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# EDITED TRANSCRIPT

Q2 2020 Outokumpu Oyj Earnings Call

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## PRESENTATION

### **Marja Mäkinen** *Outokumpu Oyj - Head of IR*

Good afternoon, everybody, and welcome to Outokumpu's January-June 2020 Results News conference. My name is Marja Mäkinen. I'm from Outokumpu's Investor Relations. Today, our results will be presented by our President and CEO, Heikki Malinen; and our CFO, Pia Aaltonen-Forsell. After the presentation, we have time to take your questions from the online audience as well as from the telephone lines. (Operator Instructions)

Before we start, I would like to remind you that we may be stating forward-looking statements, and we have a disclaimer for that on the presentation.

But now I think we are ready to start. Heikki, the floor is yours.

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### **Heikki Malinen** *Outokumpu Oyj - President & CEO*

Thank you, Marja. Good afternoon. My name is Heikki Malinen, and it's a pleasure to go through the results of Outokumpu today with you. I hope you like the new format, this webcast that we'll be using from now on.

The last months, I guess, we've all been struck by COVID. I hope all of you, your families, your friends have stayed healthy, and you've been able to manage through these fairly challenging times. Let's stay vigilant and try and keep all of ourselves healthy going forward.

As you know, I started in mid-May. On the 15th of May, in fact. And Roeland Baan handed over the baton to me. Since starting, I have taken a deep dive into the operations of Outokumpu. I visited a number of our sites in Europe, and I've had discussions with significant numbers, large numbers of employees both here in Europe and North America and elsewhere to get as good overview of the company situation as possible. My first impressions are positive. We have good assets. We have talented people. We have a good market position. And I feel that within Outokumpu, we have a get-things-done mentality. So these are good foundations for the next part of the journey. But as we can see from the second quarter results, the trade issues, combined with the challenges that COVID or corona poses to us, really, really make our environment fairly challenging. In the second quarter, in addition to that, the ferrochrome market was not as robust as typically we would have liked it to have been.

Clearly, our results are not sufficient. I recognize this. I also recognize that we have leverage. And in this circumstance, in today's market and in a possible post-COVID environment, the leverage is more than it should be. We have initiated a strategic review of the company here over the summer months. And as said, we're going through the whole business. I'll talk about that a bit at the end of the presentation today, and our plan is then to communicate our way forward before releasing the Q3 results this autumn.

Let me now go -- start going through the presentation, and I'll take us first to the slide that just briefly discusses the highlights for the first quarter -- sorry, for the second quarter. So as said, the results have been impacted by a fairly weak global demand, which is resulting

from COVID. On the safety front, I'm happy to say that we have made very good progress. Over the last few years, safety has been our #1 priority, and we have numbers to show that we're really having impact in this area.

In Americas, we were able to improve our breakeven level, and that is really a result of substantially -- really hard work. If you looked at the first quarter results in the Americas, I feel we were really on a good track before COVID hit. But the fact that we were able to still generate a small EBITDA number in the Americas in the second quarter shows that a lot of good stuff has happened in our business over there.

Import pressure, combined with a weak market, continue to damage the European steel market. And of course, it's a big theme for us and our industry, a topic worth discussing still more today.

Our order book started to improve towards the end of the -- or during the end of the last quarter. And obviously, there are some green sprouts. But whether a bigger turnaround comes, we will then have to see. And our Long Products, we have initiated the strategic review earlier this year. As I joined Outokumpu, I decided to change management in the business and take a look at the business with a fresh pair of eyes. But we're still committed to come back to you with our point of view on how we go forward with this business still before the end of the year.

Now then if we go to the next slide and just talk briefly about how we are responding to COVID-19. So as said in the previous quarterly results, we really have been awake and tried to address the situation very quickly. On the safety front, we've taken strong measures, and I have to say that we have been able to keep our operations running fairly smoothly. And to a large extent, our employees have remained healthy.

On the operations side, due to lower capacity utilization, we have taken necessary measures, whether they be some temporary shutdowns, codetermination negotiations or other measures to manage with a lower utilization rate. Inventory management, supply chain management is key. We worked very hard to try and find the right balance in terms of inventory given the lower demand available.

