Transcript for "Outokumpu Q2 / 2024"

00:00:00 - 00:00:39
Linda Häkkilä: Hello all, and welcome to Outokumpu Q2 2024 Results webcast. My name is Linda Häkkilä, and I'm the head of investor relations here at Outokumpu. Today, we have our CEO, Heikki Malinen, and our new CFO, Marc-Simon Schaar, as our main speakers. As usual, we will first start with our presentation, and after that, we will be happy to answer your questions. Before we start with the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements, but now, without any further comments, I would like to hand it over to our CEO.

00:00:52 - 00:02:05
Heikki Malinen: Thank you, Linda, and have a very good summer morning afternoon, or evening wherever you may be. Thank you, and welcome to the Outokumpu Q2 Results Webcast. As you may know, today will be my 16th and final webcast, and I will be representing Outokumpu as the company CEO. As you know, in some month's time, I will be transitioning them to a new job. The last 16 quarters have been quite eventful, and I can tell you standing here 16 quarters ago, well, it was COVID times, but anyway, a long time ago, the company and the world looked very different. It's been a really remarkable journey here over that past four-year time period. Anyway, let's now focus and look at the second quarter. As it says here in the title, we actually feel that we had good progress in the second quarter. I'm very happy that we were able to get our profitability back up after a fairly challenging Q1 in the first month of the quarter. If we look at the results for the quarter overall, 56 million was our adjusted EBITDA. If you look at some of the drivers of that, the positive was that the current market recovery, which started, I would say, last summer, has been a bit slow and modest, but anyway, the trajectory has been upward, helped us to continue our business development.

00:02:05 - 00:03:21
Heikki Malinen: We were able to increase our volume and therefore make fairly good improvements in the European business. The US market, however, I have to say, after a multi-quarter, multi-period of fairly robust and even stable time of development, seemed to soften a bit as we headed into the latter part of the second quarter. That is the overall market backdrop against which we have been selling and producing our products. A challenge we faced in the second quarter was that we had operational challenges in the Americas, particularly in Calvert. These were operational challenges. I can tell you that we've taken strong and decisive measures to rectify them. We made decisions to find ways to adjust for some deficiencies. I feel that our management in Calvert is now taking the right steps to mitigate them. We're moving forward rapidly to solve the issues. At the beginning of the year, we were facing a political strike. Personally, I feel the strike was quite unnecessary. As I've quoted before, it's quite unfortunate that Outokumpu was hit so severely.

00:03:21 - 00:04:42
Heikki Malinen: The total negative impact financially for us was 60 million, and 30 million of that approximately was divided over the first and second quarters,. The scrap market continued to remain tight for a variety of reasons. The good news here for us was that we were able to get all the scrap we needed. I think given our large scale as a buyer, we have been able to procure scrap at competitive prices. Also, take advantage when necessary of pricing anomalies in the market if they have arisen. I want to say a few words about our strategy journey, and I specifically want to comment on Europe. As you know, Europe accounts for about two-thirds of Outokumpu's business. It's extremely important for us. Tornio is almost like the heart of the company with our two large mill shops and huge facilities and operations. Also, our Kemi Mine is the only chromium mine within the European Union. We are now making decisions to start processes within the company to find ways how we can further optimize our supply chain from Finland to Germany.

00:04:42 - 00:05:55
Heikki Malinen: We are going to start discussing with our employees in Germany, in Krefeld facility how we can further develop and flexibilize our operations. The objective here is also to take advantage of the fact that after the Ukraine war, the energy markets in Europe changed quite dramatically. If we look at electricity prices, for example, in Finland, vis-a-vis Central Europe and Germany in particular, electricity prices in Finland are almost half of what they are in Germany at the moment. With Tornio being a huge facility where when we get Tornio full, we can benefit from our local cost benefits. In other words, for example scale and electricity, now we can make a lot of money again when Tornio is full. Related to that, we will start various discussions with our employees. In the coming months, and as we head into next year, we are going to communicate more about possible investments related to improving our cost competitiveness. I said we are Europe's cost leader, and we are determined to maintain a strong cost-competitive position also going forward.

00:05:55 - 00:07:00
Heikki Malinen: A few words about pricing. Now, as you know, I'm always a bit cautious about talking about pricing, but I do want to share this slide because I think it at least gives us some directional view of where things are going. These are transactional price data curves. The sources from CIU. When we at Outokumpu report our pricing information, we always talk about the Americas. You need to remember that in the Americas, we have Mexico. The pricing level and the dynamics of the Mexican market are somewhat different than they are in the United States. This chart only looks at the US. Europe in aggregate and then China. A couple of points at the bottom. Of course, what is somewhat worrisome is that the Chinese market remains fairly weak. You can see from this price curve there isn't any material improvement in pricing in China. In fact, the difference to other markets is, again, growing a bit. We would need to change that, but of course, as we know at the moment, real estate, for example, the market is very weak, and in China, it is very weak.

00:07:00 - 00:08:18
Heikki Malinen: The Chinese really need to stimulate local demand in significant ways to get things going again and for us to start seeing some some more robust pricing improvements in China. In Europe, as I said, the trough in terms of pricing was probably about July of last year. Now, gradually, we have been moving upward. No dramatic movement but anyway, the trend is clearly upward up until the end of the second quarter. In the Americas, after coming down somewhat, we've had fairly stable pricing in the US during the second quarter. On nickel on the right-hand side, this chart is a rolling chart that averages over a longer time period. On a day-to-day basis, we can see significant volatility in the price of nickel on the LME. I just want to make one comment: if we look at prices today in nickel, it is about over 15,000, maybe 15,500. Even in this quite significant turmoil we've seen in financial markets and in the stock market, and also some commodity prices have swung up and down, nickel has held above 15,000 and 15,500.

