:00:07

Pia Aaltonen-Forsell: Thank you Bastian.

01:00:07

Operator: The next question comes from Harri Taittonen from Nordea. Please go ahead.

01:00:15

Harri Taittonen: Thank you and good afternoon. On the topic of the EU's investments could you help a little bit giving a layman feel of what the typical unit investment costs would be for cold rolling and hot rolling quick? Is it something like 300 dollar per ton of annual capacity for hot rolling and cold rolling a bit higher? Related to that how should we think about the returns? I can see the cold rolling investment being growth oriented and giving a volume boost right away. I can see the calculations there but should we see the hot rolling then more as a replacement investment in a way that it's replacing the current setup, and therefore we should think about the returns from that angle or what would be the return hurdles please?

01:01:17

Pia Aaltonen-Forsell: Hi, Harri. Thank you. If I think about the hot rolling, I think about it as a mix between what you call the replacement, because obviously we have an

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arrangement in place right now, and then also an opportunity for growth. Heikki was talking about this earlier that really defining what the capacity would be, et cetera. That's still something that we are preparing for and would then potentially talk about later. There is something of an element of growth also embedded in this hot rolling. It enables further steps later on for example. That's one perspective and I think we should just consider that such a hot rolling investment is significant in size. Are we then talking about the size order of magnitude in absolute terms of even up to a billion? These are things that we will need to come back to, but I think that's one way of thinking about it.

01:02:17

Harri Taittonen: That's good. No one has asked about the 500 to 600 million EBITDA in a normalized environment so far. Can I do that then and how does that assessment sound now with the evidence of the second quarter earnings and your feel on the on the third quarter? Has something changed there or is that still your current valid assessment?

01:02:46

Pia Aaltonen-Forsell: Thank you, Harri for that question. Indeed, it is still mine and our current valid assessment and yes, we have seen quite a dramatic trough coming up here now. If you look at the first half results, we are close to 400 million of EBITDA. We are going towards a weaker Q3. Certainly, also in more normal years maybe we typically have stronger Q1 and Q2, and somewhat weaker Q3 and Q4. Maybe it's even a bit accentuated this year, but I think that assessment is still aligned with our broader view of our company's ability to generate EBITDA in a normalized environment.

01:03:31

Heikki Malinen: Indeed, that is the case.

01:03:34

Harri Taittonen: Okay, great. Thank you. If there's time for a third question on the price mix overall, interesting both in Europe and America. First of all, in Europe that with the indications of investments slowing among some capital goods companies at least. I mean, how is the quality mix in the order book developing and your pro-grade share in the total order? I mean, how does that balance look like going forward?

01:04:06

Heikki Malinen: If I can just say that I think in the second quarter there's-- First of all, with respect to the pro grades, the whole sector, this whole energy transition to a green economy that will create demand. There are many, many applications where stainless steel would be used, from hydrogen to all kinds of energy-type investments. The outlook longer term looks solid. I think what we have seen here in Q2 was simply, I think a number of customers on the project side, they are waiting. They're holding off partly because of significant metal volatility. We saw, for example, Moly move up and down. Capital costs have been rising. For some projects, we could probably have seen that customers are, the hurdle rate has gone up and they've taken a decision to hold off a little bit. Inherently, there is a growing need for these investments and we do think that it creates a good, positive, solid, background for growth in pro grades. We are working hard to sell more of that, not only in Europe but

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globally because we are really the market leader globally in that sector. Anything you would like to add?

01:05:18

Pia Aaltonen-Forsell: Yes, I'll just add the small details from Q2 into Q3, I think the mix could go a little bit weaker, but it's really a very marginal impact, Harri.

01:05:31

Harri Taittonen: Okay. Thanks for this. Thank you.

01:05:33

Pia Aaltonen-Forsell: Thanks.

01:05:40

Operator: The next question comes from Moses Ola from JP Morgan. Please go ahead.