On the balance sheet and on the financials, as you are aware, we were able to mediate EUR 125 million convertible bond issue in July. In terms of cost reduction, we've taken out about EUR 20 million of costs in the second quarter. And then in terms of CapEx, last time, we talked about the level of CapEx for this year. I can confirm to you that we will stick to the EUR 180 million guidance that we gave in the first quarter.

As you know, we have a couple of major investments ongoing. We are doing a fairly sizeable investment at our Kemi mine, our deep mine project, and we are also doing an investment in -- at Calvert in the area of ferritics. And in addition to that, we have certain IT-related projects ongoing. And in addition to that, we are continuing to reduce our net working capital in the amount of 100 million.

In terms of sales, as said some signs of pickup, both in Europe and in the United States and Mexico, primarily in the areas of appliances, a bit in medical, some positive signs in automotive. But on the project side and on the industrial clients side, fairly weak.

Then looking at the results for the quarter, the EBITDA levels. So our EBITDA for the second quarter was burdened by weak global demand, which was caused by the pandemic. Our group adjusted EBITDA amounted to EUR 45 million in the second quarter. If you look at what are sort of the drivers of the change, looking at the right-hand graph here, that's available to you. So obviously, the biggest sort of impact came from lower volumes. And if we look at the amount of volume decline we saw, well, compared to the first quarter, our volumes declined in the amount of about 11%, and then if we compare to the second quarter of '19, about 10%. So no surprise in the sense that customers are buying less now.

On the pricing and mix side, we had weaker raw material balance. When plants are running at much lower utilization level, of course, it impacts the ability to use scrap, it impacts yield and overall raw material efficiency. There was, in terms of product mix, no major changes.

Then as you can see from the bar, some positive from net timing and cost of hedging -- net timing and hedging. On the cost side, I

already mentioned the EUR 20 million cost reduction. And then in terms of ferrochrome, it's worth saying that, while we saw some improvement or pickup in benchmark prices for ferrochrome during the second quarter, we actually had a higher share of spot sales of ferrochrome products.

Then a few words about pricing. I guess, the key message here really is just the direction of the graphs on the left-hand side. We had already, since we started to see these trade, let's say, measures across the world in 2018. 2019, we started to see a downward trend in average price levels. It is evident that now when you add COVID on top of that, we're seeing further decline in pricing. And in Europe -- in particular, in Europe, we have seen a further price pressure.

In nickel, we saw a minus 4% change quarter-over-quarter. And as I said, in ferrochrome, we saw a 13% pickup in benchmark prices. However, as mentioned, we did have more sales into the spot market during that time frame.

Then a slide on import pressures. Of course, if you look at import pressures and you combine that with the weak demand, that is really a challenge for the European steel industry. During the second quarter, the import levels from the third countries in cold rolled were about 23%, somewhat less than in the previous markets. But you have -- previous quarters, one has to put it into the context of what is the overall demand situation. In the U.S., the amount of imports is clearly less than we see here on the European side.

Then 1 final slide on the import quotas. As you know, during the first days of July, a new regime came into place. The current setup is still valid until the end of next year. So in June of '21, the current safeguards will expire. Anyway, on the 1st of July, we saw a new regime, which meant that the overall EU quotas were increased by 3%.

If -- on the left-hand side, you can see for cold rolled, the bars -- basically, the number on the top of the bar gives you the quota amount in terms of kilotons for each of the respective importing countries, and the blue color here tells you how much of that quota was actually used during the first 33 days. And on the right-hand side, the most right bar, you can see that the residual quota was used up completely in the first days of the month. Clearly, there must have been a sizable amount of inventory waiting outside EU to be then imported into the market when the new month started.

So that's all I want to say at this stage. I'll come back then towards the end to answer questions and also talk a bit about the guidance and also the strategic process going forward. But now I hand it over to Pia. Welcome.

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Thank you, Heikki. And dear friends, good afternoon or good morning. And I certainly hope you are all doing well. So let me see how I can use the clicker here now so we can move a bit towards the financial update. And let me start with just the key figures really, in essence and in summary, a story of the top line of the deliveries.

You can see here the Q2 volumes, a low level of 523 kilotons of stainless steel deliveries. I mean that's 10% down year-on-year, 11% down compared with the first quarter. And I think this is probably a lot in line with sort of also the general statistics that we see about the market.

And I thought of maybe discussing a bit more the segments and how really this journey through the second quarter has developed in terms of different customer segments and also how we see the order intake right now, but I'll get back to that a bit in the BA comments.