00:08:18 - 00:09:44
Heikki Malinen: I think it's a good sign that nickel is holding up. It gives an indication that underneath, there is fundamental demand for the raw material and for base metals in general, which, of course, are a major cost component. It also gives an indication of the health and direction of the sector. Then, looking at our deliveries on the upper left-hand side, of course, compared to the COVID years, are significantly lower levels. Positive again that after a strike effect in Q1 we were up about 20,000 plus tons. In the second quarter, about five percent. Now, of course, we are looking then for Q3, which is probably about the same levels, and then let's see where next year takes us. At the bottom left you can see our results on a quarterly basis. I ask you to add the 30 million, which was the impact of the strike, on the Q1 and Q2 numbers, to get a better sense of where the profitability was. Obviously, it is far too low compared to where we want to be, and Marc-Simon, in his chart, we'll talk a bit about how you see the longer term, our mid-term, and thinking about profitability. He will explain a bit more where we are and what have been the drivers behind the change from where we want to be and where we are at the moment.

00:09:51 - 00:11:01
Heikki Malinen: Then, on the right-hand side, you see the bridge and no major really topics other than what I said earlier. Compared to Q1, deliveries were up by five percent. We had some realized pricing declines. Then, of course, we made some improvements on the cost side, giving the 56 million. I want to keep my opening comments here fairly short because I said Marc-Simon is now going to start, he's going to start as a new CFO, and I want to give you some more time for Marc-Simon and for you also to familiarize yourself with him. He will talk a bit more today. I will keep my remarks brief. However, this last slide here in the opening section from my side really relates to sustainability. As I have said many times, Outokumpu, in our view, is the clear sustainability leader. Just look at, for example, the safety and performance. Our safety level and the trend are really remarkable at 1.3 so far, year to date. It's a really strong number. We know that at Outokumpu, we can do even better, but the trend is very strong. I challenge anyone to compare that to other companies. Outokumpu is a very strong performer compared to many other companies on safety.

00:11:15 - 00:12:07
Heikki Malinen: On the recycled materials side, recycled materials content has risen over the last year significantly, and even our LTM number this year it's an impressive 95 all-time high. I'm very proud of that achievement. Then, on the left-hand side, you have a couple of other points regarding the recognition we have been receiving from outside rating companies that look at sustainability leadership. We are on many lists nowadays. I think the fact that we are now being recognized for our performance is also a positive. Then finally, I just want to say that when the energy crisis started in Europe, we set some very ambitious targets for energy efficiency savings. We are about halfway through that project. It will take us a bit longer to achieve the targets

we set, but by the end of probably next year we will be where we want it to be. Again, we've saved significant amounts of energy and, of course, improving our carbon footprint and doing good things for the planet. With those words, let me hand it over to Marc-Simon, and he will take you over to the next section, so please.

00:12:08 - 00:13:19
Marc-Simon Schaar: Thank you. Heikki. Good morning and good afternoon, dear ladies and gentlemen. Also from my side, welcome to our Q2 Webcast. My name is Mark Simon Shah, and since the beginning of June, I've been the new CFO ofOutokumpu. Before I start with the update on our financials, I would like to continue on Peer's words from the last webcast and thank her for the great leadership she provided and the strong balance sheet she left behind. Personally, the continuous and sustainable improvement of the total return for our shareholders through smart capital allocation dividends according to our dividend policy, as well as maintaining a healthy balance sheet aligned with our strategy is at the top of my CFO agenda. As such, I'm happy to report that we maintained our strong liquidity position during the second quarter. Despite the dividend payment of €110 million to our shareholders and new leasing liabilities for two new lines of vessels, our net debt level remained low, and our balance sheet continued to be the strongest in the industry.

00:13:40 - 00:14:28
Marc-Simon Schaar: Our cash and overall strong liquidity position, together with our capital discipline, provide us with a solid foundation to successfully navigate through times of uncertainties, prepare for potential economic upturns, and invest for growth as part of our Phase 3 strategy. ll of this with a clear focus on continuously improving total shareholder returns, with a clear commitment to our dividend policy. Before going into the financial performance of our business areas, let me remind you about the way we are ensuring our profit generation namely, our Phase 2 EBITDA run rate improvement targets. Where the improvements are coming from, how the program developed during the second quarter, and the overall importance of the program given the weak market environment we are currently operating in. When we launched Phase 2 of our strategy, our goal was to achieve an EBITDA run rate improvement target of €200 million by the end of Phase 2.

00:14:28 - 00:15:48
Marc-Simon Schaar: Thanks to the dedication and hard work of our team, we have met this target more than one and a half years ahead of schedule in Quarter 1 this year. When entering Phase 2, we initially focused on commercializing our new portfolio additions in the high-margin advanced materials business with grades such as Alloy 825 and Circle Green. In addition, we geographically expanded our established advanced material products as well as the new high-margin portfolio additions to the US and APAC by further strengthening our sales organization in the respective regions. On the cost-saving side, one of the key achievements relates to the improvement in our raw material and alloy efficiency in the commodity business. This includes an all time high recycled content of 95 percent, the improvement in alloying efficiency as well as alternative raw material sourcing. Building on this success and to combat the current weak market environment, we raised our EBITDA improvement target by an additional €150 million to €350 million in May this year.

00:15:49 - 00:16:59
Marc-Simon Schaar: This new target will be reached through further improvements in operational performance and efficiency, along with further strengthening the commercial aspects of our business, On the commercial side, we look into further geographical expansion of our advanced material product portfolio into the growth markets, Asia Pacific and the Americas. Exploring new applications for established grades and commercializing our new products in any market, such as Sinicro 35 and Alloy 800. Given the expansion of our webshop and customer portals, we aim to capture additional multi-channel sales opportunities and will continue to release new features quarterly. On the cost-savings, we are planning to achieve similar raw material improvements in our specialty grade production as we did in our commodity business. Furthermore, our restructuring plans in Germany, which we announced in the autumn of last year, play another pivotal role.