01:05:48

Moses Ola: Hi, Pia, Hi, Heikki. Thank you very much for the presentation and for taking my questions. I have two questions. I'll take them one at a time, if possible. The first one, I just want to clarify, is your CapEx target for phase two of 600 million still retained? If I look at current CapEx, it continues to run below appreciation. Obviously, you reduce CapEx over three years. How should we consider this in terms of phase two growth targets like this one?

01:06:17

Pia Aaltonen-Forsell: Moses, thank you. The CapEx for 2023, I think we have now adjusted a bit to 170 million and continuing on the Phase 2 logic we announced before then, it would mean that this plus 30 would need to land in -24 or into -25. I think following what Heikki said before then, the timing of those, for example, America's related investments, we would then announce those separately. Of course, we are leaning towards the phase three when talking about those. Then the exact timing we will need to come back to. We are now in the phase two, 600 million overall situation until we then announce anything else.

01:07:03

Moses Ola: Thank you. Then one thing else that I noticed. Other targets within now for 2025. The net-zero target in Kemi, how is that currently progressing? Then also the investment for Biocoke, is that something that is still valid for Phase III as well, please?

01:07:23

Pia Aaltonen-Forsell: I'll take the Biocokr question first. Then was it on the energy efficiency? Sorry, What was your first question? I didn't hear it.

01:07:31

Moses Ola: The net-zero target in Kemi by 2025. Could you just provide an update on how you're tracking this, please?

01:07:39

Pia Aaltonen-Forsell: On the Biocoke, we are continuing the preparations. Obviously, it needs to be balanced with all of the plants that we have here. We are still now working on the feasibility of that. We'll need to come back later when we have more updates. Then on the CO2 reduction targets, you know, we have these SBTI targets

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and we are following this up every month. The last time we looked at it, I think we tracked really well vis-a-vis those targets. We really have a lot of initiatives going on. Especially as we added this boost through the energy efficiency, I think we are really well on track, but that's probably also something that we at some point need to add a bit more data points to report on those.

01:08:25

Heikki Malinen: We can do that. Yes.

01:08:28

Moses Ola: Thank you for that. Then finally for me, so your balance sheet still remains net cash even after the pension payment and you guided for some reversal of working capital to support that cash position in the second half of the year. How could we consider potential shareholder returns given your current authorization as well for a ten percent buyback?

01:08:53

Pia Aaltonen-Forsell: Moses, I think it's a spot-on question, given that it's our priority to ensure that we also have sufficient funds for the dividend payments. Given the balance of where we are right now with our cash position, with our net debt position and then the outlook into the second half of the year, where obviously the EBITDA outlook is now weaker. At the same time, there are some working capital releases possible. I still remain confident from a CFOs perspective that we are on track with what we said before, that we have this stable and growing dividend possible.

01:09:26

Moses Ola: Okay. Thank you very much.

01:09:30

Pia Aaltonen-Forsell: Thank you.

01:09:34

Operator: The next question comes from Patrick Mann from Bank of America. Please go ahead.

01:09:44

Patrick Mann: Good day, Heikki and Pia. Thank you very much for the presentation. I had a couple of questions. One is just again, sorry about phase three and the US expansion. Is there a scenario where you could build out some of your own hot rolling capacity and continue to use the third-party 900? As far as I can see, that agreement goes until mid-2030, unless it's cancelled. Does any of your own expansion automatically have to cancel that or is it just an easier way to configure the plant? Maybe just if you could help us with that because that could make it growth CapEx to start and replacement later. I'll ask my second question after that one if that's okay. Thank you.

01:10:34

Heikki Malinen: Yes, I think of course it depends also on the, our contract roller, of course, they have their own plans and their own needs. It depends on what they need to do in the future. I think as we're looking at the investment currently, we are trying to size that so that once we make the investment that would fit our longer-term needs. Once you start building it, you don't want to come back and change it again. Of course, you can build these lines so that you have a certain amount of capacity

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and then you can augment it later. That's also possible. We're looking at all options in terms of getting to the final level or then some base volume and then expansion potential. All options are being evaluated.