If I think about the impact on our adjusted EBITDA, it's clear that particularly the lower utilization rates are a bit of a burden, and it's really the volume impact that has hit us compared with the first quarter. And also, as Heikki alluded to, definitely in ferrochrome, there's been a little bit more of the spot sales impacting the result.

I think I want to get back to the cash flow figure. We'll go through that a bit more in detail in one of the slides. I think one of the good points of the report here is that you can see that our net debt level has remained stable compared with the previous quarter, and that's definitely been on the back of quite a lot of actions relating to working capital as well as the CapEx scrutiny that has helped us through this period.

So let us then talk just a little bit more about the BA specifics. And what you see here is business area Europe. You can see the development of the EBITDA from a level of EUR 67 million in the first quarter into then EUR 30 million for the second quarter. And I think this is very much a story of successfully being able to counteract any impact from COVID-19. So our operations have been running actually in a very smooth way but, of course, with a lot of precautions, a lot of actions during this pandemic period. However, our utilization rates have definitely been lower and -- even though we see a lot of measures in preserving costs. I mean just really a tight cost squeeze during the quarter, very much also in Europe. I think here in Europe as well, you do see the impact from some more maintenance during the second quarter, quite atypical. So the seasonal pattern that we would have some maintenance during the summer. We've had some maintenance in Tornio, we've had some maintenance in Avesta that's pushing the cost up a bit quarter-on-quarter.

So if I think about, so to say, the journey through the quarter on deliveries, I think the first impact -- I mean, who was first impacted by COVID-19? Clearly, the end use segments. I mean, we've seen it all over the news with the automotive being down, also on the appliance side where through the quarter, we have seen the distribution being somewhat more stable. And clearly now with sort of things developing, Heikki did mention that in terms of the order intake and how we see the situation right now, we see some of these end use segments all very -- not maybe the green sprout is then -- or green shoot is the right word, but we clearly see them returning now after being, so to say, on a lower level through the quarter. And obviously, that has some impact on the margins as well.

I think we also can see the main impact that you see on the group of the weaker raw material efficiency. It's visible here in BA Europe, and this is all related to the lower utilization rates, as Heikki has already mentioned.

So all in all, I think going through a very strange quarter in many ways, very much a very special sort of pandemic quarter, I have to say that our actions to really fight this back have been very strong and now definitely helped us through the quarter. But the situation remains fragile. And as you have seen from our guidance as well, particularly in Europe, we obviously have the seasonality typically into the third quarter. And now the question is how to really then fight back and continue also as we go forward.

The lead times are on a normal level and distributor inventories are a bit higher than normal actually in Europe at this point in time.

Let me then talk a little bit about Americas. So here, I think the real highlight is that you see that we have a positive EBITDA with a very low level of deliveries of 134 kilotons. And I think this is really the journey and the development. I think I've talked about it before for BA Americas, but really getting to that lower breakeven point in terms of volumes, which is, of course, helping us through this difficult period. So you see the negative impact really here from deliveries compared with the first quarter, and then you see also actions to fight back on the costs. I think we have been really taking significant actions in the quarter, and some of these actions can definitely also help us going forward as they then go through the cost of goods sold.

And one more point that I think is worth mentioning is that from a distributor perspective, we are actually at quite low inventory levels in Americas as we speak. So all in all, good fighting back to the corona situation in our BA Americas.

BA Long Products, a weak result, very much driven by weak demand. And if we consider the typical segments where it's automotive, maybe oil and gas, it's clear that there has been a lot of hard-hit segments also in our customer base. That's very visible now in the lower results that we see in the quarter.

And finally, BA Ferrochrome. If we compare with the first quarter, we see that deliveries have been just a little bit lower. We also have suffered from having more really of spot sales through the mix. If you think about the ferrochrome market and the balance in the market, this quarter has also been a lot about the debate about what's going on really sort of COVID driven. Very difficult situation in, for example, South Africa for some of relevant, let's say, market participants. So this balance between the supply and, on the other hand, the demand where, obviously, the overall stainless demand is very much driving this, it has resulted in a somewhat higher benchmark price in Europe. But if you look at the spot prices, they remain on a low level. And you can, I think, also see here some actions in terms of mitigating this through cost actions. And then in our guidance, I would just remind that the maintenance efforts in ferrochrome in the third quarter will be quite significant. So that's really the period when we will have the major shutdowns this year.