00:17:15 - 00:18:18
Marc-Simon Schaar: Finally, as part of our energy efficiency program, we have made great progress in the area of waste heat recovery, and we aim to expand further in this area. Overall, we have made really good progress and are well on track to achieve our increased target. Around 850 projects have been completed and over 250 projects are currently in implementation. I would like to emphasize that the program also enables us to improve our processes and build capabilities as a foundation for our Phase 3 strategy. In the second quarter, our run rate improvements increased by €8 million. The somewhat slower pace is seasonally driven and also impacted by the strike and other temporary operational challenges we faced during the second quarter, as mentioned by Heikki. Here on this slide we give you some examples of our successfully implemented projects during the second

quarter. Mainly related to the introduction of new advanced material products as well as yield, quality, and logistics improvements.

00:18:32 - 00:19:40
Marc-Simon Schaar: Now, given the total run rate improvements of €500 million from Phase 1 and the current status of Phase 2, the question is, where are those savings visible in our profitability? The answer is that the successful EBITDA run rate improvements enabled us to partially offset the significant market headwinds resulting from the weak market environment and the significant inflation we are faced with compared to the year 2019. Meaning prior to the pandemic, the war in the Ukraine and other geopolitical tensions. Despite the exceptionally weak market environment and the significant headwinds, we, in Outokumpu, remain fully committed to our earlier communicated normalized adjusted EBITDA run rate of 500 to €600 million based and supported by our own profit improvement actions. As you can see on this slide, without our improvement measures compared to the EBITDA baseline of 2019 and prior to the pandemic, Outokumpu would have been clearly EBITDA negative today, instead of the 217 million adjusted EBITDA generated in the last 12 months.

00:19:41 - 00:21:14
Marc-Simon Schaar: Also bear in mind that the market has been exceptionally weak during the past year, especially in Europe. Therefore, the additional €150 million increase in our EBITDA run rate improvements is of fundamental importance as we are currently EBIT break-even, and we must further improve from here. The gross impact from inflation and other headwinds, mostly one-off in nature, such as the political strike in Finland, are, among others, driven by salary inflation, fuels, electricity, and maintenance services, just to mention a few.As you can see, the stainless steel deliveries in the last 12 months are well below the level of 2019, which in itself was already a challenging year from a volume and pricing perspective. However, through our improved margin and mental risk management, we were able to offset these negative impacts. Our own profit improvement actions from strategy Phase 1 and 2 are crucial to navigate through these exceptional times, paving the platform for our Phase 3 strategy. Let's be clear: the concept of continuous improvement measures, given the nature of our industry, will remain a constant theme going forward.

00:21:14 - 00:22:44
Marc-Simon Schaar: To summarize, the analysis confirms our normalized EBITDA run rate of 500 to €600 million despite the exceptionally weak market environment and the significant inflationary price pressure in the global market. Of which part is more permanent and the other part is expected to ease somewhat over time. However, now let's have a look at the results of our business areas, starting with business area Europe. We started off this year quite nicely in our business area Europe, with a strong odd inflow in the first couple of weeks. However, with the long political strike in Finland, the situation changed significantly with a very unfortunate -40 million EBITDA impact during the first six months in Europe alone. After the strike ended on April 7th, Business Area Europe's financial performance improved by higher volumes and cost efficiency. However, the political strike still had a 20 million negative impact on our Q2 results in the business area of Europe. Overall, the market environment in Europe remained challenging, with only a gradual market recovery, as said by Heikki already, despite the low distributor inventory levels and low supply availability due to industry strikes.

00:22:44 - 00:24:29
Marc-Simon Schaar: Asian imports into Europe increased during the second quarter after the relatively low levels we saw in Quarter 4 of last year and Quarter 1 of this year. However, the significant increase in shipping costs from Asia to Europe is expected to put some cap on this trend. From a sector perspective, a subdued real demand continued for construction, automotive, and white goods. The positive trend in energy and renewables, especially in hydrogen, continued. Overall, in order to see an inflection in real demand, macroeconomic stimuli such as interest rate cuts are required. While the scrap market remained tight, we were able to offset the negative impact of our efficient raw material procurement initiatives during the second quarter. As the operating environment in Europe remains challenging, accelerated efforts to strengthen our cost competitiveness are required, as mentioned by Heikki before. I will now move on to Business Area Americas, where we are able to increase our deliveries by seven percent from the previous quarter. Although our volumes increased, the market environment softened in the US towards the end of the second quarter somewhat, and imports into Mexico still disrupted the regional demand-supply balance.

00:24:29 - 00:25:40
Marc-Simon Schaar: The somewhat weaker profitability in business area America's quarter on quarter was driven by lower overall realized prices despite a stable base price environment, the tightness in the scrap market, the downstream impact of the political strike in Finland, and some temporary operational challenges in Calvert,

which resulted in a higher cost base temporarily. The new hot rolling agreement with AM/NS carries higher tolling fees from the beginning of this year onwards. I have to say that the cooperation with our partner on site was running well in the first half of this year. Despite the current softening in the market environment, I would like to emphasize that our long-term view of the US market remains highly positive. Moving on to business is Ferrochrome, where we had again a solid result in the second quarter given the negative impacts from the strike and lower production volumes in relation to the temporary closure of one of our smaller furnaces, and hence a lower fixed cost absorption.

00:25:40 - 00:27:08
Marc-Simon Schaar: The market has somewhat improved in the second quarter with higher deliveries as well as higher ferrochrome sales prices. In this context, let me please repeat our earlier announcement that one of our smaller furnaces, Ferrochrome furnaces, will remain closed until fall this year. Taking now a longer-term perspective, I would like to show you an interesting graph from an external source, indicating how Outokumpu's position within the ferrochrome market is expected to strengthen in the long run. As you can see from the graph, the high-carbon ferrochrome imports from South Africa into the European Union are expected to decrease. On the one hand side, this is due to the expected reduced capacity of ferrochrome production in South Africa given the energy supply and other infrastructure challenges in the country. On the other side, due to higher sustainability requirements in relation to the cross-border adjustment mechanism introduced by the European Union. Here I would like to remind us that our ferrochrome is globally the most sustainable ferrochrome with the lowest carbon footprint, 67 percent lower compared to the industry average.

