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Outokumpu's Q4 2020 Interim Report

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PRESENTATION

Linda Häkkilä

Hello and welcome to the Outokumpu 2020 results webcast. My name is Linda Häkkilä and I'm the Investor Relations Manager here at Outokumpu. With me today here, we have our CEO, Heikki Malinen, and our CFO, Pia Aaltonen-Forsell. We will take questions after the presentation. But now, before we start the presentations, I would like to remind you of the disclaimer as we might be making forward-looking statements. But now, please Heikki, the stage is yours.

Heikki Malinen

Thank you, can I have the clicker? Thanks.

Thank you, Linda. Good afternoon, good morning. Welcome to Outokumpu’s Full Year 2020 and Quarterly Q4 Release. Let me start with some general comments here on the first page and then I'll start diving into the results in more detail.

Looking back, 2020 was actually a really exceptional year with exceptional circumstances and a lot of volatility in our markets. It was a year where our organisation was really tested in its ability to respond to rapidly changing circumstances in the year of COVID. As you will see from our report today, Outokumpu ended up in Q4 financially on a higher note compared to Q3 and overall 2020 was almost as good as at 2019, although in absolute terms the financial performance of the company still needs further strengthening.

I've been now eight months in this job. I'm pleased to state that the new Outokumpu leadership team is now fully in place, fully mobilised, and really focused on moving the company forward. In November of last year, we announced our new strategy. The implementation of the strategy is proceeding according to plan, and today we'll hear about some of the results of the first initiatives.

Now, let me go through the results and the highlights of Q4 and last year. So, looking at the fourth quarter, as said Q4 EBITDA improved significantly compared to the third quarter. We were able to run our plans in the fourth quarter well, and we were able to capture the pick-up in demand, which happened especially towards the latter part of the fourth quarter. Also, we were able to source sufficient amount of scrap in a timely manner in a gradually tightening raw material market, allowing us to reach high scrap levels – a high scrap rate in our plans.

Our September 2020 Ferrochrome maintenance in Tornio went very well. It went according to plan and we were able to get to full operating performance quickly as the fourth quarter proceeded. The turnaround in Americas continues well. We now had the fifth consecutive quarter where we had positive EBITDA. And we also had the best annual result so far.

I'm also very proud about our safety performance. Our total recordable injury frequency rate, or TRIFR, was 2.4. After the merger, our safety record was much less, let's say, positive. Our TRIFR figures were in the 10 to 15 range, so now we really have achieved a materially good level of safety and I do believe that we are probably among the best in our industry globally. Indeed, last year, in spite of COVID, we had a number of plants where we did not have a single accident in 2020.

Finally, as part of our strategy execution and the so-called lean and agile piece of it, we have completed our employee negotiations and I'll come back to that in a moment in more detail then.

So, overall, COVID was a big challenge and then it continued after March throughout the whole year. Due to our good safety work, we basically, after the summer, did not lose a single day or production due to COVID in any of our plans as really the virus continued to spread. Our financial position is stable. We were able to finish the year with a liquidity position of about 1.1 billion euros.

I'm also very pleased that we were able to complete and achieve the extension of our RCF and now towards - it is now extended to May of 2023. And we got that done just before Christmas. In addition, we were able to reduce our net working capital by 247 million. This was a substantial reduction in net working capital. And finally, we were able to keep our CapEx at the 180 million euro-level that we communicated to you during the second quarter.

So, looking then at 2020 on the left-hand side of the chart 250 million euros of EBITDA, slightly below 2019 where we had 263. So, while in absolute terms we are not where we need to be, still I think given the year of COVID, the result was - it was a good achievement for the organisation.

As you can see from the chart on the right, pricing was a real challenge for us during the course of the year, especially in Europe, although there were negative effects also in the Americas. We were able to adjust our cost base throughout the year, as you can see from the green bar in the middle of the right-hand side bar chart.

Looking at the different business areas. So, first of all, starting from the left business area; Europe. 142 million of adjusted EBITDA. You can see that over the last four years our performance financially has declined, and we need to turn the corner. We need to start heading going the other direction. We have told you about our strategy which includes a target of improving EBITDA by 200 million by 2022 and that should help us turn this corner.

In terms of Americas; 55 million. The Americas turnaround is encouraging and it is continuing according to the plans we have set internally. The work will continue then in 2021. Long products minus 8; clearly not what we would like to see. We did have a major management change in September. The new management is now in place and they have started their work and are executing and Pia will then talk about Q4 results and where we are with LP. But anyway, we're moving also in LP according to our internal plans.

And then finally Ferrochrome; 91 million. Ferrochrome compared to 2019 was flat. However, in September we did have the big shutdown in SAF3, which is our third smelter. We have this big shutdown every four years and the impact of that shutdown was about 15 million euros which we communicated in our previous quarterly release.