So here on the cash flow, so I promised to say a few more words on that. We have been really actively both fighting back through the quarter. So we have clearly been able to lower our inventory levels, kept very good control as well of accounts receivable, which, from my perspective, is important in this sort of pandemic time. And I think we have been trying to look for the really optimal balance of how to be able to have the service to our customer but still be at as low inventory levels as we can. And I think we've been successful. It's visible here in the EUR 93 million positive quarterly impact. And I would still remind that as we are looking for the EUR 100 million impact for the full year, we now have a good starting point after the first 2 quarters. And then seasonally, typically, we have always been going towards lower inventory levels and working capital improvements towards the end of the year. And then the CapEx estimate remains at EUR 180 million. I think Heikki already discussed this earlier.

I think this is my final slide. Just then a reminder of how we can see the debt development. Obviously, now COVID-19-related demand situation has impacted as well the cash flows. And clearly, you can see this then in the debt level remaining at the same as before, but I think that's a good achievement under the conditions. And our focus on really cash preservation will remain very strong.

So at this point, thank you.

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**Heikki Malinen *Outokumpu Oyj - President & CEO***

Pia, there was still 1 slide, you want to go through that. Why don't you come back? So...

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Thank you, Heikki. Okay, well, this is the good news, actually. Not in Q2, however, that was in July. So we've had the convertible bond issue. I think if you've seen the market and some of the issues sort of through the pandemic period, this is one of those instruments that has been used as a mean of really securing that maturity profile of the loans. And I think this is a very good addition, giving us a longer maturity and also, obviously, a good point in our liquidity through this kind of pandemic period. You can see here our full maturity profile, and maybe even to say that in this picture, it's not included yet because this was in July. So maybe that was the reason I sort of almost thought it was your slide.

Maybe I should click now to make sure that I'm moving towards the right portion here.

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**Heikki Malinen *Outokumpu Oyj - President & CEO***

Okay. Thank you very much. Looks good. So a few words -- thank you, Pia. So a few words about the outlook. Here we go.

So the outlook for the third quarter. So due to the global economic uncertainty caused by the COVID-19 pandemic, Outokumpu will not give quarterly guidance on adjusted EBITDA until further notice. The COVID-19 pandemic and related measures are expected to have a significant impact on the stainless steel industry throughout 2020. Due to seasonally low quarter, especially in Europe, combined with the continuing COVID-19 situation, Outokumpu expects stainless steel deliveries to decrease in the third quarter for the whole group by approximately 10% compared to the second quarter. European stainless steel market remains challenging as a result of continuing import and price pressure. The plant maintenance work at the ferrochrome mill in Tornio, Finland, is expected to have approximately EUR 15 million negative impact on the third quarter result. So that is the guidance -- outlook -- sorry, not guidance, but the outlook for Q3 2020.

Now a few words about the Outokumpu strategic review. I mentioned about this in the -- in my opening statements. So since I started, we started to work on the road map for the coming years. Our current vision that was defined in 2016 will anyway expire here at the end of this year. We have initiated a company-wide assessment of strategy -- of our current strategy, our performance and structures, and that's been going on now for a few months. Our intent is to communicate before the announcement of the third quarter results our new vision, our strategy and our financial targets. And we will have a webcast to present these plans to you in the coming period.

With those comments, I think we have covered the presentations. And if I click that, thank you. And I guess, it's now time for Q&A, and Pia will join me here at the podium. Thank you for your interest.

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**Marja Mäkinen *Outokumpu Oyj - Head of IR***

Yes. Thank you, Pia and Heikki. And operator, we are now ready to take the questions from the online -- sorry, for the phone line audience.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) And the first question comes from the line of Alan Spence from Jefferies.

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**Alan Henri Spence *Jefferies LLC, Research Division - Equity Analyst***

I've got three questions, so I'll take them one at a time, and the first one is regarding ferrochrome. You mentioned the higher mix going into spot sales in the second quarter. How big of an impact was that? And do you think that trend will continue in the third quarter?

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. Alan, this is Pia. I think you've seen the bridge, and part of the negative impact that you see there from deliveries is also coming from this mix. So that's clearly -- it's only a fraction of that. I just want to say that what we see, obviously, here is as well lower deliveries from our own mills. So that means that the impact is also partially dependent on then how our own volumes continue forward. And as you can see in our guidance, we still expect Q3 to be approximately 10% down.