00:27:08 - 00:29:16
Marc-Simon Schaar: As communicated earlier, we have plans to further reduce our ferrochrome emissions, for example by using bio-coke instead of fossil coke in our production. Looking at the current market environment, we also see that the Ferrochrome market seems to be becoming more and more aware of sustainable topics. More and more customers are interested in low CO2 ferrochrome and are prepared to pay a premium, a green premium. Some customers even asked to confirm supplies for the year 2026. All of this supports the importance of our ferrochrome business, and how our position within the Ferrochrome market is expected to strengthen in the long run. Now, my final comments relate to our cash flow in the second quarter and our CapEx frame until the end of 2025. The challenge in market conditions makes active working capital management even more important. I'm happy to report that we were successful here during the second quarter. Despite the weak market environment, we were able to report a positive cash flow before financing activities. However, and equally important given our strong balance sheet, we have the flexibility to prepare for the next market upturn in line with any market needs. When it comes to CapEx, we repeat our target frame of €600 million for our strategy Phase 2 until the end of 2025. Given our expected cash out of €390 million from 2023 and 2024, this provides us with the remaining CapEx frame of a bit north of €200 million for the year 2025. Now I will hand over back to you Heikki, to give us an update on the outlook.

00:29:16 - 00:30:38
Heikki Malinen: Thank you. Let me grab that piece of technology here. Thank you, Marc-Simon. It's great to have you here in your new role. I'm excited about having you work here as a CFO of the company. We're happy to have you. A few words from my side before we go into the Q&A. Now as I've said, we've been ready here pretty much to rock and roll and get our mills up and running ready for the next upturn. It has been a bit of a waiting game here. When are we going to see the triggers for the markets to really start going up? As Marc-Simon said, we have a number of issues starting from the situation on the interest rate markets. However, there are a number of opportunities ahead of us. If I first talk about them, the US market, as we've said, overall it's been robust. Our view about the long-term situation in the US is very positive. We're very excited to be one of only two suppliers in the United States with our additional Mexican position. The European market recovery when it comes could be quite significant. We've had significant destocking now for over two years.

00:30:38 - 00:31:54
Heikki Malinen: We know that there is going to be a significant amount of underlying demand when lift-off eventually starts. We don't know the exact amount of distributor inventories, but as I said, they must be already fairly low after such a long period. The green transition is an important secular trend in the world and, in particular, in Europe. We're waiting to see what the New European Commission is going to do. However, as I said, in the long term, Outokumpu is extremely well-positioned to take advantage of the green transition. The ferrochrome example that Marc-Simon just gave, I think, is really a further strength for Outokumpu as we go forward. There are, of course, a number of uncertainties. The US elections can bring all kinds of volatility, but I think still fundamentally, the US has always come out even stronger after areas of times of turbulence. The timing of the rate cuts still remains uncertain. However, as I said earlier, many of our end-use markets are very

macro-driven. They're very sensitive rates, so we will need to see quite material rate cuts in both the United States and Europe.

00:31:54 - 00:33:10
Heikki Malinen: The war in Ukraine and peace, hopefully there soon is an important uncertainty. However, I want to say that just imagine, once the war is over and the rebuilding starts, how big the demand for a push could be to stainless when most of Ukraine needs to be rebuilt. Waiting for that moment to happen. Then, of course, we have the recovery in China, a huge market, and a lot of potential, but we are waiting for the trigger. Against that backdrop, the very short-term outlook for the third quarter is that the group stainless steel deliveries in the third quarter are expected to remain stable compared to the second quarter. The slow market recovery in Europe is expected to continue, while the market environment in business areas in America is expected to remain soft. The scrap market is expected to remain tight. With the current raw material prices, some raw material-related inventory and metal derivative gains are forecasted to be realized in the third quarter. Our guidance for Q3 2024 is that our adjusted EBITDA in the third quarter is expected to be at a similar or higher level compared to the second quarter.

00:33:10 - 00:34:52
Heikki Malinen: Now, I want to finish off my part of the presentation or our joint presentation with this slide and just summarize five key points about how Outokumpu will continue to develop and create shareholder value. We have the most efficient global asset base in our industry. We have a strong position in the Americas, and with Torneo, we have a leading cost-competitive position in Europe. Also, I want to say that when we look at our current volumes vis-a-vis how much we delivered in COVID. We actually have the capacity to easily scale up an additional 30 percent more volume when the demand comes. With the leader in sustainable stainless steel, our emissions per ton are clearly by far the lowest in the industry. We have introduced Circle Green, which is by far the absolute lowest in emissions globally. We have committed to very smart capital allocation. We have a commitment of €600 million for phase number two, and we intend to stick with that. We now have the strongest balance sheet in the industry. We have good liquidity. Overall, as I said, we are committed also to making sure that we stay on this journey. Then finally, long-term shareholder returns are important to us. Over the last four years, we have returned nearly €480 million to our shareholders. From a management standpoint, we are very committed to our current dividend policy. With those words, I want to stop here and give it back to Linda and the operator, and let's begin the Q&A. Thank you very much.

00:35:00 - 00:35:24
Speaker 1: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Ancy Rousey from ACB. Please go ahead.

00:35:28 - 00:35:53
Ancy Rousey : Hi all there and thank you for the presentation. I have a couple of questions. I will start with the ferrochrome supply-demand situation. First of all, are you planning to ramp up your third furnace during September this year? Do you think that there's no demand for your full capacity in the latter half of this year, or will you be somewhat underutilized?

00:35:54 - 00:36:54
Heikki Malinen: If I maybe start and comment on that. I think overall, when we look at the demand situation, what I can only say is, first of all, what Marc-Simon said, we have customers who are already asking for 2026 delivery. I think the overall trend and our position on ferrochrome and low-carbon products is very solid. However, this comment will then apply also to the stainless steel side as well, as we're now in the midst of August. A lot of customers are on vacation. We really need to get into the first weeks of September when folks return back from holiday to really see what are they going to do regarding the second half of the year. I think there's a bit of uncertainty as far as what's the stance going to be. I think within four weeks, we'll know how this second half of the year will really start going. Unfortunately, this is as much as I can tell you Ancy at the moment, I think we'll be wiser in about four weeks time. Sorry for not being able to share more today.

