

Interim report Q3 2015

CFO and interim CEO Reinhard Florey

November 5, 2015

outokumpu 

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Today's attendees of Outokumpu



Reinhard Florey
Interim CEO, CFO



Johanna Henttonen
SVP – Investor
Relations

Contents

1. Q3/15 overview and financial performance
2. Outlook and guidance

Q3 2015 in brief

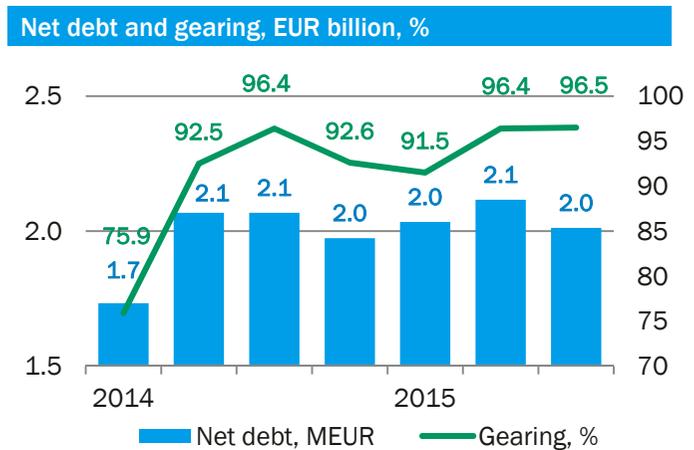
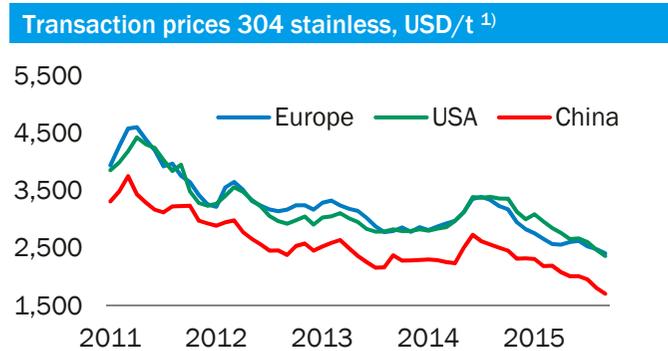
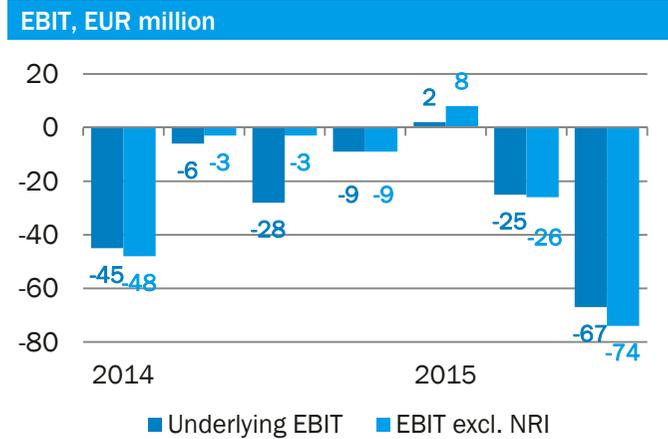
- Difficult market: low nickel price, destocking, price pressure
- Underlying EBIT loss of EUR -67 million: a clear disappointment
- Coil EMEA fell behind the targets due to weak market and lower volumes
- Coil Americas made progress but in challenging market conditions the turnaround is slow
- In Quarto Plate the pace of profitability improvements not sufficient

- New CEO, Roeland Baan will start January 1, 2016

- Strong operating cash flow EUR 67 million
- Net debt down to EUR 2.0 billion, gearing 96.5% and liquidity EUR 1.3 billion.
- Decisive measures to ensure financial stability: sale of Fischer Mexicana JV for USD 63 million and divestment of 55% of SKS for EUR 370 million
- Cost savings and efficiency programs progressed as planned
- End-user demand healthy