01:11:33

Patrick Mann: Thanks. Then maybe the follow-up is and please correct me if I'm wrong here. My understanding is your US business is a bit more or quite heavily weighted towards distributors versus the European business. As part of the growth and focus on expanding your US business, do you envision that changing at all or do you think you'll continue to service your existing customer mix? Thanks very much.

01:12:02

Heikki Malinen: We have a very solid customer mix. The US market operates fundamentally very differently from Europe. It's of course geographically a huge area. These distributors, they have tens or hundreds of service centers across the country. They provide a 24 to 48-hour service with very small volumes. That is something that we can obviously not do effectively. They have a different service model, different service capability vis a vis us. We manufacture the stainless and they do the final service. I think that model works very well. It's very efficient. Both parties have their own roles. I pretty much envision that we will even further solidify the relationships we have with these distributors, try to take out costs from the supply chain, make it more even fluid and efficient in terms of information flow, in terms of being more better at predicting what the demand is so that we can take out cost. It's a good model and we intend to further only solidify our relationships with these distributors.

01:13:18

Patrick Mann: Thanks very much.

01:13:26

Operator: The next question comes from Tom Zhang from Barclays. Please go ahead.

01:13:33

Tom Zhang: Hi again. Thanks very much for taking the follow-ups. Just two more, please from me. On the raw material and metal derivative gains and losses. I guess for the group, it was a 12 million loss, but within that, Europe was a small loss and Americas was a seven million gain. I actually get a 12 million loss that I guess is in corporate is a little bit of a housekeeping question, but how should we think about that, please? Is that derivatives or is that something else?

01:14:04

Pia Aaltonen-Forsell: Tom that was derivatives. I think based on our hedging strategy, typically our portfolio of hedging is directly allocated to the VAS, but there could be certain market conditions where a certain restricted amount can remain on the group. That is exactly what happened here.

01:14:22

Tom Zhang: Okay, thank you. Then the second one was just on the consumable costs. In the presentation, I think you were talking about reducing consumable costs by 15 to 20 percent for Q4. Can I just confirm that? Is that all raw materials or is it things like electrodes and refractories and those kind of consumables?

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01:14:41

Pia Aaltonen-Forsell: Yes.

01:14:41

Tom Zhang: Is that target excluding the effect of things like magnesium? It's not including the effect of magnesium prices and graphite prices moving down. It's an underlying change.

01:14:51

Pia Aaltonen-Forsell: No, it's not. It's really the consumables here, like the ones that you mentioned, but maybe also something more practical like packaging materials, et cetera.

01:15:00

Tom Zhang: Great. Is there any help you can give on the euro amounts on that?

01:15:08

Pia Aaltonen-Forsell: The quarterly impact still, I think is a high single-digit number.

01:15:13

Tom Zhang: Okay. Perfect. Very helpful. Thank you.

01:15:17

Pia Aaltonen-Forsell: Thank you.

01:15:24

Operator: The next question comes from Tristan Gresser from BNP Paribas Exane. Please go ahead.

01:15:32

Tristan Gresser: Thank you for taking the follow-up. I have two. The first one is on the Q3 guidance. I appreciate what you said about Europe and Ferrochrome as well. To follow up a little bit on the US. I need maybe some help to understand the positive raw material movements you had in Q2 because if I look at the bridge you provide in the slide pack, the pricing and mix impact in Q2 as 40-50 million euros. If I look at it, an ASP has fallen during the quarter. If there was no mix effect, that would imply that those positive raw materials that you're not seeing in Q3, they're actually closer to 40- 50 million and can make quite a big difference if they're not there in Q3. I just wanted to see if my thinking was correct there. Then have a follow-up. Thank you.