00:36:56 - 00:37:20
Ancy Rousey : Okay. I understand. Actually to continue on ferrochrome, can you remind us what was burdening ferrochrome profitability in Q2? You mentioned fixed costs, but the margin was clearly lower than in Q1. Is this something which we should expect to continue in coming quarters?

00:37:20 - 00:37:53

Marc-Simon Schaar: Yes. Thank you. Acy. Maybe I take that question. We have faced some temporary operational challenges in our ferrochrome setup with the two furnaces we were we were running here. Of course, we also had the strike-related impact in Ferrochrome, but again, both of them, as I mentioned, have a temporary nature and are not expected here to continue in the third quarter.

00:37:53 - 00:38:09
Ancy Rousey : Okay. Got it. The last one is about your BA in America. What was the impact of this maintenance break related to operational challenges? Will this have an impact on Q3 numbers as well?

00:38:10 - 00:38:22
Marc-Simon Schaar: Well, maybe I will also take that. The impact in the second quarter is around €10 million in that area Ancy.

00:38:25 - 00:38:30
Ancy Rousey : Okay. It didn't continue until Q3.

00:38:39 - 00:38:49
Marc-Simon Schaar: Well, as Heikki mentioned, we have some temporary topics here, which will then also go into the second quarter. However, we are working on this very hard together with the team over there to get things back under control.

00:38:52 - 00:38:52
Ancy Rousey : Okay. Thank you.

00:38:53 - 00:38:53
Marc-Simon Schaar: Thank you.

00:38:58 - 00:39:04
Speaker 1: The next question comes from Tom Zhang, from Barclays. Please go ahead.

00:39:05 - 00:39:48
Tom Zhang: Hi. Good afternoon. Thanks for taking our questions. Few from me, EBITDA, please. The first one is just on the guidance. I know you've talked around it a little bit, but there should be quite a lot of levers for Q3 to be better than Q2. You're going to have 30 million roll off from the strike impact. You're not going to have as much of this America's maintenance about 10 million. You're not going to have these temporary challenges with running the two furnaces and ferrochrome. You've guided me to raw material gains instead of losses. You mentioned Europe is still continue to improve, volumes are stable, which is better than normal seasonality. Where's the negative level that was missing? That means you could still be stable on EBITDA next quarter.

00:39:53 - 00:40:50
Marc-Simon Schaar: Maybe I can start, and then you can continue. Thank you, Tom. I think it's important here to add to what you were saying. You mentioned the quarter and quarter improvement of 30 million due to the strike impact in Q2 not being there in Q3. Here, I think it's important to understand that half of that 30 million in the second quarter was driven by sales. The other half was driven or impacted by costs. As we're guiding stable volume forward, that should give you a bit of an indication of how to think about the bridge or quarter-and-quarter impact into the third quarter. Then, probably on the other side, as Heikki and I already mentioned, we saw a somewhat softening market environment in America. That is also something to take into consideration.

00:40:50 - 00:41:31
Heikki Malinen: I agree with you. There was some hesitation as we headed into the July period in North America in the US IN particular. What is sort of behind that could be just the general volatility and uncertainty about the macro in the US. However, that uncertainty and softness lead us to be conservative, and we want to get more assurance that the trajectory after the vacation period will be as robust as we hope it to be. Of course, we will do our utmost to generate maximum profits for Q3, but we erred on the side of being conservative here for the time being until we get more data.

00:41:37 - 00:42:08
Tom Zhang: That actually leads quite nicely to the second question, which was really just about the Americas. To clarify, has the US negatively surprised you because you mentioned some comments earlier in the prepared statements that sounded like the US was still okay? I would have guessed that maybe Mexico was facing a bit

more in the way of import pressure. Maybe that was bringing down prices. Could you just give a little bit more color basically on the Mexico versus US splits and whether there's any potential that you could send material from Mexico into the US if needed? Thank you.

00:42:24 - 00:42:29
Marc-Simon Schaar: The split is roughly, I would say, given the production volumes, what we have is 600 kilotons production capacity in the US and 250 kilotons production capacity in Mexico. That should give you, Tom, I think, a bit of a fair understanding of the split here.

00:42:30 - 00:42:43
Tom Zhang: Got it. In Q1, you were already mentioning Mexico was quite weak. Has that gotten any better, worse, stable or is it really just the US that's softened a little bit into July?

00:42:43 - 00:43:15
Heikki Malinen: Yes, I would say Mexico is more stable. The bottom line here is, like some of these other emerging markets where Asian volume is flowing in, they don't have the same tariff protection regimes as we have in the United States and in Europe. Of course, now, with very weak Asia and China, products are flowing and trying to find a home anywhere on the planet where there might be demand. I think probably Brazil and Mexico are some of the areas where that overflow seems to be coming in.

00:43:15 - 00:43:26
Tom Zhang: Understood. I'm reading that Mexico has had import pressure continue. The US has had a little bit more demand issues heading into July, uncertainty, and softness.

00:43:26 - 00:43:27
Heikki Malinen: That is correct.

00:43:27 - 00:43:29
Tom Zhang: Cool. Thank you very much. I turn it back.

00:43:29 - 00:43:30
Marc-Simon Schaar: Thank you.

00:43:36 - 00:43:43
Speaker 1: The next question comes from Tristan Gresser from BNP Paribas Exane. Please go ahead.

00:43:44 - 00:44:15
Tristan Gresser: Yes. Hi. Thank you for taking my questions. The first one is just a little bit on Q2 results. A month ago, you kept your guidance stable too higher, but in the end, Q2 EBITDA ended up 50 percent higher in quarter-on-quarter. It seems inventory losses, and shipment strike impact all came as guided. I really wonder what positively surprised me there. That's my first question.

00:44:29 - 00:44:41
Marc-Simon Schaar: I think, Tristan, if I can take that first, then we, I think, initially forecasted a negative impact from the net of timing and hedging. As the market has further developed, so has our purchasing pattern, and so has our sales pattern. The impact was more positive than originally forecasted.