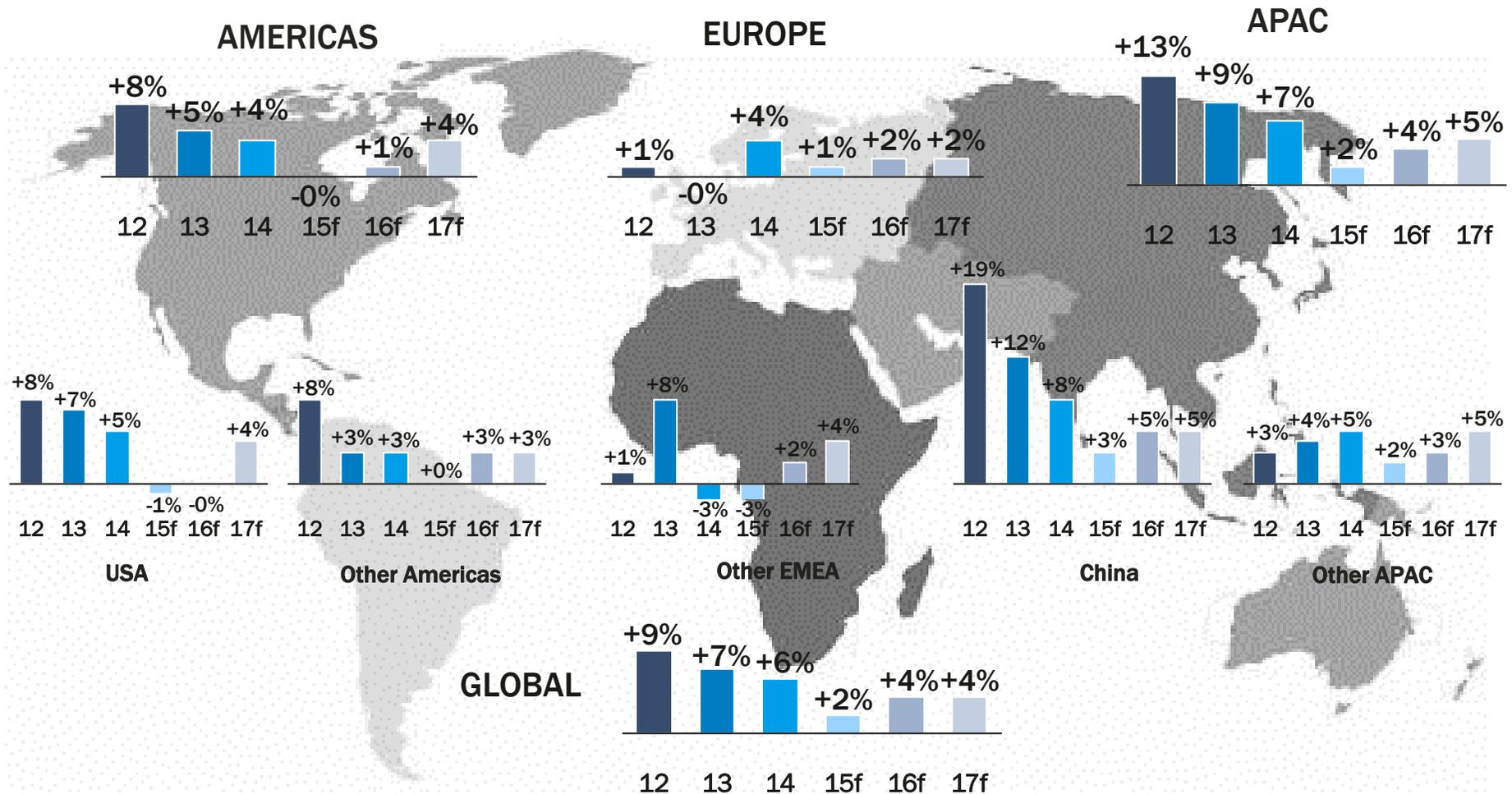


1) Source: CRU October 2015, price for 2mm sheet cold rolled 304 grade

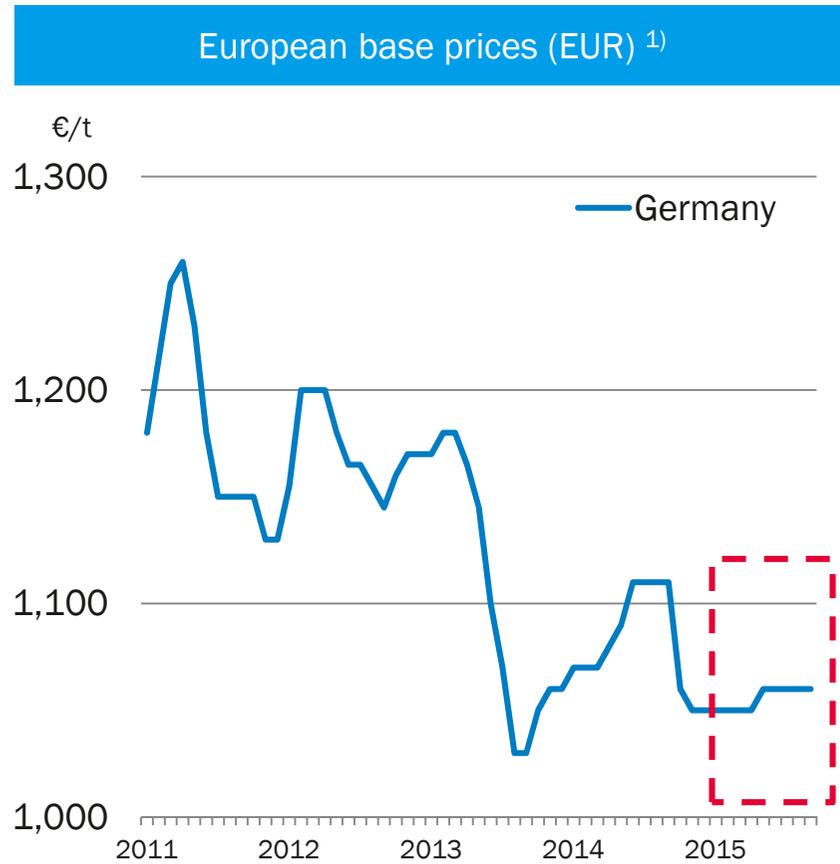


Demand growth in 2015 expected to slow to ~2%

Longer-term demand outlook remains favorable

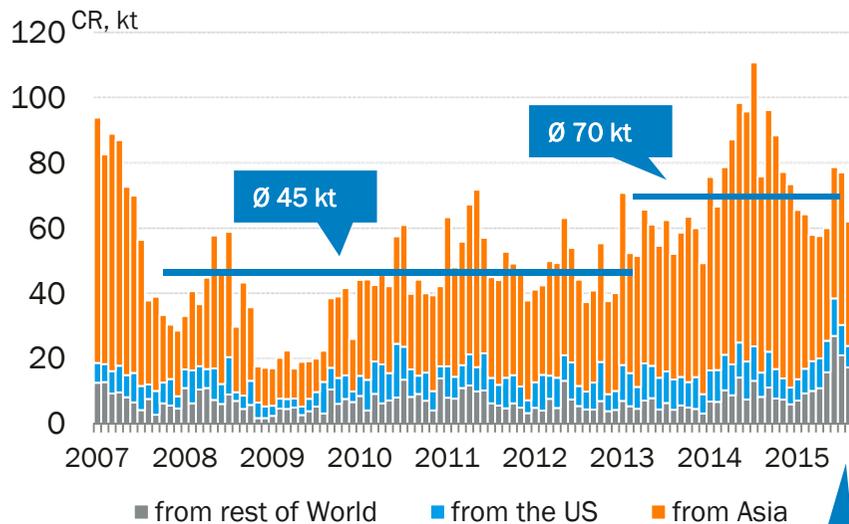


Stainless steel base prices resilient in Europe but sharply down in the US



Imports to Europe increased and remained high in the US

Third-country imports into Europe, total market 3.7 Mtonnes in 2014¹

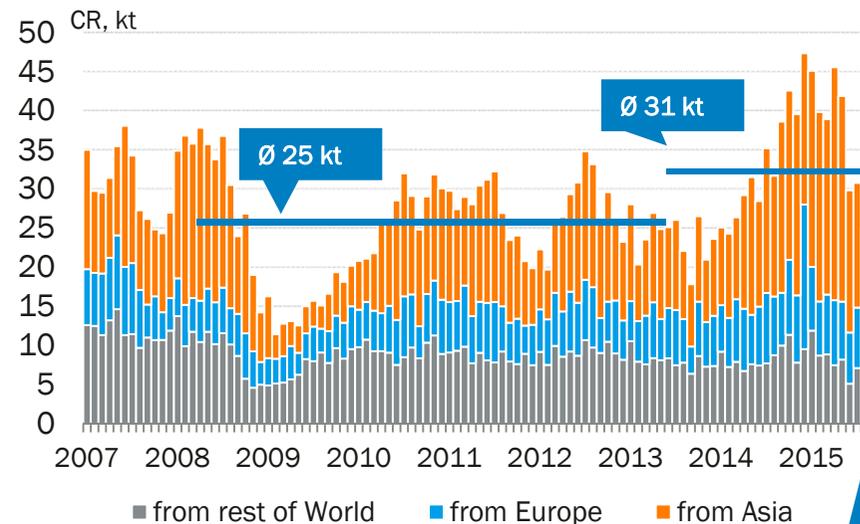


Market penetration of imports in Europe, %

	Q3/15	Q2/15	FY14
China	0.1	0.7	9.6
Total	28.0	22.9	30.6

Chinese imports down, being partly replaced by other imports

Third-country imports into the US, total market 1.6 Mtonnes in 2014¹



Market penetration of imports in the US, %

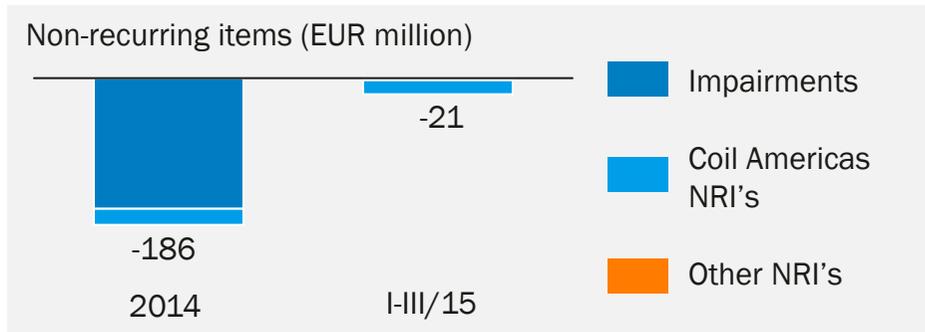
	Q3/15 ²	Q2/15	FY14
China	6.1	13.3	7.3
Total	22.9	32.2	19.5

High import levels remain. Imports from China ease

Q3 key financials overview

- Stainless steel deliveries down 7%
 - EMEA -10%
 - Quarto Plate -23%
 - Coil Americas +21%
- Sales declined 12% due to lower deliveries and prices
- Underlying EBIT declined: weaker performance in Coil EMEA, Quarto Plate and APAC
- EUR -8 million net effect of raw material-related inventory and metal derivative gains/losses (Q2: -1)
- Strong operating cash flow EUR 67 million

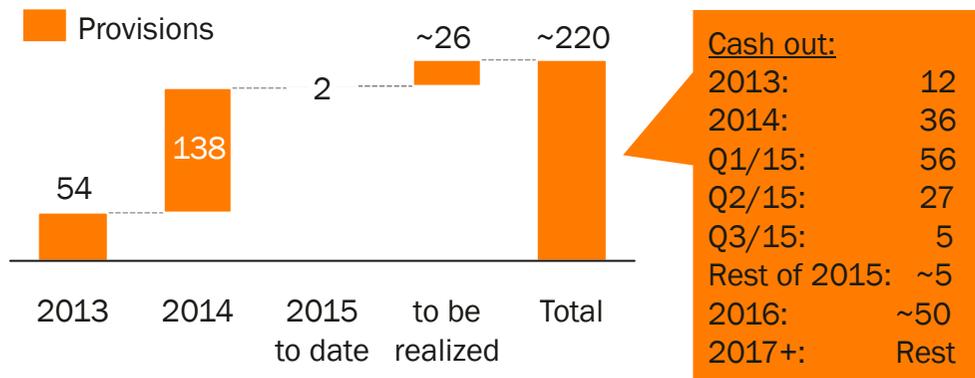
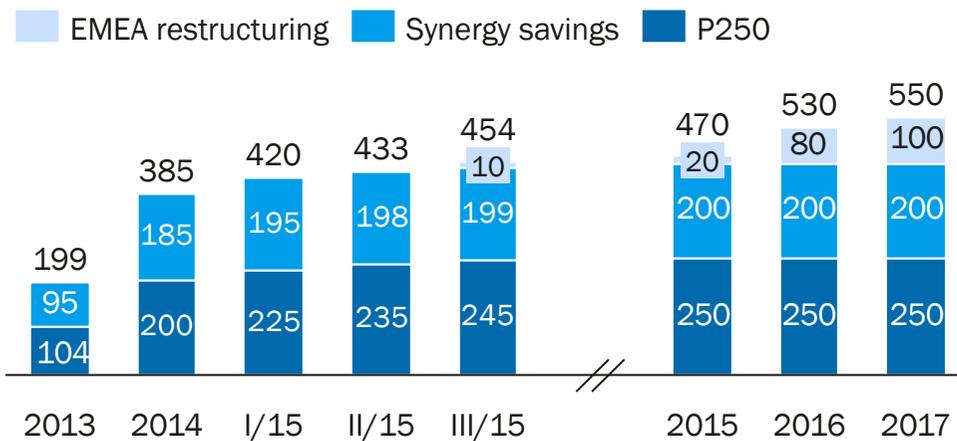
Group key figures				
EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	570	616	634	2,554
Sales	1,487	1,694	1,799	6,844
EBITDA	3	55	67	104
EBIT	-77	-26	-9	-243
Underlying EBIT ¹⁾	-67	-25	-28	-88
Operating cash flow	67	-41	23	-126
Capex (accounting)	29	35	25	127
Personnel at end of period	11,560	11,665	12,385	12,125



¹⁾ EBIT excl. non-recurring items, raw material-related inventory gains/losses and metal derivative gains/losses, unaudited

Good progress in cost saving programs

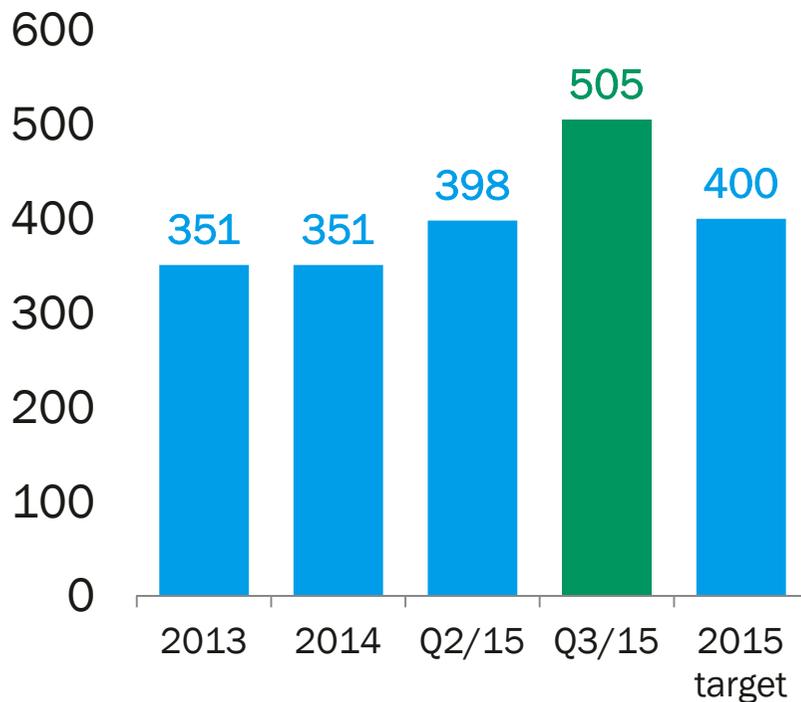
Cumulative savings 2013-2017 and related cash costs, MEUR