Then a few words about prices. So, stainless prices were very volatile last year. Sometimes around the July/August we reached the trough and then have started to see a gradual rebound in transaction prices. Here in this chart, we have added most recent data from January. And based on that data, you can see that all of those curves or lines are moving upward in all three continents.

With respect to the nickel, the nickel price went up quarter by quarter by about 12%. For us, of course, from Outokumpu's standpoint, the euro price of nickel is more relevant, but converting that to euros, the Delta was roughly about the same when you look at it on an annual basis. And then on Ferrochrome; Ferrochrome prices were flat quarter to quarter. But the recent data from January indicates that China spot prices have started to rise.

A few words about trade and imports. Import penetration declined from about 30% in the summer to approximately 24% here in quarter number four; in Q4. While this decline is helpful, the absolute level is still extraordinarily high and trade defence measures are needed and they are merited.

Looking at the quotas themselves, you can see from this chart roughly what the current - what the quota utilisation was during the quarter. The higher - the blue bar in the middle - other - that basically continued contains mainly imports originating from Indonesia. During the last weeks we have seen that the 12 European Union Member States have approached the Commission in writing with a proposal or request to start an extension review with respect to the safeguards which are going to expire this June 2021. So, this decision by the 12 EU member states is warmly welcomed and important and we look forward to seeing how the Commission responds to the government's request. We continue to strongly make the case that extra trade measures are needed and that the quotas should be extended.

Then let's talk about sustainability. Sustainability is a very big theme within Outokumpu. We are the sustainability leader in stainless globally. Our recycled content was over 90% in 2020. We were also able to improve our energy efficiency by 6%. Our target as a company is to be carbon neutral by 2050.

On this journey to carbon neutrality, we are setting and have set intermediate targets. Our most immediate target relates to the amount of CO2 per tonne of stainless that we emit by 2023 and the target is 1.5 tonnes. As you can see from this chart, we are now ahead of the plan and we're almost at the ‘23 target at the moment. But as said the journey continues and we challenge ourselves as an organisation to accelerate the journey towards carbon neutrality.

Finally, before I hand over the presentation to Pia, let me just come back to this strategy. So, as you recall in our strategy. We have three components. There's a commercial piece. There's a cost and capital piece. And then there's also what we call lean and agile organisational piece. In this third, lean and agile, we basically have set two targets. One is to simplify our organisational structure, to de-layer it, and to really achieve greater transparency, speed of decision making and simplicity.

That delayering has now taken place and in that respect, the new organisation is up and running and has been so to speak de-layered. In terms of the headcount, in November, we communicated that our target is to have total headcount of less than 9,000 by 2022. We have now completed the employee negotiations in December and the actual implementation of that contract is now underway. We are on target to reach that less than 9,000 by 2022. So, in that respect this part of the strategy is really moving forward.

So, those were my opening comments. Let me now hand it over to Pia to go through the figures in more detail, and then I'll come back with the outlook and we will be pleased to answer any questions you have. Thank you. Pia, please.

Pia Aaltonen-Forsell

Thank you, Heikki and good afternoon, good morning. I hope you are all keeping safe and well. So, before I start diving into the figures here, may I still say and add, Heikki, to the sustainability performance and the targets that we have there that the 1.5 tonnes of emissions per tonne of stainless steel obviously also reflects our full commitment there, so if we go a bit technical scope one, scope two, and scope three. And I think it reflects also the very good performance that we have within Ferrochrome where we are only about 42% of CO2 emissions compared with the average global Ferrochrome producer.

Okay, with that said, let's deep dive into the figures here as well. So, I'm going to try to change the slide.

And we'll start with the key figures table here, and I think there's several messages here. I think we will get back to the figures around the volumes and the sales, as well as the EBITDA, in the next slides here, but maybe a few details that we will not get back to later in the presentation. And the first one is relevant for net result as well as earnings per share. And obviously what Heikki just described in terms of headcount reductions, we have also seen then some provisions - restructuring provisions in our P&L through also the fourth quarter of 2020. So, all together there we had more than 55 million euros worth of provisions.

We did however also have the restructuring programme started in Germany already the previous year, so actually on a year on year comparation, we had almost similar costs back in 2019. However, in the comparation in 2019 we also had the sale of some real estate in Germany. If you recall, it was near Düsseldorf and this brought another 70 million of extraordinary profits or adjustments to the P&L in the previous year. So, that just all from a comparation perspective is relevant there.

Our net debt obviously reduced to actually what we could see; lowest level in recent history, and I will certainly get back to that. I think it's an important achievement and something where our own actions and self-help really was the main cure to make sure that that happened.