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**Operator**

And the next question comes from the line of Anssi Kiviniemi from SEB.

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**Anssi Kiviniemi *SEB, Research Division - Analyst***

Anssi from SEB. Thanks for taking my questions, I have a couple of them. First of all, kicking off with the Q2 outlook. Stainless deliveries to decline by some 10%. Should we expect the typical seasonality in Europe, meaning, basically, European deliveries coming down and perhaps U.S. being more flat or even up? Or how should we read the situation? And what do you see in your order books?

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. Thanks, Anssi. Maybe I can at least start the answer by saying that we've even highlighted Europe a bit here in our guidance just to say it's typical. And actually, I looked through a really long time at areas of the impact sort of from Q2 to Q3 and what the seasonality has been, and it typically has varied 7%, 9%, these kind of step-downs between the quarters. And we know that historically, that has typically been driven by Europe. So I think that's, obviously, sort of the general answer.

And then as you even asked about how we see the order, so to say, intake, and our order book is developing right now. I mean this has been the journey where in April, they were definitely sort of down based on the COVID situation, and there's been a gradual uptick in that. I mean since June, we have seen some improvements, and I think that's the reason and the rationale as well for us to give this guidance that we are having now.

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**Anssi Kiviniemi *SEB, Research Division - Analyst***

Okay. Second one on steel deliveries. We saw a pretty big impact on result in Q2 from lower deliveries. Should we expect similar magnitude in Q3? Or is there something else we should notice on mix or from other parts of the business that impacts the earnings impact from the lower deliveries?

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. Obviously, that's a really wide question. So maybe, Heikki, if I start, and if you feel you want to add something, then please feel free. I think there's a number of things that we would like to highlight. And certainly, you have seen the ferrochrome one, the maintenance one. It is significant. It is EUR 15 million in a quarter impact, so that's definitely a topic to pick up. The other issue is that with the import pressure, obviously, this is true particularly for Europe, and a lower demand combined, I mean, naturally, that puts some pressure on the prices as well. So I think just looking historically at the sort of step down in volumes that there has been between Q2 and Q3, it is clear that, that has some negative impact on the result as well.

**Heikki Malinen *Outokumpu Oyj - President & CEO***

And maybe I would just add that, obviously, in terms of trying to improve the results for the third quarter, so we're, of course, looking at all possible actions that we can control ourselves. One area, of course, is maintenance expenditure. These plants, of course, have to be maintained. Otherwise, at some stage, there would be production problems. But where possible, we will postpone maintenance, if needed, in order to help improve the financial outlook -- I'm sorry, the financial results for the third quarter. But there are limits how far you can go with that.

**Anssi Kiviniemi *SEB, Research Division - Analyst***

Okay. Then just a housekeeping question on raw material-related inventory and metal derivative losses, EUR 16 million. What was the key driver for that? And should we expect a smaller negative in Q3? Or what do you see currently?

**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. Well, I think the typical pattern would be -- I mean, if you look at nickel prices, right now, you see them being a bit on the rise, and that could give some positive impact into this bucket. But I don't want to speculate on what the nickel price will be at the end of the quarter. But with the current pattern, then there should be a little bit of positive boost there.

**Anssi Kiviniemi *SEB, Research Division - Analyst***

Okay. And what was the key driver for the negative impact in Q2?

**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes, yes. I mean there were no big -- I mean, we have a couple of items here. We have, so to say, the price in, price out difference. We also have really sort of accounting-related NRVs and then hedges. And I don't think that any sort of category really stood out or was sort of a big topic. There were not sort of big hedging impacts, also not big accounting impacts. So it's really more sort of the typical, what I would call, timing kind of areas. But not that significant.

**Anssi Kiviniemi *SEB, Research Division - Analyst***

Okay. And then the last question, a quick one. You have indicated that you have these different scenarios and we'll be just fine even in the most adverse scenario. Now you highlight that there's a task force around these different scenarios and financial arrangements. Has the situation changed in any way? Or are you just kind of -- are you indicating anything? Or kind of what's the situation there?