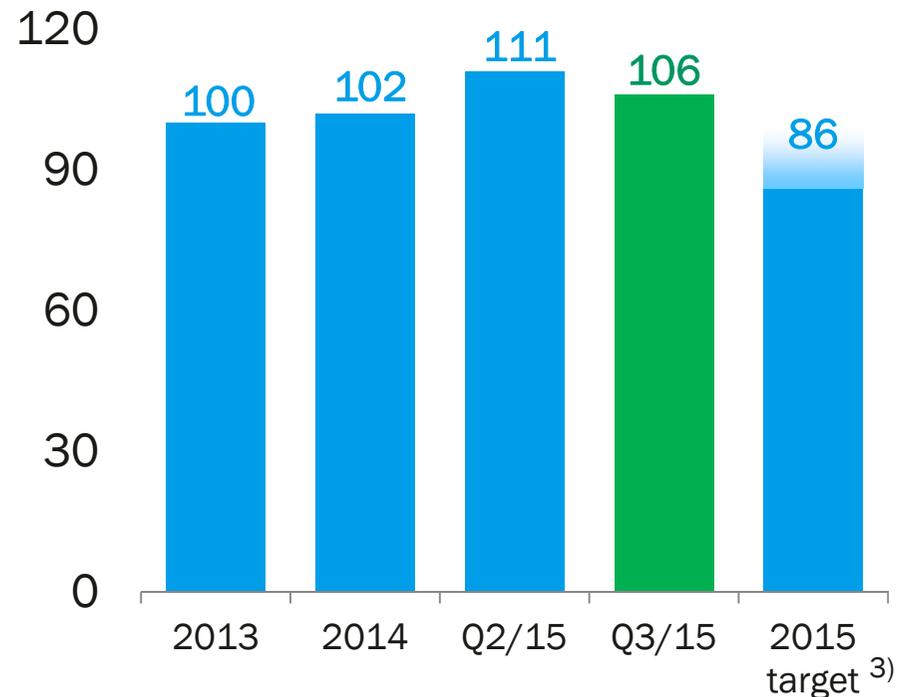
- EUR 21 million savings in Q3, with EUR 10 million from the EMEA restructuring following Bochum melt shop closure
- Total savings of EUR 454 million vs. 2012
- Run rate indicates that targeted EUR 470 million by end of 2015 is achievable
- Total cash cost estimate for all three programs unchanged at ~EUR 220 million
- Cash outflow of EUR 5 million in Q3

Targeting cumulative EUR 400 million cash release in 2015 from net working capital

Cash flow from working capital change ¹⁾



Inventory days development ²⁾

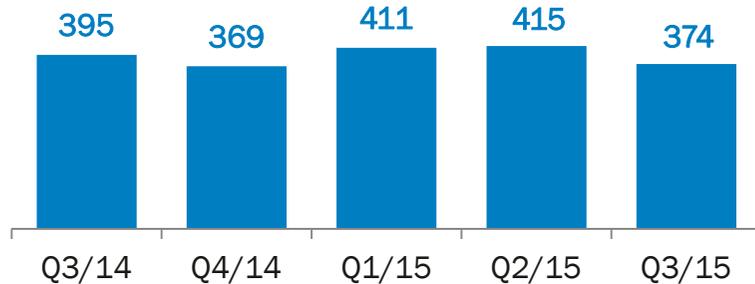


- 1) Change in accounts payables, accounts receivables and inventories differs from the change in WC as presented in CF statement which also includes provisions.
- 2) Figures exclude FeCr operations
- 3) 86 days target is an estimate based on similar sales configuration as 2014

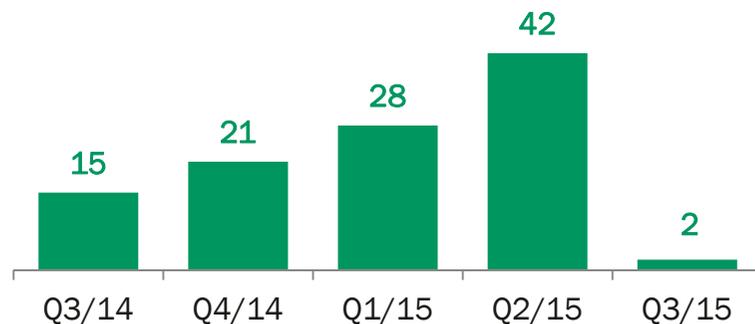
Since 2015, Outokumpu reports inventory days by comparing the current inventories with deliveries planned in following three months. History adjusted accordingly.

Coil EMEA profitability hit by low volumes and weak market

Coil EMEA stainless deliveries, kt



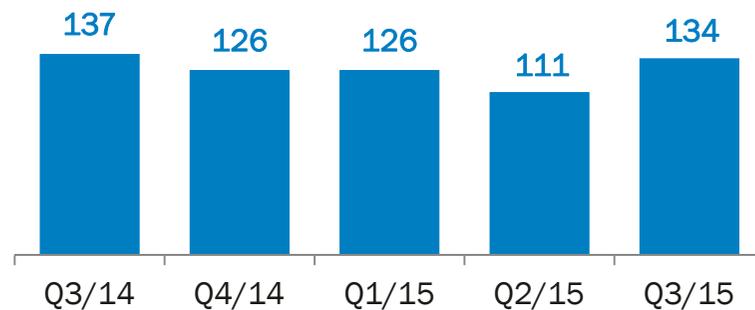
Coil EMEA underlying EBIT, EUR million



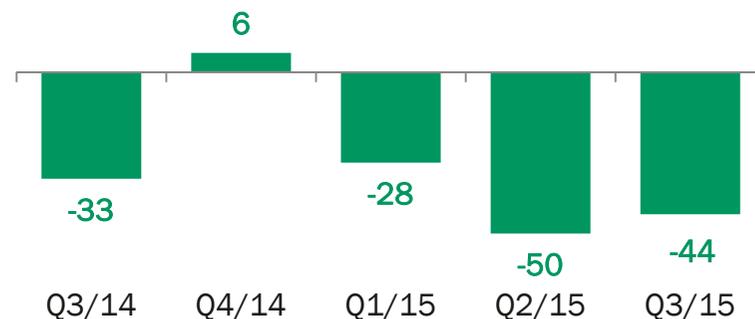
- Seasonally slow Q3: continued destocking, low nickel affecting order intake
- Planned maintenance breaks successfully completed
- EUR 20/t base price increase in deliveries, vs. flat average price reported by CRU
- Weak performance as a result of lower deliveries
 - Strike in Finland on Sept 18. and effects of earlier HR issues in Tornio
 - Very low nickel price: pressure on base prices and scrap costs
- Bochum melt shop closure yielded savings of about EUR 10 million

Coil Americas improved while suffering from difficult markets and declining prices

Coil Americas stainless deliveries, kt



Coil Americas underlying EBIT, EUR million

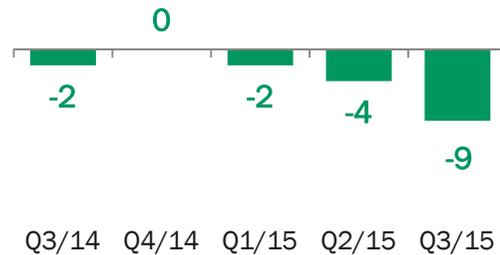


- Distributor customers continued in destocking mode: low nickel price
- Decisive measures to improve Coil Americas' volumes and profitability ongoing
- More active approach in the market resulted in improved order intake
 - Deliveries up 21%
- Base price down USD 135/t in deliveries
- Slightly improved performance
 - Higher volumes, better utilization rates, cost improvements
 - Positives largely offset by difficult market and low prices

Business areas APAC, Quarto Plate & Long Products

APAC

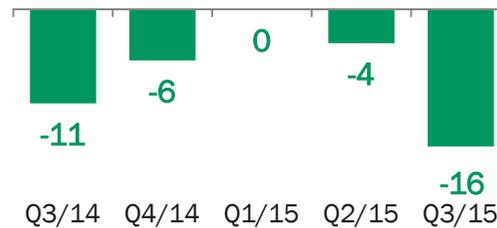
Underlying EBIT



- Demand and prices weak
- Lower deliveries due to low order intake in SKS
- Underlying EBIT impacted by weak profitability in SKS
- Markets expected to remain challenging

Quarto Plate

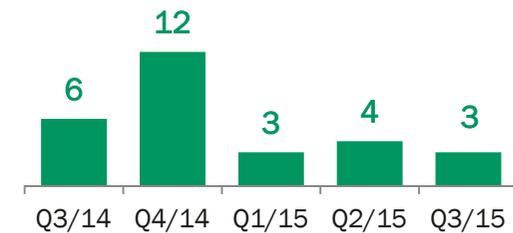
Underlying EBIT



- Markets continued subdued
- Underlying EBIT clearly down as a result of lower deliveries and prices
- Includes a customer claim provision of EUR 4 million

Long Products

Underlying EBIT



- Price pressure due to low nickel, subdued project activity and high imports
- Underlying EBIT stable despite lower volumes as product mix compensated
- Competition in standard grades tightening

Strong focus on managing the cash flows

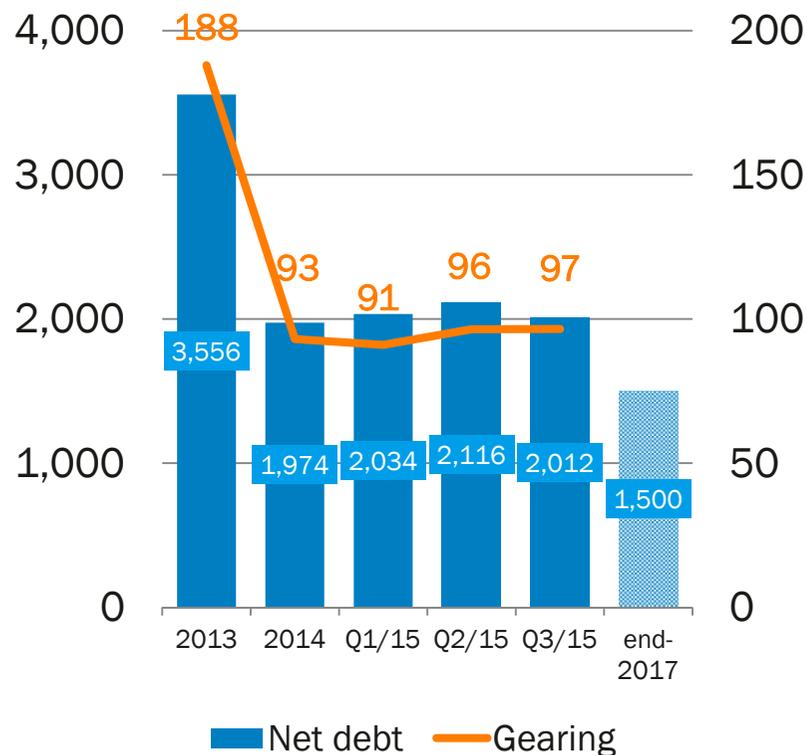
EUR million	III/15	II/15	III/14	2014
Net cash from operating activities	67	-41	23	-126
Net cash from investing activities	-15	-34	-13	-162
Free cash flow	52	-75	10	-289
Cash and cash equivalents	225	207	400	191