And then finally, still maybe one more point on the restructuring costs as I have the chance to say that as Heikki stated we have completed the restructuring now in all of our key countries. There are however some remaining areas, so I would say that maybe approximately 10 million euros worth of restructuring costs could still occur probably during 2021, and then obviously from a cash flow perspective, we should be ready for the fact that the provisions that we have booked now in Q4 of 2020 will be paid out during 2021, and even predominantly during the first half of the year.

So, with that said, let's look first a bit into the Group level performance and comparing our starting point to Q3 and then looking into the Q4 and what really happened between those two points. And as you can see, there was really a significant boost from deliveries and volumes, and I would say even more than that, if you look at our balance sheet you see that we have also added some to inventories during Q4. Actually, balance sheet – the balance sheet between Q3 and Q4 we have added 100 million to inventories and I think that's relevant on the back of the improved demand outlook and then the seasonal increase that we are now foreseeing for Q1.

So, we have definitely been able to gear up and to increase here production. But it has also had a positive impact on our cost structure. We have overall had a very good efficiency. Also, a very good scrap ratio as Heikki already alluded to and then at the same time really benefited from a better fixed cost absorption. So, it's just clear that once we are back to very relevant production volumes, it's clear that our cost performance here has benefited from that. We have also continued the cost compression that we have also talked about in the previous quarters.

There is one negative here that you can see. You see that even during the fourth quarter, compared with the third quarter, we still had negative impacts on pricing and mix, and I think there's many relevant elements to be to be discussed there, but maybe just at this point what I still clearly want to say that even though from Q3 to Q4 we could still see this negative impact, then what we see right now happening in the order intake and also when we see nickel prices. First nickel prices and now as well, then ferrochrome prices, having increased rather rapidly. I mean, at the moment I am not concerned of margin erosion on sort of because of that as we are experiencing a stronger demand situation.

So, let's look a little bit more into the BAs as well. And maybe some specifics here, BA by BA. This is BA Europe. Obviously here as well, you can clearly see the negative impact from pricing and mix. And maybe this is a good moment to talk about the recovery, sort of through the various segments. So, obviously the demand recovery during the fourth quarter; it was stronger than we had expected, and we have talked about the improvements in appliances, we have talked about the improvements in automotive and still during Q4 we didn't really see improvements in the value added grades.

And if we are now looking at the order intake and the demand structure, it seems that we have a somewhat broader recovery happening. However, oil- and gas-related, and you know that a lot of our value added, for example, pro grades have been there going to scrubber business, et cetera. There we still can see that that this has not really sort of turned the page yet. So, some early signs and maybe some recovery possible throughout the year of ‘21. That's where sort of the big action is not yet happening.

However, from other perspectives of value added grades, we are starting to see a gradual recovery, so I think that's important to say that compared with the fairly low point there in Q4, we are starting to see some improvements, but clearly not back to the levels that we have had before the pandemic was hitting the business.

What you also see in this slide is a very significant cost compression in BA Europe. So, I just want to mention the self-help and all of the actions that we have taken there. We have still had really significant efforts even in squeezing things like maintenance costs and every discretionary cost that we could also through the fourth quarter. So, you see the combined effect here of both the improved volumes as well as all of our actions then in the result.

Maybe on the sort of current situation in the markets in Europe. I also want to comment the fact that lead times have increased quite significantly, so this is actually relevant both for Europe and Americas. But as we speak it is clear that lead times are longer than normal, and we are already selling in the later part of the second quarter. And the stock levels are also rather low in the market.

So, then looking at BA Americas and here really turnaround has accelerated. There has been a further improvement when it comes to the volume. I think overall we have been able to position ourselves well and really grow also gradually our share. So, I think here you see a good increase in volumes also on the back of the recovery in the market and then you can actually see some negative bridge effects here from costs. So, maybe just a few comments on those.

I think most of all this is due to the fact that we had some very significant cost compression in Q2 and Q3, where some of that was then released back at the point and the volumes were clearly improving again. You know that the same long-term improvements through our strategic actions are continuing also for Americas, but all of the increase here in the fourth quarter was then on the back of the increased volume and some kind of recovery from the earlier cost compression.

In Americas as well, inventory levels remain very low and the same as for Europe; we see very long lead times and possible sort of next dates when we are discussing now, they are into May, they are into June for deliveries.

Okay, then maybe from a Ferrochrome perspective. Really, what you see in the chart here is a big improvement from Q3. In Q3, obviously we had the maintenance break. This had a 15 million negative impact on the result, so we have a recovery here in terms of volumes, but it is actually particularly strong also because there was a really successful ramp-up. So, I think in a quarter where steel prices were on a low level and very stable, it is our own actions here the good recovery after the maintenance as well as less than significant actions to further compressed costs and some positive movements there of some of the variable costs that really helped us. So, I think this is a very satisfactory quarter from the Ferrochrome perspective.