01:16:29

Pia Aaltonen-Forsell: You know that within this bucket of pricing and mix we have the header on that in. I know you talk about the variants bridge that we have as an appendix in the material. We also have the direct impacts that the metal buying has on that bucket as well. There were some of those benefits that we reached, I would say, in a certain market environment that certainly was not tight from a scrap perspective, for example, during the quarter. That's really the unique event that happened during the quarter there, which maybe was a little bit different from just seeing the nickel going up or down, or the Moly spiking or something like that. That we would actually report separately in the timing and hedging bucket of our variance bridge to be a bit technical here. 40 or 50 million is to assume too much. It's one part of that we have there and it is a double-digit number but it's not as high as that.

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01:17:32

Tristan Gresser: All right. That's very clear. Thank you. The second question is more on the US market. I mean, you flagged a strong demand outlook and at the moment you see a supply shortage of 400,000 tonnes in normalized market conditions. The first question is, given this structural deficit, do you still believe that the US market is bound to moderate to correct in light of global pricing development? Also when we look a little bit medium term, can you walk us through the structural demand drivers for the next coming years with perhaps some concrete example? Because my understanding when I look at those new poles of demand, we analyze, it's really still intensive for carbon when you look at infrastructure, the new manufacturing plant. I'm curious about stainless specifically, where do you see those pockets of demand really materializing in the future? Thank you.

01:18:32

Heikki Malinen: Well, on the second half of your question to keep it very simple, we don't have any supportive material to present today. Happy to come back to that question in more detail in future presentations. Specifically when we get to the point of making a decision. Obviously, overall, we see two things happening. One is increased repatriation of production from Asia, specifically also into Mexico. Secondly, the economy is growing, so consumption will grow. Then, of course, there is a certain amount of imports where we think that a local strong supplier could provide more production. As we saw in the post-COVID rebound, we just ran out of capacity a number of times and they had to be supplemented with imports. Those are the three drivers. I'm happy to come back to that question more specifically.

01:19:28

Heikki Malinen: Then in terms of the averaging or coming back to some kind of a long-term equilibrium in the market. I mean, basically at the moment what we're seeing is that demand and supply is in reasonable balance at the moment. You have these temporary adjustments in inventory, which I think are not really driven by changes in underlying demand, but more driven by just customers' uncertainty about whether to accelerate or decelerate. That is creating this unnecessary volatility, I would say, in demand. Ultimately, the end-user demand is not tremendously volatile, but this is more just a structural problem in the supply chain and that makes sometimes our business a bit tough. We just have to be able to be agile and scale up and down as the customers order. I said overall we look at the US in a very positive light, including Mexico, of course.

01:20:34

Tristan Gresser: All right. Thank you very much.

01:20:41

Operator: The next question comes from Maxim Kogge from Oddo BHF. Please go ahead.

01:20:51

Maxim Kogge: Hey, good afternoon. Thanks for taking my question. I just had a question about your guidance for volumes in Q3. If we could have more collaboration because you expect them to decrease by 5 to 15 percent on average. I was wondering whether it was fair to assume Europe would decrease very moderately given that in contrast to usual seasonal trends, Q2 shipments were actually lower

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than in Q1 and whether you, therefore, expected some uptick there or at least stabilization while in the US there could be falling more sharply.

01:21:29

Pia Aaltonen-Forsell: Indeed. Maxim, thank you very much. I think when we are guiding 5 to 15 percent down, that is pretty much the range that we have seen before on the seasonal decline quarter on quarter, particularly in Europe. I think the average when I looked at the long-time series was maybe 10 percent down quarter on quarter. We do see that seasonal pattern repeating in Europe. There is a decline despite the fact, as you said, that Q2 was already on a low level. I just don't want to jump to the conclusion that there would be growth in Americas. I think based on all of the facts that we have discussed in this call, in the short term, there is still some uncertainty. I would also, for America's part, see the volume a bit under pressure from Q2 into Q3. Our typical way of guiding is that we give this range and we try to give it in the way that we are somehow comfortably in the middle there. Of course, this range is there to allow for some variation during the quarter.

01:22:33

Maxim Kogge: Okay. Perhaps the last question is on other operational intragroup items. There had been quite significant a positive in late last year. Now they are negative again. Is there some normalized contribution, we should assume for them going forward?