- Strong EUR 67 million positive operating cash flow in Q3
 - Change in working capital EUR 91 million (II/2015: EUR -67 million)
 - EUR -16 million of cash outflow related to provisions and pension obligations
 - Capital contribution of EUR 41 million from Baosteel to SKS
- Capex cash flow kept at minimum
- Quarterly financing costs in line with full-year guidance
- Overall liquidity reserves at EUR 1.3 billion

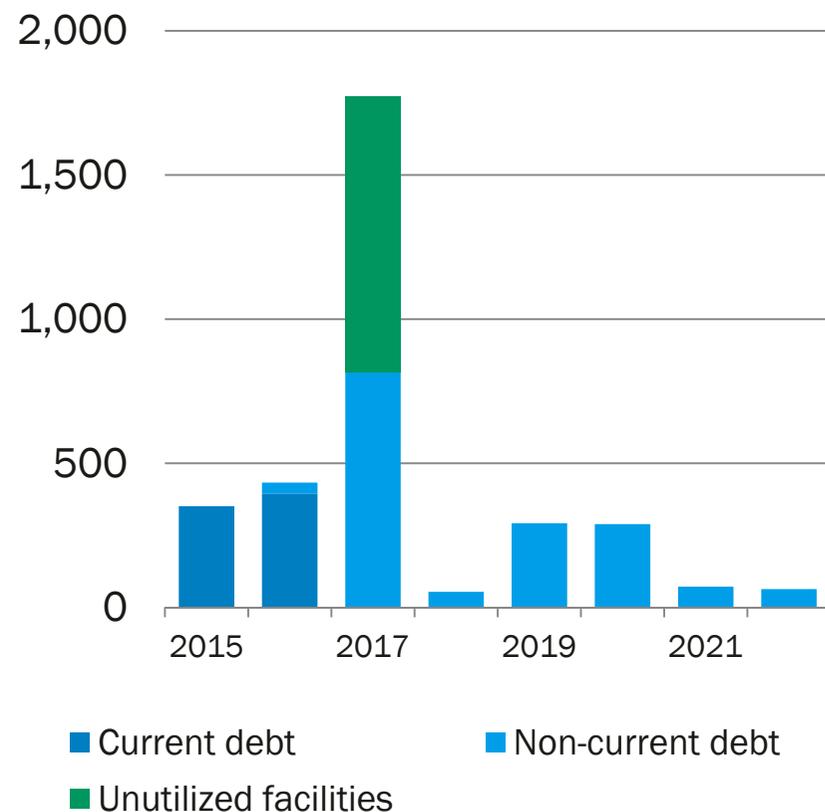
Net debt reduced and gearing stable.

Long-term net debt target of below EUR 1.5 billion

Net debt and gearing, EUR million and %



Debt maturity profile, EUR million



Recent divestments strengthen financial position

Fischer Mexicana

- Divestment of 50% stake in in Fischer Mexicana for USD 63 million
- Fischer Mexicana is a joint venture between F.E.R. Fischer Edelstahlrohre GmbH and Outokumpu
- Closing of the transaction expected in Q4

SKS (Shanghai Krupp Stainless Co., Ltd)

- Divestment of 55% of SKS shares to Lujiazui International Trust Co., Ltd.
- Outokumpu still holds a 5% share of SKS and operates the cold rolling mill
- Transaction cash value EUR ~370 million
- Net debt expected to decrease by EUR ~430 million and gearing by ~30 percentage points
- Closing of the transaction is expected by end of November



Combined estimated positive impact:

- Net result EUR 360 million
- Debt reduction EUR 460 million
- Gearing reduction 37 pp

Change in useful life assumption

- Useful lives of its property, plant and equipment reviewed
- Certain existing machinery and equipment have been and will be used longer than previously anticipated
- For heavy machinery and equipment, the useful life estimate changed to 15–30 years vs. 15–20 years earlier
- New accounting estimate will be applied prospectively from October 1, 2015 onwards
- Positive impact on the Group's Q4 underlying EBIT estimated to be about EUR 7 million as part of the lower depreciation impact is still captured within the inventory value and will realize fully only in 2016

Reduction of annual depreciation charge, MEUR

	2016
Coil EMEA	~35
Coil Americas	~35
Quarto Plate	~3
Long Products	~1
Group	~75

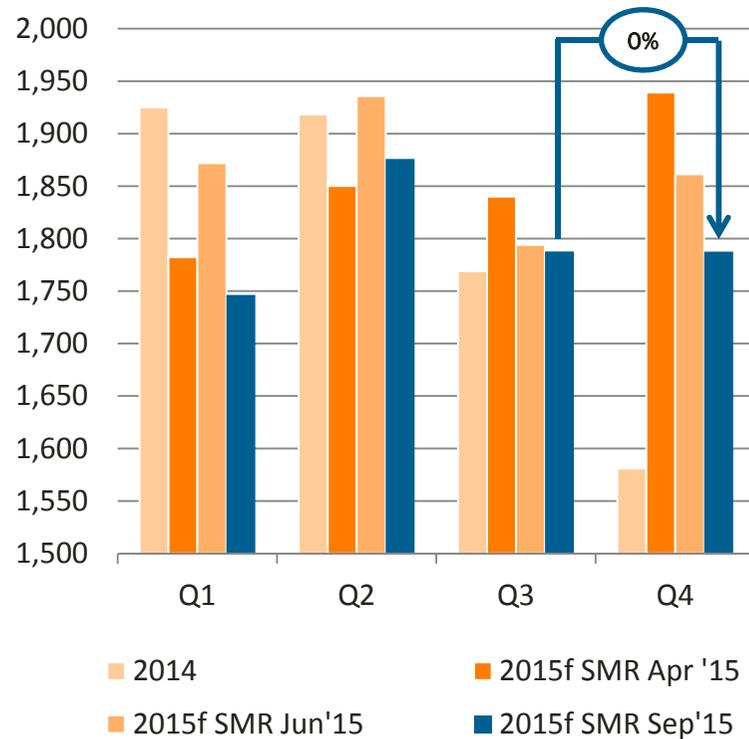
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Expectations for Q4 real demand flat

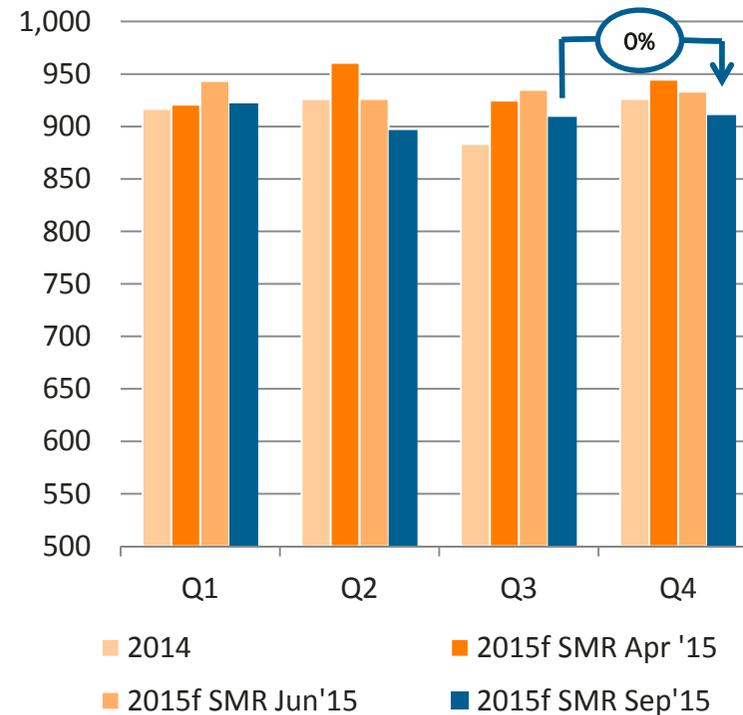
EMEA total stainless steel real demand¹

1.000 tonnes



Americas total stainless steel real demand¹

1.000 tonnes



1) Total stainless = rolled & forged products, excl. 13Cr tubes, profiles

Business and financial outlook for Q4 2015

Current subdued stainless steel market situation to continue for the rest of 2015

End-user demand outside the Oil & Gas sector expected to remain healthy.

While stocks are expected to gradually decrease, no significant rebound in buying activity is expected.

Import pressure in both Europe and USA is likely to persist.