And finally, BA Long Products. What you see here is a zero result in the quarter. I want to say this is zero but it is exactly on plan. So, when we were working with the new management team of the Long Products business area, when we set the plan and the recovery plan, then sort of the first steps here, getting back to zero was set for the fourth quarter. I think we are exactly there. You see as well here that the pricing environment has still remained rather challenging as well as some mix deterioration but deliveries have clearly increased in the quarter.

Then a few words on the working capital. So, where we are right now in terms of managing our working capital, we can see two years actually a very significant reduction overall, so we had further reductions of working capital even in Q4 and the annual reduction was the 247 million euros. So, year on year, obviously we have really reduced a lot in inventory, but if you look at that through the quarters of 2020 you see that the main reduction already took place before the end of Q3.

And during the fourth quarter what we have then seen rebalancing the increase in inventory has been also an increase in accounts payable. So, I think this is a good proof point of our ability still to really manage our working capital. Now if we look into 2021, as you know with the history of two years of very, very big working capital reductions, we think that we are now at the point where our focus will be on remaining - being able to keep these levels that we have now achieved, and you should also take into account that there is some seasonal variation here. So, definitely on Q1 being atypical, seasonal increase in terms of volumes, I think you would then also see this in terms of the cash flow. Look back some historical years, you will find the pattern. But overall, our commitment here is remain stable and to find ways of then managing and keeping working capital at these levels.

First of all, then just if you look at the overall cash flow, you can see that we have been able to achieve a very positive cash flow before financing activities. Heikki has already touched on the CapEx. So, I think I will move to the next page just to really then show the impact on our net debt of these improved cash flows. So net debt development has continued to be really good through the year and it's really due to self-help and then the very strict CapEx control that we have continued through the year. And you see it in the slide here. Obviously, you see the record low level; 1.028 billion of net debt at the end of the year. When you look at our gearing there is positive development. However, the equity component of it; we had some translation differences there. And obviously a net loss for the year as well. So just maybe to keep that in mind.

We do remain fully committed to reaching our financial targets that you can see here, which is then to reach the leverage of below three at the end of 2022. So, you see that we are definitely trending in that direction.

And then finally a few words on the funding. If I look back at the year of 2020, throughout the year, we've had funding activities of worth almost a billion euros in a pandemic year. I think it's a good proof point of our ability to act in the market, and of course also good support from our key relationship banks here. If you look overall at the maturity profile, as Heikki already said, this is one of the good or key achievements of last year. We can see here that we have moved the RCF extension so that now the majority is in May of 2023 and obviously we will continue working very actively, improving our maturity profile, but I think some really significant steps we're taking now during 2020 here.

I think you can also see some other sort of familiar elements overall in our debt structure, and maybe just a really brief comment still on the commercial paper market in terms of short term funding, it has remained a good source of funding for us this specific Finnish commercial paper market and I think what we also see now is that we are again able to extend maturities somewhat in the several months. So, also here I would say the market has remained open but is also showing maybe some signs of strength from that perspective, as we speak.

So, I think with that said, thank you very much and Heikki, back over to you then.

Heikki Malinen

Thank you, Pia. So, let's go to the outlook for the first quarter. So, the stainless steel market has begun to recover after the global downturn caused by the COVID-19 pandemic. The demand for stainless steel is strengthening and both business areas - Europe and Americas - are expected to see a seasonal increase in volumes. Consequently, Outokumpu expects its stainless steel deliveries for the whole Group to increase in the first quarter by 10% to 20% compared to the fourth quarter.

Adjusted EBITDA for the first quarter of 2021 is expected to be higher compared to the fourth quarter of 2020, so that is the outlook for Q1. And I guess we are now happy and pleased to take any questions.

Linda Häkkilä

Thank you, Heikki. And thank you, Pia. Please, Operator, we are ready to take questions from the line.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. And our first question comes from the line of Seth Rosenfeld of Exane BNP Paribas. Please go ahead, your line is open.

Seth Rosenfeld

Good afternoon, thank you for taking our questions today. A two-part question. First with regards to the general guidance and then secondly drilling into margin expectations in Europe. I guess I think everyone on the call would like a bit more colour on the scale of strength you're expecting into Q1. Your guidance originally for Q4 was roughly a quarter of what you ultimately reported. As we look forward to Q1, what scale of increase are you thinking is ultimately reasonable for us to be expecting?

And then digging into it a little bit more. Within Europe in particular, given that there's no alloy surcharge mechanism really functioning right now, can you just give us a bit more colour on your confidence in passing on rising scrap prices to customers? It does appear there's been a meaningful increase in that cost base in recent weeks, perhaps outpacing the strength and transaction prices being reported. Is there any risk of margin compression in Europe in the near term? Thank you.