00:44:43 - 00:45:49
Tristan Gresser: Okay. That's clear. Then the second question. It's a bit long question, so bear with me, but it's with the EBITDA target slide you put out. Two years ago, when you talked about the 500, 600 million target, you said it included Phase 1 and Phase 2 uplift, but Phase 2 was hiked by 150 million earlier this year, and the normalized target was not increased. That would imply that the normal market that you expect to return to, and that that's the last bar chart, is not the same as the one you expected two years ago. At the time, I think it was based on full utilization and historical base price. My interest here is where you think you're going to fall short and where the market is different on the structural basis, on the volume side, and on the pricing side. Is that Europe that you see lower on a normal basis is that America's trying to get a little bit color there?

00:45:51 - 00:47:01
Tristan Gresser: A very good question, Tristan, and let me try to answer as follows. You are absolutely right and spot on. Compared to the prior years, I think we have further been impacted by very high inflation, global

inflation, which we have seen over here. Hence, also looking at our current financial performance, we clearly have to increase our continuous cost savings and improvements in order to get there. If the market would fully return and also back to the level of where we made the the reference period you were referring to, then I would say there is a further upside potential. However, I would rather be on the conservative side as well because, as I mentioned, inflation, part of it, is permanent. The other part is then also maybe easing over time. However, there is no imminent other negative impact as you might interpret it.

00:47:04 - 00:47:09
Tristan Gresser: Okay. That's that's clear. I leave it there. Thank you.

00:47:12 - 00:47:13
Marc-Simon Schaar: Welcome.

00:47:16 - 00:47:22
Speaker 1: The next question comes from Ioannis Masvoulas, from Morgan Stanley. Please go ahead.

00:47:23 - 00:47:56
loannis Masvoulas: Hello. Thank you very much for the presentation. The first question from my side is on the US market. What do you see in the base price development in the near term? ARE prices holding up, or are you expecting some weakness in the coming months based on your order book? Within that, if we look at the broader Americas business, is there any way to separate Maxim Noc and give us an idea of whether this asset is EBITDA positive given the current import pressure? Thank you.

00:47:56 - 00:48:18
Heikki Malinen: Maybe if I comment on the base price first then you comment on Maxim Noc. I said we don't make any forward looking statements regarding pricing, but I can comment on base prices overall, it would seem that they have been holding up fairly stably. That is the situation. Of course, customer by customer, there may be some change, but overall I would say reasonably stable as far as base price is concerned.

00:48:20 - 00:48:52
Marc-Simon Schaar: Okay. When we think about EBITDA here, the way how we're running the business not only in the Americas but also in Europe, this is fully integrated, Loannis. We are looking end-to-end through the margin over here. This is why we are reporting it from a global perspective. Then, with a centralized sales team, we are really here looking at Maxim Nocs more from a cost-center perspective.

00:48:52 - 00:49:45
loannis Masvoulas: Okay. That's fair. Thank you very much. The second question. If we look at Slide 14 with the normalized EBITDA bridge. You maintained the range of 500 to €600 million despite the costlier tolling agreement in the US. A big part of how you get to that number is strategy. Phase 2 gains have not been realized yet, but if we were to look at the first part of the left side of the bridge between 2019 to 2024, there is a lot of inflation that eats into those gains. Is that also captured when we look at the 500 to €600 million range, or is there a risk that if inflationary and competitive pressures continue to take hold, you might undershoot your expectation?

00:49:47 - 00:50:14
Marc-Simon Schaar: Thank you, Ioannis.If I answer that one as well as I mentioned in my presentation, Ioaniss, we are fully committed to that range. What you also see in that bucket is, for example, as I mentioned, a couple of items, such as the political strike, which I have not adjusted for then going forward. To clearly answer your question, no, I don't see a risk.

00:50:16 - 00:50:17
loannis Masvoulas: Thanks so much.

00:50:21 - 00:50:29
Speaker 1: The next question comes from Igor Iradukunda from Carnegie. Please go ahead.

00:50:33 - 00:50:59
Igor Iradukunda: Thank you and thank you for the presentation. I just wanted to ask a question about in Q1, you said that you maintain your guidance or have a guidance for Americas of 170 million US dollar as a normalized

adjusted EBITDA level. Is it fair to assume that you will reach those numbers going forward as well, or have you changed your view on that?

00:51:12 - 00:51:23
Marc-Simon Schaar: I think I mentioned in my part of the presentation that our view on the Americas, despite the current softness in the market, remains extremely positive. As such, also our target here is a normalized run rate of 170 million USD.

00:51:23 - 00:51:33
Igor Iradukunda: Okay. Thank you. Just another question also. Can you say anything about how the mix looks like in Americas and Europe?

00:51:36 - 00:52:42
Marc-Simon Schaar: Well, maybe I take that, If you think in Europe, about the commodity business where it is the advanced materials business, the mix is fairly stable. We don't see any changes here. That is what I can report. When I look into the Americas over here, you hear we have more on the commodity side of our commodity business. Maybe from a market environment perspective, we don't see any change in our market share here. From the data that we have seen so far, of course, when looking into different sectors, then I think it's clear. I mentioned this as well, that there is a subdued real demand in appliances, white goods, and also in construction. We also see that now as we speak, and probably also going forward, based on what we hear from the press and the OEMs, the automotive sector might be struggling at the moment a bit. Please. No. Go ahead.

00:52:56 - 00:53:45
Heikki Malinen: I just wanted to say maybe you noticed today we have announced that Rolf Schencking will start here at Outokumpu on October 1st as the new head of advanced materials and a member of the executive leadership team. When we made the decision to separate Europe into the standard products or commodity side and advanced materials, the objective really was also to get the advanced materials to become a global powerhouse in more value-added products that go into more complex industrial applications. With the recruitment of Rolf, we also have a new head of commercials who started in the spring of this year. Those two individuals, plus our technical people, are going to accelerate our efforts to grow the advanced materials business. Of course, therefore, hopefully, this share of the mix, as far as that business is concerned, from a value creation standpoint, will increase in the years to come. Its important that the Rolf and the guys get up to speed and deliver now in their new roles.