Outokumpu estimates

- Q4 delivery volumes to be at a similar level as in Q3
 - The Group's underlying EBIT for the Q4 is estimated to be still at a loss
 - With current prices, net impact of raw material-related inventory and metal derivative gains/losses on profitability expected to be approximately EUR 40-50 million negative
-
- The divestments of Fischer Mexicana JV stake and 55% share in SKS planned to be completed in Q4
 - One-time positive impact of about EUR 360 million on Group's net result

Clear business priorities

1. Coil Americas turnaround
2. Further progress in Coil EMEA
3. Additional commercial and operational improvements in all business areas
4. NWC management and cash flows
5. Closing of M&A transactions and debt reduction



Q&A



For more information, call Outokumpu Investor Relations or visit www.outokumpu.com/investors

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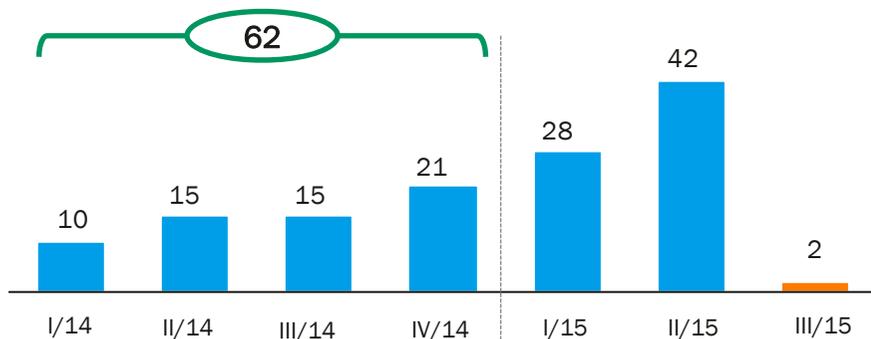
Appendix

Coil EMEA

EMEA key figures

EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	374	415	395	1,666
Ferrochrome external deliveries, kt	29	23	33	133
Sales	973	1,090	1,134	4,520
EBIT excl. NRI	-3	56	38	78
Underlying EBIT	2	42	15	62
Operating capital	2,333	2,362	2,535	2,405

Underlying EBIT (EUR million)



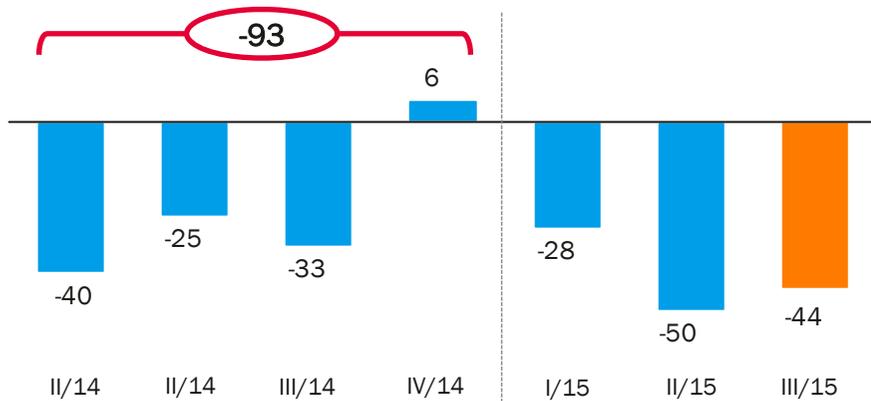
- Seasonally slow Q3: continued destocking, low nickel affecting order intake
- Planned maintenance breaks successfully completed
- EUR 20/t base price increase in deliveries, vs. flat avg. price reported by CRU
- Weak performance as a result of lower deliveries
 - Strike in Finland on Sept 18. and effects of earlier hot rolling issues in Tornio
 - Very low nickel price: pressure on base prices and scrap costs
- Bochum melt shop closure yielded savings of about EUR 10 million

Coil Americas

Americas key figures

EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	134	111	137	541
Sales	276	255	316	1,158
EBIT excl. NRI	-49	-65	-29	-82
Underlying EBIT	-44	-50	-33	-93
Operating capital	1,193	1,289	1,170	1,195

Underlying EBIT (EUR million)



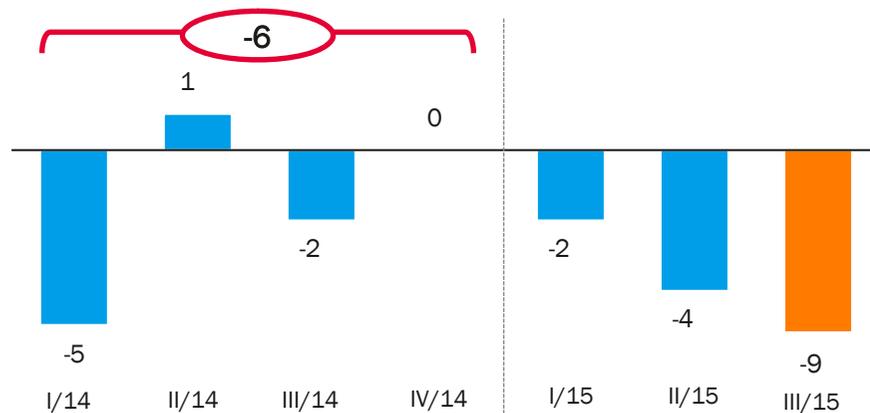
- Distributor customers continued in destocking mode: low nickel price
- Decisive measures to improve Coil Americas' volumes and profitability ongoing
- More active approach in the market resulted in improved order intake
 - Deliveries up 21%
- Base price down USD 135/t in deliveries
- Slightly improved performance
 - Higher volumes, better utilization rates, cost improvements
 - Positives largely offset by difficult market and low prices

APAC

APAC key figures

EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	51	61	60	220
Sales	97	129	124	444
EBIT excl. NRI	-8	-5	-2	-6
Underlying EBIT	-9	-4	-2	-6
Operating capital	174	183	200	184

Underlying EBIT (EUR million)



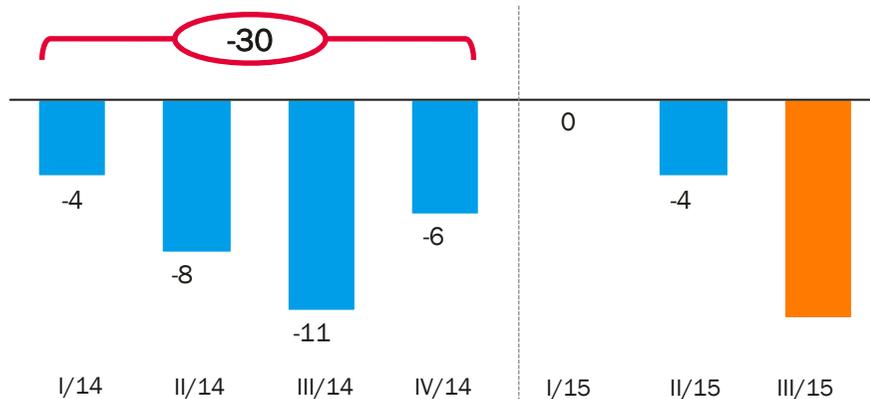
- Stainless steel demand has slowed down in the APAC region
- Stainless steel prices further down in China; low nickel price, overcapacity
- Deliveries were mainly impacted by reduced order intake in the SKS mill due to the limited availability of attractively priced raw material
- Weak euro had a negative impact on the competitiveness of imported material from Outokumpu's mills in Europe
- Underlying EBIT impacted by weak profitability in SKS

Quarto Plate

Quarto Plate key figures

EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	24	31	24	98
Sales	104	133	113	450
EBIT excl. NRI	-14	-2	-5	-26
Underlying EBIT	-16	-4	-11	-30
Operating capital	204	228	251	218

Underlying EBIT (EUR million)



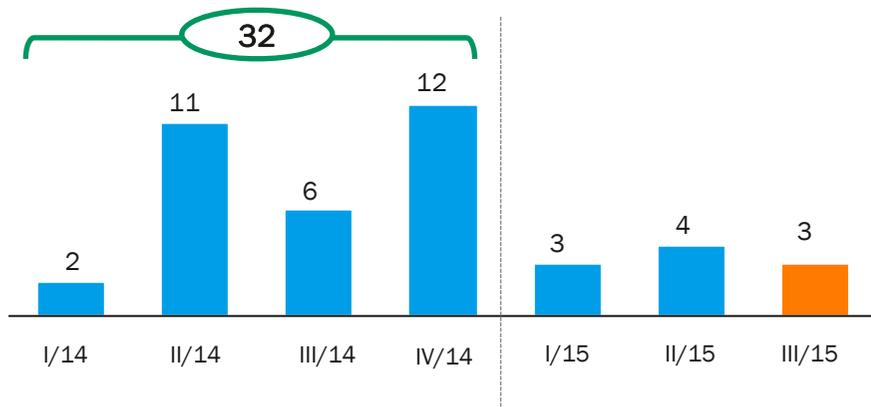
- Operating environment extremely difficult in Q3
- Investment climate has continued subdued and customers have been hesitant to place new orders
- Prices continued under pressure in Europe and the US
- Underlying EBIT at EUR -16 million
 - Lower delivery volumes
 - Weak prices
 - A customer claim provision of EUR 4 million

Long Products

Long Products key figures

EUR million	III/15	II/15	III/14	2014
Stainless steel deliveries, kt	58	62	60	248
Sales	142	159	171	651
EBIT excl. NRI	1	5	8	33
Underlying EBIT	3	4	6	32
Operating capital	163	163	151	167

Underlying EBIT (EUR million)



- Overall demand for long products continued to be weak
 - Low nickel price
 - Subdued project activity
 - Import pressure
- Deliveries only slightly down
 - Seasonal impacts partly offset by further increased internal slab deliveries
- Underlying EBIT stable despite lower volumes as product mix compensated

Outokumpu balance sheet

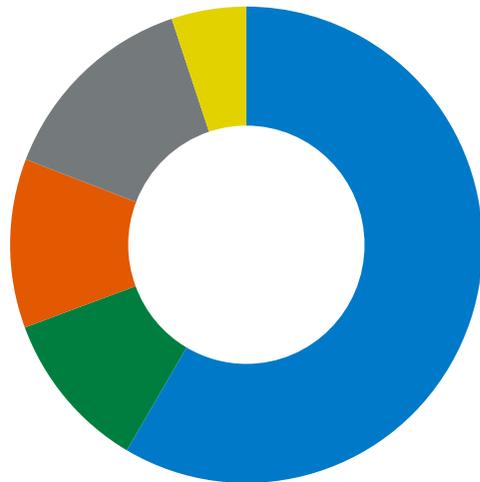
Assets (MEUR)	30.9.15	30.6.15
Non-current assets		
Intangible assets	567	572
Property, plant and equipment	3,061	3,138
Investments in associated companies and joint ventures	82	81
Other financial assets	38	35
Deferred tax assets	61	62
Defined benefit plan assets	38	40
Trade and other receivables	17	17
Total non-current assets	3,864	3,945
Current assets		
Inventories	1,413	1,552
Other financial assets	32	64
Trade and other receivables	676	798
Cash and cash equivalents	225	207
Total current assets	2,346	2,621
Total assets	6,210	6,566