Pia Aaltonen-Forsell

Very good, thank you very much. And then in terms of the guidance, I think the first element that we certainly wanted to make very clear is that this a good increase in in terms of volume also compared with Q4 that had an unexpectedly good recovery. So, I think that's one important point. We have said that it's between 10 and 20%. So, I think that gives a fairly good confidence that that we will have a boost from the volume there. That is important, and that's also the reason of course to state that very clearly.

I think to some extent obviously your question is related to your question about the confidence on being able to pass on then the increases in scrap prices, for example, there. So, I think already given some comments, but I think Heikki will come back to that as well.

Then if we look at other elements of the P&L. This quarter is typically not a quarter for any kind of significant maintenance. And we've also not described that. So, I think in terms of cost elements there is like nothing that is of such significance that we would really have had talked about it separately. So, it’s really very much on the back of the volumes and this improved demand situation that we are giving the guidance of a higher EBITDA and I think that maybe there are sort of some more details that will come up here in a Q&A, but that's as much as I would say at this point.

Heikki Malinen

Yeah, so, Seth - well first of all I think it is obviously a challenge when there is no alloy surcharge. The way the market operates today is that you basically have customers - contract customers who have longer term price commitments. But there are mechanisms in these contracts in certain circumstances such as lists to negotiate passing on the incremental cost up chart that we get.

And obviously then we have short term business. I wouldn't really call this spot business, but it is non-contractual business and for those sort of commercial transactions, we are able to pass on the full increase of raw material cost as we get them. So, it’s sort of bifurcated situation. But definitely we are in a position to move a good part of that cost forward. At least we're trying to. But there's no automatic mechanism per se.

Pia Aaltonen-Forsell

Sorry, excuse me, Seth, if I may still add one more element that seems quite relevant actually to mention right now as we have seen really rapid increases in the Ferrochrome prices and that is to say that you know that the benchmark pricing mechanism here obviously will bring some change to the price from Q2 like 1st of April onwards. So, clearly not for that part of the business which is a fairly significant part of the business. There is no change.

So obviously then for a smaller part of the business where the Chinese spot price might be relevant, you could see some uptick, but this is even something that we commented in the report that these price increases in Ferrochrome shouldn't give any kind of material impacts in the first quarter.

Seth Rosenfeld

Thank you. If I can just ask one follow up. In Q4, I guess the scale of beat versus your guidance that you gave midway through the quarter is obviously phenomenal. It’s very impressive. I’m trying to understand the guide to Q1, I guess it goes back to understanding why on earth do you beat the original guide for Q4 so much? Was it just ultimately better fixed cost leverage or was it an environment where there was some tailwind of lower cost scrap in inventory that ultimately contributed to the margin expansion beyond what you would have talked about just a few weeks previously?

Pia Aaltonen-Forsell

I would say from the impacts, I would also highlight a very good performance on scrap ratios in the melt shops, and I think you might see here some links to being able to operate on close to full speed but at the same time obviously it’s been on the back of us having a good scrap availability, and we could do this because we could react quickly. We saw the markets recovering then during the quarter and we were still able to act and take benefits of this. So, I think if your question is that did we have something sort of inventory that we could use that would really have caused this effect? I don't think it does, but I think it's a quick reaction having scrap availability and then having really good metal performance as well.

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So that's one really good and big area there and also you did mention the fixed cost absorption, and I think it's an important element there, so those are, on the cost side, at least a few of the real highlights.

Seth Rosenfeld

Perfect, thank you.

Operator

Our next question comes from the line of Ionnis Masvoulas from Morgan Stanley. Please go ahead.

Ionnis Masvoulas

Yes, good afternoon and thanks for the presentation. Just two questions from my side. The first following up to some extent of Seth's question in Europe. I think of the call we had earlier in January. You talked about potential for some pressure in some of the contracts you would be signing in Europe for 2021. Just to reflect, the dynamics that we saw in the latter part of the year.

So, the first question or part a of the first question would be here; just in terms of volumes. How much contract versus spot business we should be expecting for this year? Like a rough percentage would be very helpful. And have you managed to reflect some of the improved spot dynamics towards the end of last year in those negotiations? Or should we expect a bit of margin pressure year over year when it comes to the contract volume? So, I guess I'll stop here for the first question. Then I have another one on Ferrochrome. Thank you.

Heikki Malinen

Right, Ionnis. So, in terms of the contracts, they are primarily negotiated in the first quarter, and obviously those types of contracts are important for all suppliers. It was a very competitive quarter, I would say, in terms of contract business. Roughly speaking, contract accounts for about half, 50% roughly, of our business in Europe. It changes year by year, but that roughly 50% would be sort of a nice round number.

And then still coming back to this question about the cost pass through. So, the contracts do have mechanisms. They vary by customer, by industry, by segment, and obviously there is a negotiation process. It depends a bit on our ability to negotiate with the customers to pass on those costs. So, there's no automatic mechanism. You have to work very hard to get that through, but it is - we believe it is doable to a large degree.