00:53:46 - 00:53:47
Marc-Simon Schaar: Exactly.

00:53:48 - 00:53:49
Igor Iradukunda: Okay. Thank you.

00:53:54 - 00:54:01
Speaker 1: The next question comes from Maxim Koga from Ordo BHF. Please go ahead.

00:54:04 - 00:54:44
Maxim Koga: Good morning. Thanks for taking taking my questions. First sorry to insist on Mexico, but you provided some useful information about the respective share of US and Mexican capacity, but is it possible to know approximately which part of the Mexican output is sold domestically, and what other part is sold to the US? Given the very high competition we see in Mexico, are you hopeful that the government will step in and take some measures to hike tariffs? What can we expect in that respect?

00:54:45 - 00:55:36
Marc-Simon Schaar: Maybe if I start with a material flow, Maxim. Of course, we deliver from Calvert to Mexico, San Luis Potosi. We have an cold rolling facility over there. There is only little or insignificant material moving back from Mexico into into the US market. This is as far as I can see. Then, further on, we understand that there is pressure from the US government on the Mexican government to work against these import circumventions basically from Asia via Mexico into the US are talks about certain taxes or duties to be put in place.

00:55:36 - 00:55:49

Heikki Malinen: That's exactly. We will see after the election, whether it's Trump or Harris, which way US trade policy goes, but I would assume both candidates will push for tougher trade.

00:55:51 - 00:56:13
Maxim Koga: Okay. In that respect, my understanding is that the plan to possibly expand your controlling mills in the US is not at all jeopardized or silenced by the current situation we are seeing both in the US and Mexico, right?

00:56:13 - 00:56:38
Heikki Malinen: I don't see that the Mexican situation has a material impact at the moment on the US business. I think they're somewhat separated, but of course, if a significant number of our customers in the US were to decide to go into Mexico and produce there, the situation would change, of course, that would be a risk. However, I don't see any signs of that at the moment.

00:56:38 - 00:56:45
Marc-Simon Schaar: However, at the same time, we are the only stainless steel producer in Mexico with a cold rolling facility in place.

00:56:48 - 00:57:26
Maxim Koga: Okay. Lastly, on imports, they have picked up quite significantly in Europe and the US. Given the increasing pricing differential between Europe and Asia, should we fear a further rise in import pressure in the coming quarters, according to you? Conversely, in the US, given the new molten port concept that seeks yet to prevent some imports from being smuggled to Mexico, can we hope for lower import pressure in that direction going forward?

00:57:26 - 00:58:47
Heikki Malinen: Sure. Of course, trade flows initially were very dependent on what happens in China and Asia, as I mentioned earlier. It very much depends now on whether the Chinese government has started to stimulate domestic demand or not. If the stimulus comes here, and I at least saw in Bloomberg some indication that the Chinese were noticing that the measures so far they've taken haven't really had any material impact. If these changes, I think it will take away some of the import pressure. Also, freight rates have been fairly high. That's a positive for us. Any logistics issues on the Suez Canal are positive for us because it's a heck of a long journey through South Africa. Honestly, we can only talk about scenarios. It's impossible to say which direction this is going, but of course, we hope that the tariffs and the CBAM, all of these things plus our own decarbonization journey will help to maintain a robust position not only for us but also for European suppliers vis-a-vis Asian imports. It isn't only an issue for us. It's for all of the European companies that are trying to manage this global trade imbalance, if I call it that, with Asia having so much capacity.

00:58:47 - 00:58:54
Maxim Koga: Okay. That's helpful. Thank you and good luck to you, Heikki for your next endeavor.

00:58:54 - 00:58:55
Heikki Malinen: Thank you very much.

00:58:55 - 00:58:56
Marc-Simon Schaar: Thank you.

00:59:00 - 00:59:06
Speaker 1: The next question comes from Bastian Synagowitz from Deutsche Bank. Please go ahead.

00:59:07 - 00:59:38
Bastian Synagowitz: Yes. Good afternoon all. My first question is a quick follow up on Americas and actually covered specifically. Could you please explain exactly what the issue is? Then also, I think you said, obviously you had these 10 million maintenance charges. Can you just briefly confirm that this is the entire group number for the second quarter? Nothing else. You seem to expect this level to drag on into the third quarter as well. Can you maybe share with us whether there is any maintenance during the fourth quarter as well and if so, how much? I'll stop here for now.

00:59:39 - 01:00:53
Heikki Malinen: If I first comment on the operational points. First of all, I want to make clear what Marc-

Simon said earlier, that the collaboration and cooperation we have with AM/NS, which are our partners who do the hot rolling on the other side adjacent to us, that cooperation is going very well, actually. We've been happy with the performance and things are going fine. I'm very pleased with the agreement we made with AM/NS a bit of a better a year ago. That's been a positive decision for us. However, the specific operational issues I can say they are not technology-related, so we do not have a technology problem. They are more specifically related to our internal processes within the upstream part of the facility. Things we can control and things we can change will require some capital, not a lot of money, but some money. It'll take some time here to organize ourselves to get those solutions in place. However, as I said, we know what we need to do. Our management team has made proposals and collaborated on what they need. Those investments have been approved and now it's time to execute. I think that hopefully we will start making good improvements in short order.

01:01:16 - 01:01:30
Marc-Simon Schaar: Maybe Bastian, if I can probably add to that one as well if that's okay with you, then I would also like to remind you that we do have maintenance work and a maintenance break scheduled in our Swedish facilities in the third quarter. As such, if we think about maintenance costs quarter on quarter, then you should think about middle-single digit numbers in additional maintenance costs over here.

01:01:30 - 01:01:33
Heikki Malinen: Bastian, you wanted to ask? Please continue. Sorry.

01:01:33 - 01:01:48
Bastian Synagowitz: Yes. Sorry to not let you go on with that. On culvert again. You say upstream. Is this related to the hot rolling mill, or is that related to the mill job? I guess what has changed was that before, because it was obviously a very smooth running operation. I'm really wondering what has changed.