Outokumpu balance sheet

Equity and liabilities (MEUR)	30.9.15	30.6.15
Total equity	2,085	2,195
Non-current liabilities		
Non-current debt	1,494	1,576
Other financial liabilities	11	12
Deferred tax liabilities	38	39
Defined benefit and other long-term employee benefit obligations	335	332
Provisions	110	113
Trade and other payables	48	47
Total non-current liabilities	2,035	2,119
Current liabilities		
Current debt	743	747
Other financial liabilities	51	64
Provisions	26	21
Trade and other payables	1,270	1,420
Total current liabilities	2,090	2,252
Total equity and liabilities	6,210	6,566

Cost analysis Q3 2015

Operative cost components ¹⁾



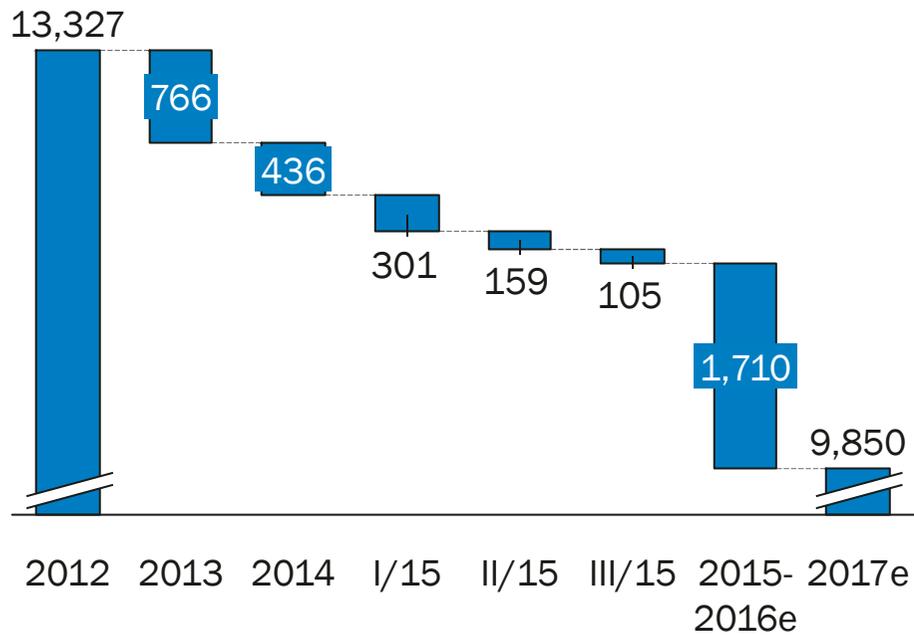
- Raw materials
- Personnel
- Energy and consumables
- Other cost of sales
- SG&A (excl. personnel and D&A)
- D&A total

Comments

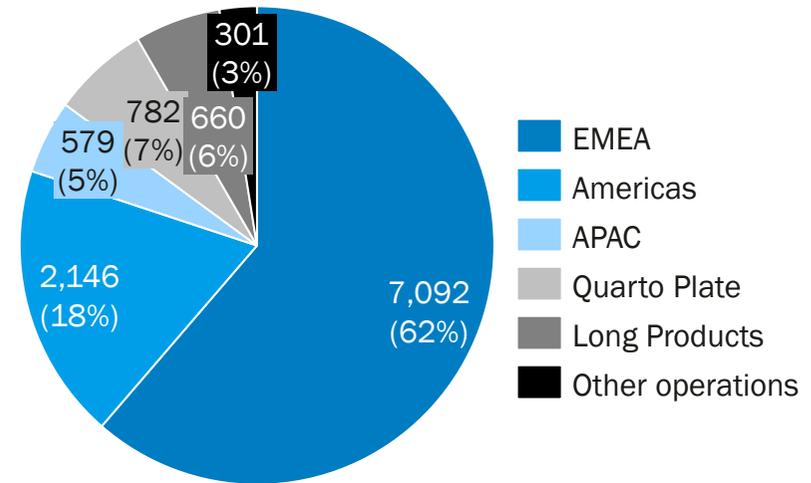
- Raw materials account for around 60% of the total operative costs of the Group
- Energy and other consumables account for some 10-15% of the total operative costs
- Personnel expenses some 10% of the total operative costs
- Other cost of sales includes e.g. freight, maintenance and rents and leases

Headcount reductions

Total headcount reduction ¹⁾



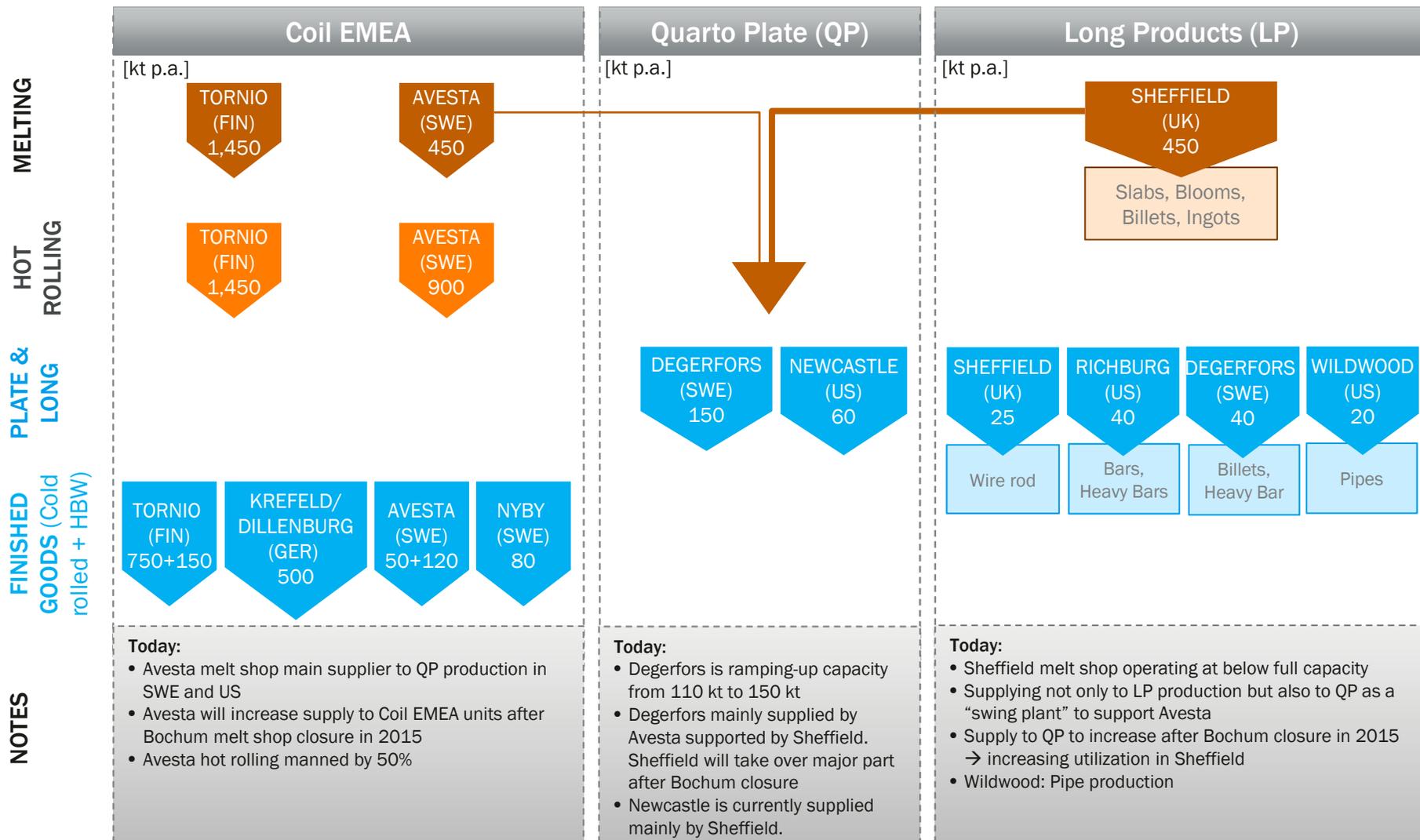
Personnel per BA at the end of Q3/15



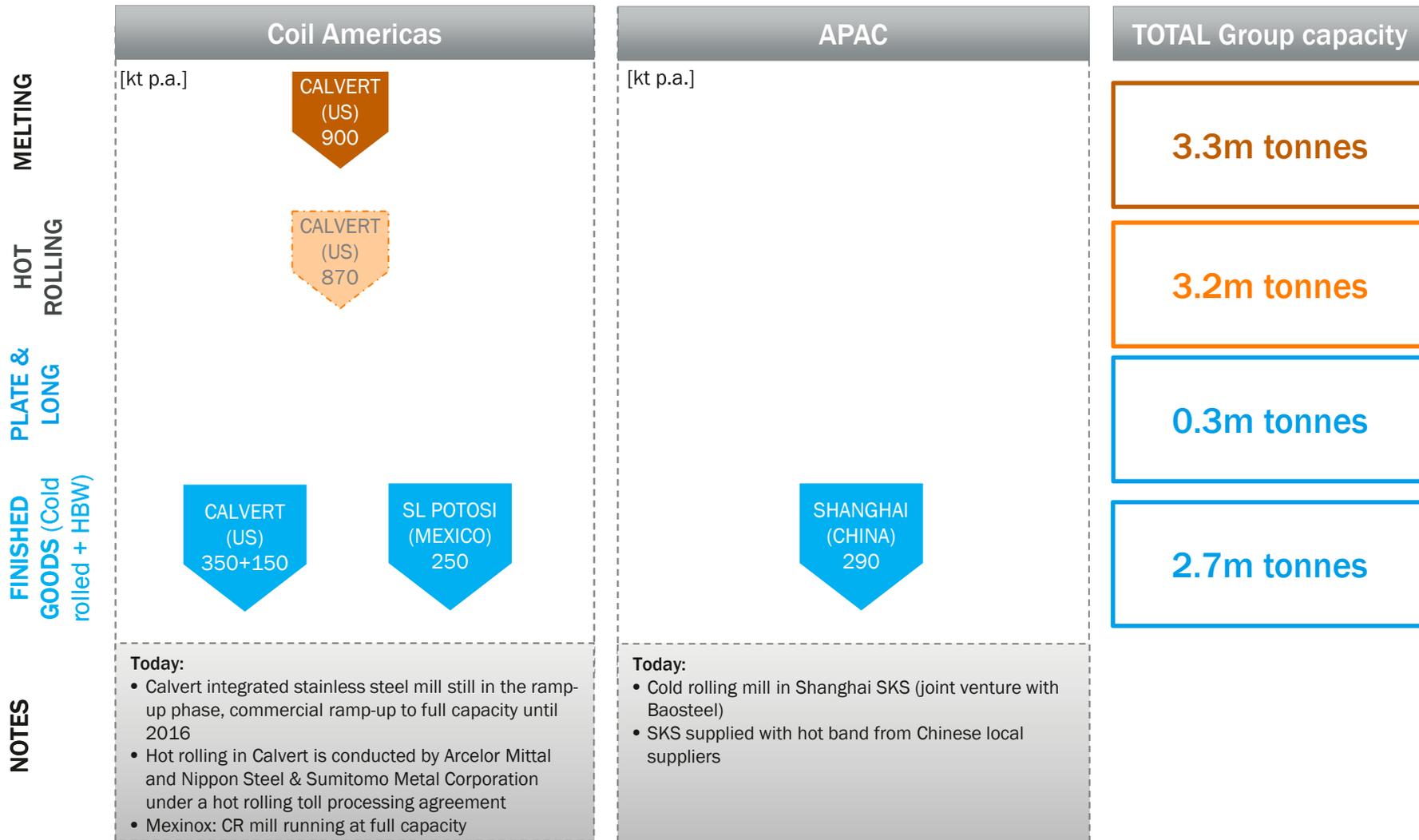
- Overall target is to reduce global headcount by up to 3,500 between 2013–2017