Ionnis Masvoulas

Okay, that's clear. Thank you. And the second question on Ferrochrome. Looking at the external sales, I'm trying to figure out how much exposure you may have to the surge in Chinese price. And you mentioned that you realised you're not going

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to get a benefit in Q1, but as we go into, I guess, Q2, in terms of that external part of sales, what sort of leverage do you have there? And can you shift some of the external volumes more towards Asia due to benefit or do you have some sort of contracts that restrict your ability to shift volumes and capture that opportunity?

Pia Aaltonen-Forsell

Maybe if I can sort of turn the clock back a little bit to our previous call and also when we described our strategy and then we said that what we really are targeting is to look for more contracts and less spot sales and obviously that's been the way how we have approached the year. So, I think that in terms of the external sales it is very relevant to look at the benchmark price. Obviously, I don't want to speculate what it will be on 1st of April but I guess it would be unheard of that there would not be sort of a connection to the spot prices somewhat.

So, I think that's why it's an important timing question, of course, to see that we would expect then Q2 to have more impact from this Ferrochrome price increases. I'm not saying there wouldn't be any on spot price, but it has been the direction that we took last year to really try to have more long term commitments and sort of contracts that would then typically be on the benchmark pricing.

Ionnis Masvoulas

That's clear, thank you very much.

Operator

Our next question comes from the line of Anssi Kiviniemi of SEB. Please go ahead.

Anssi Kiviniemi

Thanks, it's Anssi from SEB. Hi, guys. A couple of questions from me. I will take them one by one. First starting with working capital. On payables, there were quite elevated levels. I guess the restructuring effect can be seen in there, but is there anything other impacting that balance sheet line? Thanks.

Pia Aaltonen-Forsell

Thanks, Anssi. I think it's actually fairly simple. More volumes, ramping up our ability to purchase scrap, and then doing that also kind of towards the latter part of the quarter. So clearly increases our payables. Quite short story.

Anssi Kiviniemi

Okay, thanks. And then on the working capital outlook. Q1 is working capital heavy and we're going to see a negative [? inaudible]. But is it a typical pressure that we see in Q1 year after year or is it due to the fact that the working capital is already at quite low level, the pressure is tougher on the cash flow. How should we look at the dynamics there?

Pia Aaltonen-Forsell

Anssi, I think it's typical. I think we've seen this increase simply because the seasonal impact means more volume in Q1 than typically from previous years actually also into Q2. So that means that we really try to make sure that we are already there as well for the summer season. And have things available also towards the end of the first quarter. So, I think you can go many years back and you will see that seasonal pattern. I would just remind that year end of '19, we had inventories of 1.4 billion. Year end of '20, we had 1.1 billion and I think we had an even lower level there during Q3. So, I think we have learned to operate now in these lower levels, and we should just be ready to accept the same sort of seasonal deviation in Q1.

Heikki Malinen

I would just say that the big applications - home appliances, automotive - are strong and the demand is robust enough so that as said we're able to run our plants very well at the moment.

Anssi Kiviniemi

Okay, thanks. Then a couple of questions on the costs. In Q4 you executed the restructuring programme. How should we look at the benefits Q1 onwards on a quarterly level? What's the boost? And also, on slide number six, you showed the 2020 EBITDA bridge cost supported heavily the result. How much of these costs, let's say, that were partly related to COVID-19 will come back in 2021? Thanks.

Pia Aaltonen-Forsell

Thanks, Anssi. Those are all sort of super relevant questions. So, first of all, if I just look at what type of measures were really temporary. So, I think I pretty openly described for example, in the case of Americas that maybe we had there - you saw some rebound of cost in the fourth quarter due to the fact that some of the cost compression actions were reversed in the fourth quarter. You can see the size of the bridge there, and I think you also saw a really good volume in Q4. So, that probably gives sort of a short answer to something that we have now already seen.

And then obviously continuing the strategic initiatives and the further cost savings for the long term also to 2021. So, I think that that may be one part of the answer. And sorry, could you repeat your first question. I didn't have the time to write it down.

Anssi Kiviniemi

Yeah, the first question was about the restructuring executed in Q4. So, how much of quarterly boost there's going to be from those costs?

Pia Aaltonen-Forsell

Yeah, I think it's a – if I just look at the current projections that we have, we expect that a big part of the cash out will be during the first quarter - sorry, first half of the year. So, this means usually - not in every case - but usually these go hand in hand in the sense that at the point where we have concluded and signed there is the cash out and it also usually then means that the impacted individual would be leaving.

So, there is quite a lot of movement here and quite a lot of things that are happening in the first quarter and the second quarter, but overall these impacts will still continue through the year.