01:22:52

Pia Aaltonen-Forsell: I'm sorry. Normalized contribution for which item?

01:22:56

Maxim Kogge: For other operations? Yes, for other operations and intragroup items.

01:23:01

Pia Aaltonen-Forsell: What we have here in other operations, of course, there's a normalized, maybe it's like 10 to 12 million of a certain cost base that remains as a corporate level cost. Then we had one item that was a little bit special. We had this remaining long product operation, which was the Degerfors that was still a part of the figure early this year, but the divestment was closed now two days ago, so it will no longer be part of the figures going forward. There was a small profit early in this year coming from that, so that will fall off. We are then back to this cost base of maybe 10 to 12 million. However, on top of that, there are two items that could vary, that's why I cannot give you just one easy figure.

01:23:46

Pia Aaltonen-Forsell: The first item is that occasionally part of the hedging portfolio Nicole could land. There should never be anything really significant but happened to be a bit bigger in this quarter. Then the other part is, when you are looking at the kind of supply chains that we have, we have some inventory that originated maybe in Tornio and then it went to Terneuzen and then maybe to Krefeld before it went to the customer. When inventory is moving between our own units, we then have to eliminate those margins to make the correct group-level figure. With that said, we have some eliminations and they could vary based on the exact inventory count where it is.

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01:24:27

Maxim Kogge: Okay, so 10 to 12 million per quarter, not per year?

01:24:31

Pia Aaltonen-Forsell: That's the normal cost base per quarter. Yes.

01:24:35

Maxim Kogge: Okay, great. Thank you.

01:24:50

Operator: The next question comes from Krishan Agarwal from Citigroup. Please go ahead.

01:24:58

Krishan Agarwal: Hi, Pia. A quick follow-up or clarification on the Americas investment? I think my line got blurred when you were answering that. CapEx expectation, I heard a number as a billion. Can you clarify, what was the number you mentioned in terms of the potential [crosstalk 01:25:13- 01:25:14]?

01:25:13

Pia Aaltonen-Forsell: The number I mentioned? It was not blurry, but I wanted just to give an order of magnitude figure to consider an investment of the type that we could be contemplating here. At an investment decision, obviously, we would need to come back with a more concrete figure.

01:25:33

Krishan Agarwal: The billion you mentioned was the right number?

01:25:37

Pia Aaltonen-Forsell: Yes.

01:25:38

Krishan Agarwal: Well, I heard it right?

01:25:38

Pia Aaltonen-Forsell: Yes, you did.

01:25:39

Heikki Malinen: US dollars.

01:25:40

Pia Aaltonen-Forsell: Maybe this is the European way of talking about a billion, but I guess that's good internationally as well.

01:25:47

Heikki Malinen: American, US billion dollars.

01:25:51

Krishan Agarwal: Okay. I understand.

01:25:52

Pia Aaltonen-Forsell: Thank you.

01:25:59

Operator: Time. I hand the conference back to the speakers.

01:26:04

Heikki Malinen: Once again, thank you for joining us for almost one and a half hours.

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It's been an excellent and exciting conversation. I want to leave you with three thoughts. We've had a very good start to the year, but we're obviously going now through a tougher quarter, a bit of a COVID- like situation here in Q3. As I said, we're seeing some positive signs here in Europe, at least in the first weeks of July. Secondly, I've told you our view about the future of the Americas market. Both the United States and Mexico Outokumpu is uniquely positioned. We are one of two major suppliers. We have a strong industrial base in Calvert. Of course, we're the only one in Mexico producing stainless steel. We are looking at options on how to develop that business further during Phase Three.

01:26:52

Heikki Malinen: Then finally, we have the strongest balance sheet in the industry. This puts us in a strong, unique position to take decisions to develop the company long-term when the time is right and when we are mature enough to make our own investment decisions. When the facts are ready, we will then come back to you with more details. I wish you a very, very nice summer. Enjoy hopefully good weather and see you then soon again in Q3. Thank you very much. Take care.