1) 2012: Total Group excl. OSTP, Terni remedy assets, VDM, certain service centers (Willich initial remedy headcount)

Capacities and production flow following restructuring

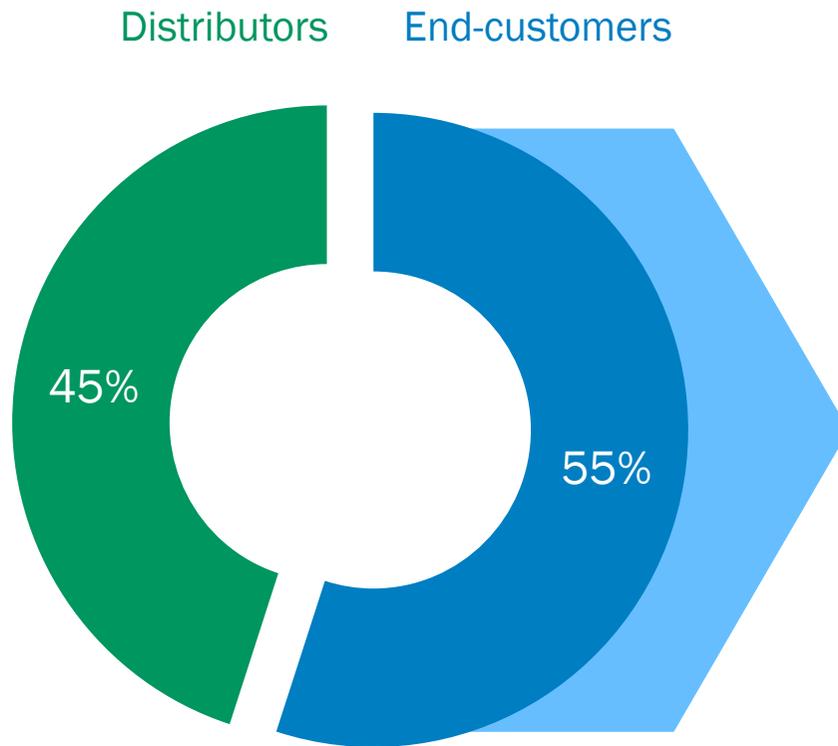


Capacities and production flow ('to be' state)

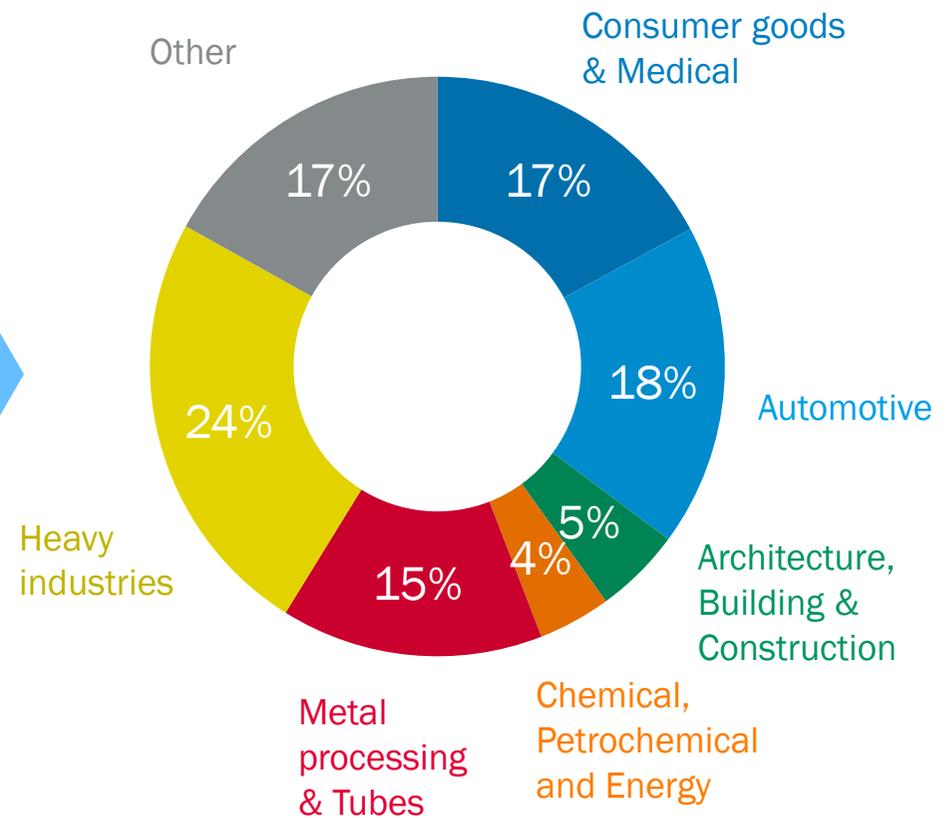


Balanced customer base across industries

Sales by customer segment ¹⁾

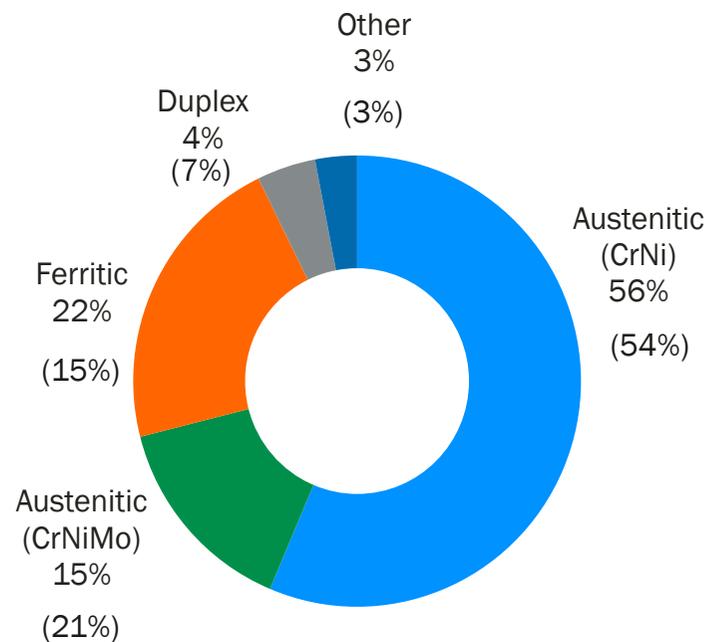


Sales by end-customer segment ¹⁾



Broadest product portfolio across stainless steel

Deliveries by product grade ¹⁾



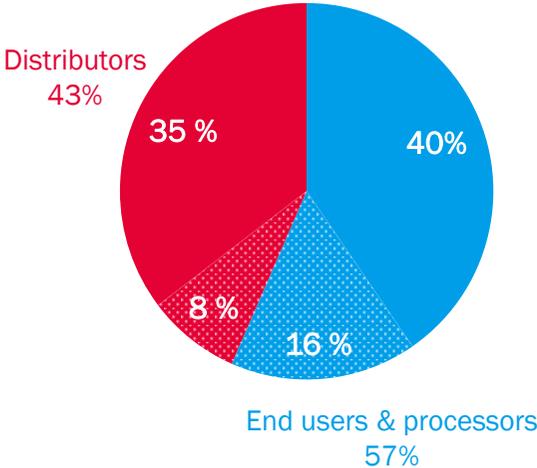
- Outokumpu has a broad product portfolio to serve all customers
- Significantly higher share of ferritic grades leads into reduced sensitivity to nickel price volatility²⁾
- Outokumpu product mix closely resembles the overall market mix by grade