Anssi Kiviniemi

Okay, thanks. Then the last question was on profitability in Europe. You highlighted that perhaps the profitability improved mainly due to your own actions and of course due to volumes and also give an indication that you don't see any margin squeeze going ahead. But is there opportunities to make more margins with the increased stainless prices and perhaps the dynamics with the usage of scraps? Or how should we look at the underlying margin in Europe when we enter into 2021?

Pia Aaltonen-Forsell

A few elements that I think are relevant, but we don't have a price forecast per se that we would give here. But I think first of all, precisely as you said, and I think this is a strong message for us: we do not see a risk for a margin squeeze in this market environment. So, I think it is fairly visible to everyone how the metal prices are increasing. Then if we say that, 'Okay, could that give some further opportunities?' Just on a general level, of course this kind of market environment would be the one where also some positive movements or I would just say some gaining back some of the depression that occurred during 2020 could be possible, but I think that then, in the end it's up to every individual negotiation. So, there's plenty of things that need to happen there. And I wouldn't like to conclude on that at this point in time.

And then maybe still finally a bit on the mix. So, I hope to share sort of the good news in in terms of some improvements when it comes to the value and here those are always really important for us in Outokumpu but at the same time I don't think that we can expect to get back to the kind of pre-COVID levels, at least not yet in Q1. Maybe this will even be delayed to further in the year. So, from that perspective the kind of mix boost here will be gradual more than kind of a rapid increase as far as we can see at the moment.

Heikki Malinen

Yeah, the pro-business – the pro-grade business; of course that is - a good part of that is project business and for example if you take the oil and gas industry, which is an important area for the pro-sector. So those projects of course they are large, but the timing exactly is uncertain, so we may see some of them starting to come as oil price goes up even further in Q2 or even later, this part of the year, or maybe going into 2022. But overall, as Pia said, the share of pro grade is still less than what we would like it to be, and we are actively searching globally for new opportunities to sell that capability.

Anssi Kiviniemi

Okay, that's all for me. Thank you very much.

Operator

Our next question comes from the line of Luke Nelson of JP Morgan. Please go ahead.

Luke Nelson

Hey, Heikki and Pia. Thanks for the call. My first questions just on Ferrochrome and again the price effect looks to be slightly negative versus Q3. I'm just trying to frame your comment that you made earlier; looking to get back to more contract-based business. In 2020, I think it looks just based on the waterfall in the quarterlies that there was actually a net negative effect from pricing and mix over 2020 over a time when the contract price actually increased over 10 cents a pound. I'm just trying to think about what the mix effect will be in Q2. Should we expect, assuming pricing's flat, a catch-up for the lost mix effect over 2020, or should we expect a smaller effect from that over 2021? That's my first question.

Pia Aaltonen-Forsell

So, I think what's happened during 2020 was obviously lower volumes than expected. When the plans for the year of 2020 were made up, they were definitely quite significant volumes allocated into our internal stainless business, and those were then lower than anticipated, both in Q2 and Q3. And that led to higher exposure to the spot market that was not planned initially. So, now when we have planned for 2021, obviously, in the same way again we have tried to find sort of the best, positioning here. How much do we want to sell internally? What will be the external exposure? And I would say also the demand situation is quite different, so at the moment with the demand for Q1, it looks as if our original plans for internal sales are more than there, so to say. And that would mean less exposure to the spot market.

So, then you are actually asking a really difficult question that would I then say something about whether we are catching up or not. You know that these spot prices are now also changed a lot. So obviously during 2020 we had the really negative impacts there from low spot prices, and so this was like a hit in the terms of the mix. As we speak and today as you know spot prices are really, really high. So, therefore I guess the answer to the question also really depends on what would the relevant prices before those two different measurements then in Q2, and that's obviously I don't know yet, so that's why it's a bit difficult to answer your question.

Luke Nelson

Okay, [inaudible] then still the sort of historical sensitivity, I think it was 10 cents equals ten 10 million euros per quarter. That is still relevant, but it sounds like maybe the underlying normalised sort of profitability has maybe reduced relative to the 2019 basis. Is that roughly how we should be thinking about it?

Pia Aaltonen-Forsell

It's overall - that sensitivity still remains. So, I mean that's still the values that we are discussing there and then if you consider whether the underlying profitability is the same or not, I would say the kind of main factor that is varying here as well is then what type of maintenance breaks and how big and in which quarters we have. So that's just another element that just would need to be considered as well. Overall, as you could see from the charts, obviously the profitability of Ferrochrome has remained fairly flat or gone sideways from '19 to '20.

Luke Nelson

Okay, no, that's really clear, Thanks for that. The second question is just on the 2022 targets and apologies if I'm [inaudible] the Capital Markets Day presentation. Just on the annualised run rate, is it possible to give a bit of colour of the breakdown by division but also the contribution between sort of cost out relative to product and product mix effect?