01:01:49 - 01:02:27
Heikki Malinen: As I said, the hot rolling is going fine. That's, of course, the main thing because, of course, is a big process. If that wasn't working we would have all kinds of issues. That is fine. There's no reason to be concerned. It really relates partially to the mill support but also partly to our raw material. In deed, materials we can completely fix by ourselves. It will take a bit of time. It is not technology-related, so it can be completely fixed. As I said, Torneo and the team know what they need to do, and we look forward to seeing the improvements soon.

01:02:27 - 01:02:45
Bastian Synagowitz: Okay cool. Thank you. Then just on the maintenance break. It's got to be like a mid-single-digit incremental spend on maintenance versus Q2. In the fourth quarter, is there going to be a similar level of maintenance or it's going to be higher, or is it going to be lower in the fourth quarter?

01:02:46 - 01:03:02
Marc-Simon Schaar: Well, first of all, we don't give yet guidance on Quarter Four, but I think what we can say is that we are going to have maintenance work in our tunnel facility. This is as much as I can say at the moment.

01:03:04 - 01:03:27
Bastian Synagowitz: Okay. Understood. Then secondly, on cash flow, I guess metal prices have moved quite a bit. What is your latest view on working capital and how it develops in the second half of the full year? I guess your second-quarter performance was clearly a little bit better. This is what you indicated earlier. Has your view for the full year changed and what is the current status quo?

01:03:28 - 01:04:26
Marc-Simon Schaar: Thank you. What we expect in the third quarter is that we see a somewhat increase in our working capital in order to prepare for the maintenance break. I was just referring to the fourth quarter of our Torneo operations, and as such, I would say maybe a bit higher double-digit increase in our working capital. As such also probably on the net debt level side. However, as Heikki was saying as well, we need to see how the market is going to develop after we are coming back from summer breaks, basically. We will observe and adjust accordingly to any market needs over here. However, at any time we will keep our efficient and active working capital management.

01:04:27 - 01:04:34
Bastian Synagowitz: For the full year, what is the increase you ARE expecting? Is it going to increase at all?

01:04:35 - 01:04:55
Marc-Simon Schaar: Well, as I said we need to see how we work out after the summer break and so forth. However, I would see then for the fourth quarter, based on what I just mentioned, somewhat a relief towards the end of the year. However, this is against the the market situation what is right now, Bastian.

01:04:57 - 01:05:25
Bastian Synagowitz: Understood. Great. Then, just one last question, please. I think in your statement, I saw this comment that you obviously aim to leverage the structural cost advantage of having access to clean and I think cheap energy in the Nordics. What do you mean by this? I guess if cynical, one could read this as the intention to run a very aggressive volume and cost leadership strategy. I'm pretty sure that's not the case, but maybe we can just elaborate a little.

01:05:25 - 01:06:56
Heikki Malinen: It basically means that we have an integrated supply chain from the Kemi Mine, the Ferrochrome operations, the stainless facility, and then into Germany, Krefeld. If you look at cost competitiveness, you have your fixed cost and the variable costs. We are now telling you that we are going to accelerate our plans to try to improve our cost competitiveness further. There are structural cost questions relating to our downstream facility. I mentioned we are discussing with the unions about what options we have to flexibilize our work there. Then secondly, I mentioned the fact that after the war, the electricity price difference between Finland and Germany, in particular, has really spread. We're basically almost talking about double differences here. It is our intention to look for ways on how we can even more leverage the local cost of electricity advantage we have up here in the North. That will require some investments at some stage. My successors, Kati and Marc-Simon, will then report back to you when we're ready to make decisions. Just wanted to give you a heads up that we are going to start to propose that the plan initially was a bit thought we would do it later. We're now going to bring it a bit forward in time.

01:06:57 - 01:07:06
Bastian Synagowitz: Okay. Understood. It seems like this is coming on top of the 150 million additional earnings improvement. Is there already a number you could put to this?

01:07:07 - 01:07:37
Marc-Simon Schaar: No, number yet, Bastian. As said by Heikki, this is only an early announcement. I said together with our new CEO Kati, we will then report more when we have solid information available for you. That's it. To be clear, it is on top. Has nothing to do with the EBITDA run rate savings here. This needs to be detached from each other.

01:07:38 - 01:07:40
Bastian Synagowitz: Got it. Okay. Perfect. Thank you.

01:07:41 - 01:07:43
Marc-Simon Schaar: Thank you, Bastian.

01:07:46 - 01:07:52
Speaker 4: We will be taking no further questions. Thank you for your interest.

01:07:53 - 01:09:51
Heikki Malinen: Thank you. Ladies and gentlemen, this, as I said, is my last quarterly talking with you about Outokumpu topics. I want to finish off with a couple of thoughts from my side. I think there are two things I'm especially proud of. Today Outokumpu is really number one in sustainability in CO_2 levels in the industry globally. I think that's a massive achievement we've made. Also, the fact that we basically now have the strongest balance sheet. When I started we were sitting on a massive amount of debt, today we are basically are de facto debt free. A big thanks to all the people within the Outokumpu team who have contributed to this massive effort. I also want to thank our customers, our suppliers, and of course all of you in the financial community and our investors who have placed their trust on us during my tenure over the coming weeks, Kati ter Horst will be appointed as my successor. Kati and I will work very closely to ensure a very smooth transition from from me to her, to make sure that all the plans we put in place can be implemented in a very systematic way when she comes. Obviously, as the new CEO, she will have to make her own choices, but I think she's been on the board, and she's committed to the current journey of the company; I think we know roughly where we're going here. ,I think we're going to have a great CEO, and I look forward to seeing her in the new job. Then

finally, I want to just say that if we look at atOutokumpu, I mentioned that in Europe, for example, we have the potential to increase our volumes from current levels, even up to 30 percent, compared to where we were in COVID. This company is ready for liftoff. We just need to get the markets going and we can move forward and make a lot of money. With those words, I wish all of you a great continuation this summer and thank you once again. Goodbye.