All product forms offered



Balanced customer base and comprehensive service center network in Europe

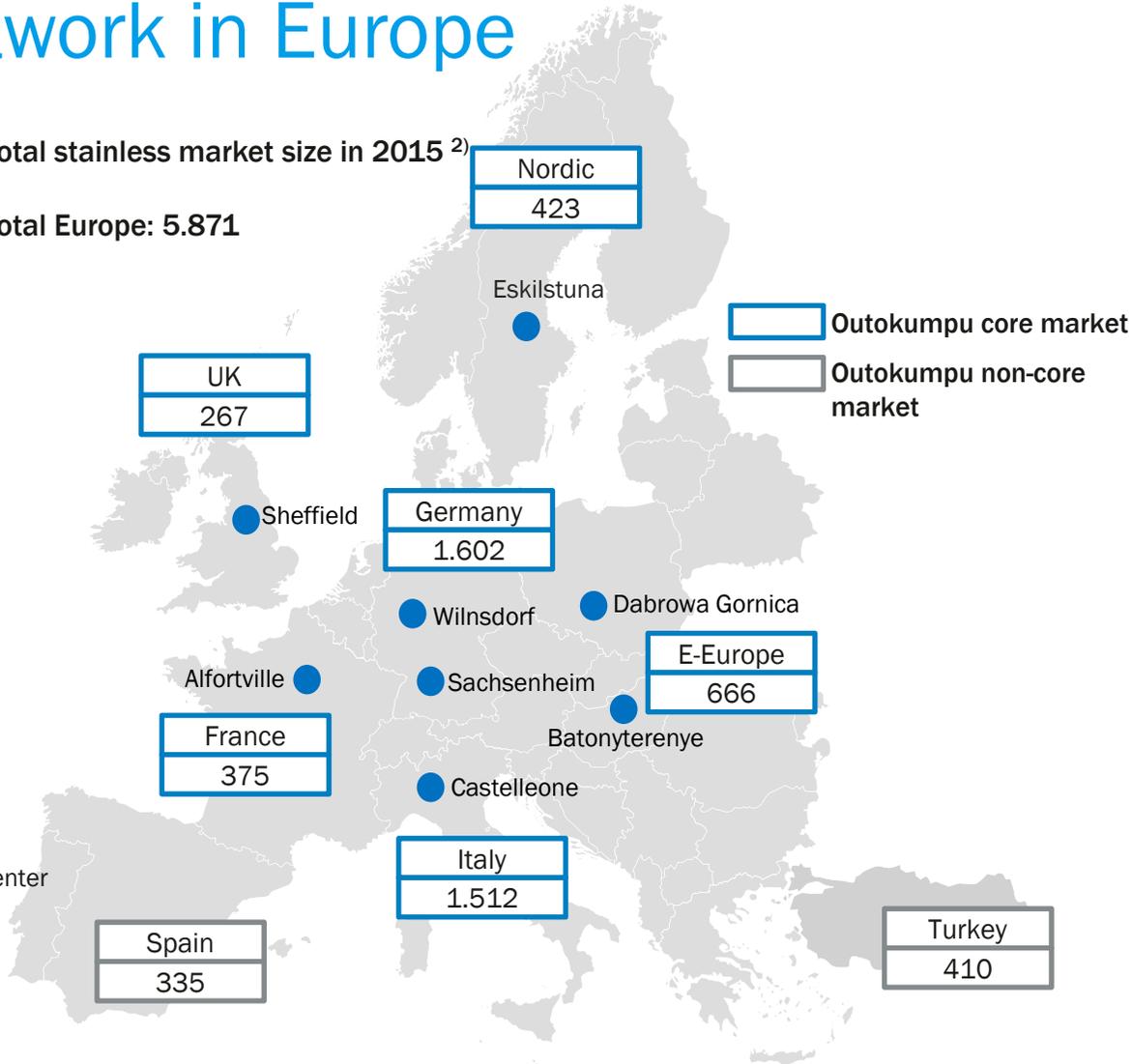
Coil EMEA sales by customer segment ¹⁾



- End users and processors direct sales
- End users and processors through internal service center
- Distributors through internal service centers
- Distributors direct sales

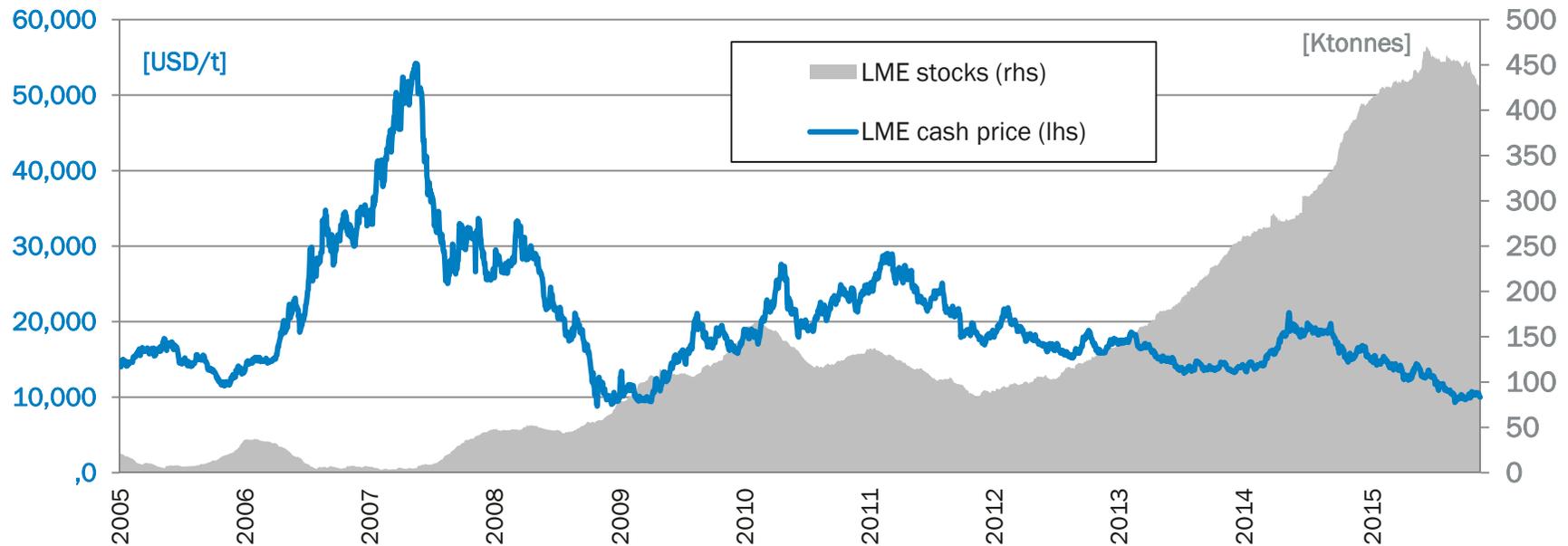
Total stainless market size in 2015 ²⁾

Total Europe: 5.871



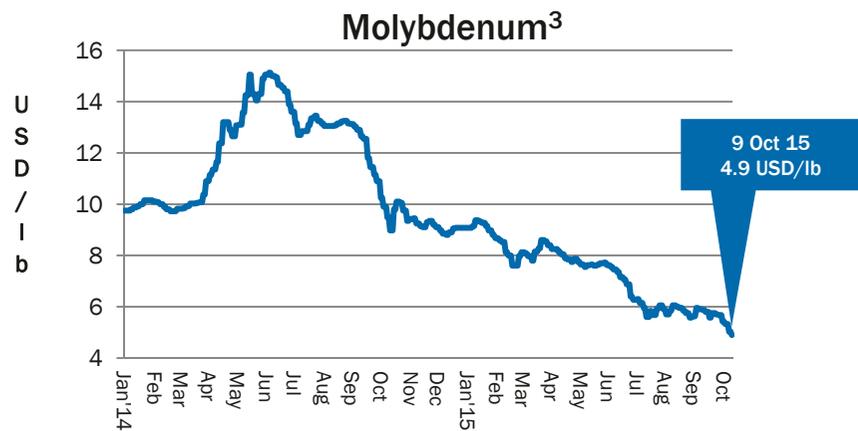
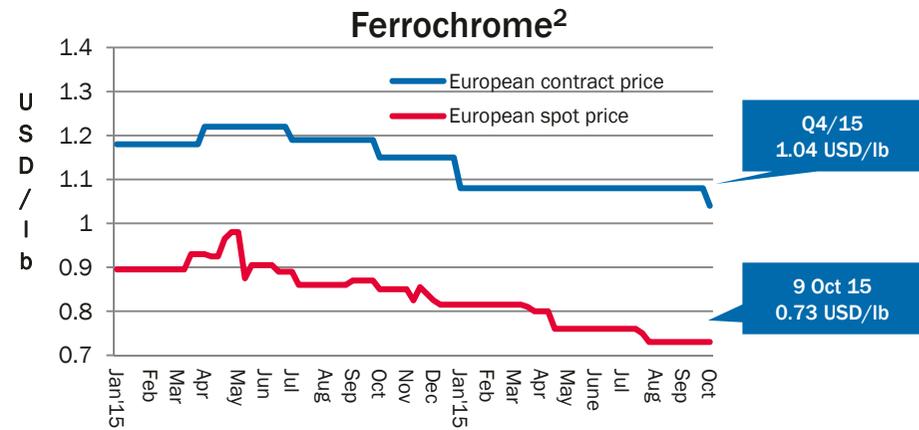
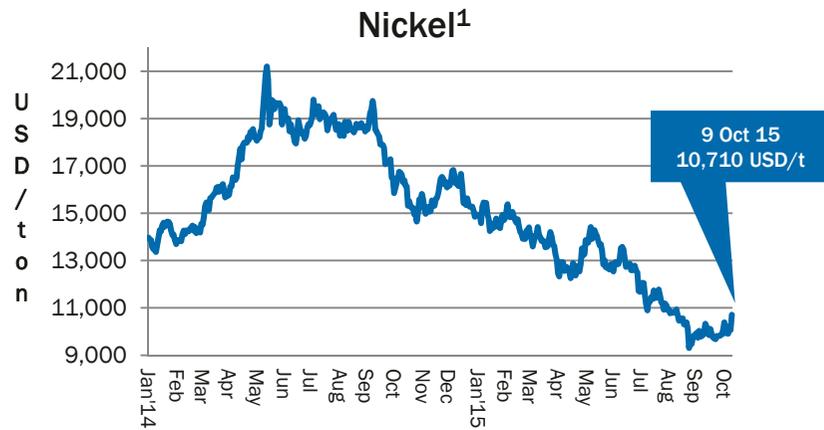
1) Coil EMEA sales Q3/2015.
 2) Source: SMR Real Demand September 2015. Total stainless = rolled & forged, excl. 13Cr tubes, profiles

Nickel price development



- The nickel prices fell close to six-year lows of ~\$9,500/t in August on soft demand, high stocks and concerns over Chinese economy
- The price stabilized in September and was trading sideways around ~10,000 USD/tonne levels during the rest of the quarter
- The average price in the quarter was 10,552 USD/tonne, 18.9% lower than 13,015 USD/tonne in the second quarter of 2015.
- LME stock levels have decreased slightly in recent months but are still close to all-time highs

Raw materials - price development



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