Pia Aaltonen-Forsell

So, sort of big picture, we have the three key areas of the 200 million euro run rate improvement, which then on a global level or Group level are the commercial initiatives where really these mix improvements are really of key element of that. About one third of the 200 million, the cost and capital discipline where we have a lot of improvement for example through raw material efficiency or maybe some other procurement benefits, maintenance costs, other costs, et cetera.

That's one third and then we have the lean and agile organisations where we have already gained a lot of speed in the execution during the fourth quarter, the remaining third. So, that's sort of the global view of what we have presented and then when it comes to the split by BAs, we haven't given targets by BAs, per se, but I think it's to some extent definitely comparable to the scale of the business, so I think it goes without saying that we have a really significant part of the improvement into BA Europe.

But in BA Americas as well, we are continuing the turnaround and we have several more initiatives, for example, on the commercial side that are really relevant also for the Group level; a 200 million euro improvement.

Luke Nelson

Okay, great. And final question. Just on your comment around leads times in Europe and the Americas which are extending into end Q2, how should we be thinking about the price effect assuming there is a sustainable improvement going forward? Does that mean that the given the longer lead times there's potentially more of a lag and any meaningful improvement in pricing might actually be a Q3 affect? Or can we expect Q2 to show improvement in pricing quarter on quarter? Thank you.

Pia Aaltonen-Forsell

Look, I think the pricing mechanism in Europe now being so much tilted towards the effective price. Of course, it means that for good where we already have contracted, we have also agreed about the price. The situation is different than for the part where we have the alloy surcharge and that would still be the sort of normal way of doing business in America. So, for example in Long Products. So, we have those elements as well in the Group as well in BA Europe. But I think fundamentally of course if we have already agreed on prices, we have agreed on prices and they are now in our books.

And then we are starting to book towards end of Q2 and of course then soon into Q3. So, I think just conceptually you are right in that sense that you have to take that into account.

Heikki Malinen

But if you look at the average price for the business area in Europe, for example, clearly standard grade demand is accelerating more rapidly than for the pro grades, which of course have higher prices. So, I guess until we see the pro grade business really pick up, which is still sometime in the future, the average price of the business will be more tilted towards standard pricing.

Luke Nelson

Great, that's clear. Thanks a lot.

Operator

Our next question comes from the line of Alan Spence of Jefferies. Please go ahead.

Alan Spence

Thanks. Good afternoon. Most of my questions have been asked. I've just got two quick ones and I'll do them one at a time. So, the first one is around shareholder returns. Can you just talk about perhaps the absolute net debt levels or those leverage ratios that you would need to see 12 months from now where you would feel comfortable resuming the dividend?

Pia Aaltonen-Forsell

Alan, may I just say that from sort of a Nordic corporate governance perspective, you are asking us as management a slightly difficult question because we do have to sort of rely on the board statements here and I think at least to me the board statements have been sort of clear on the fact that with the sort of current financial standing or situation, a dividend is not preferred or not proposed.

So therefore, I don't have sort of an exact figure for you. I think what we are working towards with our financial goals. The leverage below three at the end of 2022 and that gives us a clear direction where to go. And the 200 million euro EBITDA improvement of course as well then - when achieved by the end of 2022 - will give us quite an improvement also then down to profit before tax and net profit levels. But that's really all I dare to say.

Heikki Malinen

Yeah, I guess what we said in November when we had a strategy presentation was that this part of the strategy which is the nine quarters towards end of 2022 really focuses on deleveraging and de-risking the company and that is really the priority of everything we're doing here. And the board also stated that they are very supportive of really now de-risking and deleveraging the company and they will prioritise decisions which allow us to achieve that objective. So, no other comments have been made by the board with respect to this dividend question beyond what I just said.

Alan Spence

Okay, fine. That’s clear. And the second one is just around CapEx. I think from the CMD - correct me if I'm wrong - I think the next couple of years were going to be capped at 180 million. So, should we take 180 as the guidance for this year or is there some potential that it could be below that?

Pia Aaltonen-Forsell

I think that's the correct assumption and I would still remind of one of the details that we also shared in the Capital Markets Day, which is that we still have the DeepMind project ongoing, and it is still a substantial part of the 180 million also through 2021 and actually through 2022 as well. So, that means that the other parts of the CapEx are actually very much under scrutiny to reach 180 and that is the expectation that you should have for 2021 as well.

Alan Spence

Okay, great. Thank you very much.

Operator

And we have time for no further questions, so I'll hand back to our speakers for closing comments. Please go ahead.

Linda Häkkilä

Thank you all for your very good questions and thank you Heikki and thank you Pia. Before we close the event, I would like to remind you that Outokumpu will publish its Q1 result on May 6th, but now thank you once again and have a great evening.