**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. Anssi, no, it's a good question. And maybe just to clarify, I mean, the scenario modeling was something we really started based on the COVID situation, and we have continued that. And we follow this sort of, may I call it, kind of McKinsey logic with the different recovery paths. And what we are seeing right now is maybe turning more into kind of the -- is it leaning a bit more towards the U? At least, not sort of the really fast V. Maybe even -- in some categories, it could be more of a V, but maybe we're kind of leaning a little bit more in the U direction. But I think there is not a direct link.

With that, Heikki, maybe I'll just hand over to you because the review that we are doing right now is more profoundly on the strategy, and that entails a lot of elements. It's not particularly only a financial review.

**Heikki Malinen *Outokumpu Oyj - President & CEO***

Right. So I guess, the big question is what is the letter? Is it a W or it a V or something else? So I guess, what we are sort of starting to see signs of is that if there is -- when there is a recovery, that we might see some more robustness here on the European side. Some sectors in the U.S. actually might take a longer period to recover. Of course, that very much depends on how the COVID pandemic continues to go its way in the U.S., but at least that is sort of the -- there may be a difference in terms of how it impacts the markets with Europe, hopefully, a bit better. But we will see.

In terms of the strategic analysis we are now doing, of course, we are trying to create as realistic view on what will be the world like in the



coming years. We're doing a lot of analysis based on end user markets to see sector by sector how we believe that these would recover. And therefore, from there, work backward on what type of financial setup we need in the company to make sure we manage the coming years. But we'll come back to that in the -- later this fall.

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**Operator**

And the next question comes from Seth Rosenfeld from Exane BNP Paribas.

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**Seth R. Rosenfeld Exane BNP Paribas, Research Division - Research Analyst**

If I may, I have two questions, please. First, a simple one with regards to the one-off gains you reported in Q2 of, I believe, EUR 8 million. Can you just clarify like what was included in that? Were any of those part of your COVID response? And will they continue into Q3?

And then my second question, please, is when we think about kind of some of the internal efforts to offset -- or because of, let's say, the lower volume environment, obviously, Q2 shipment seem to come at the better end of your guidance range, but we did still see results burdened by a number of kind of unique operating challenges. And you flagged raw materials efficiency being weaker, maintenance costs actually going up in Europe and also the weaker product mix. Just to understand, do you expect any of those 3 factors to reverse going into the third quarter? Or on lower volumes, we actually see each of those exacerbated and then get worse?

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Great. I need to check. Sorry, Seth, you talk about the one-off gains, but our adjusted EBITDA and EBITDA were on the same level. So I need to clarify that. I mean we did have actions of about EUR 20 million in the quarter. But maybe could you ask that again, please?

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**Seth R. Rosenfeld Exane BNP Paribas, Research Division - Research Analyst**

Yes. Sorry, in the bridge year-over-year, you referenced EUR 8 million improvement in one-offs, if I read that correctly.

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

So those could also be just some sort of bridge impacts not repeating vis-à-vis the previous quarter. We had, in that sort of other bucket, some FX-related gains, et cetera. So obviously, you -- there is no telling exactly where the Mexican peso, for example, is moving. So I don't think that there is kind of a repeat pattern in those, if that was your question, yes.

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**Seth R. Rosenfeld Exane BNP Paribas, Research Division - Research Analyst**

That's very good. Yes, it was referenced in the bridge regarding Q2 year-over-year performance, saying there are one-off items of EUR 8 million. But perhaps there was some alleviation of prior one-off losses. That's fine. Can you answer my other question, please?

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Then at your other questions, I think you highlighted a number of other topics that we have described for the second quarter, for example, the raw material efficiency and the maintenance, et cetera. And I think maybe to repeat a few of the key messages there on maintenance, I mean, obviously, ferrochrome, a big add, EUR 15 million in the quarter for Q3. For all other maintenance, we are being extremely restrictive in evaluating that. But I think it is like Heikki already said that there is no situation where we could do absolutely no maintenance. So there will definitely be some work carried out as well in the third quarter. And you know that in the second quarter, we had specific actions of EUR 20 million, but they were pretty much mitigated, not fully, but pretty much mitigated by more maintenance.

You know that in Europe, it's sort of -- this summer period is typically a period for some breaks and holidays, so obviously, that has also played into the timing here.

I think that in terms of raw material efficiency and your other questions, we're working hard to mitigate those. But looking at the volume guidance, it also means that the level of lower utilization seems to continue in this period.

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**Operator**

And the next question comes from Ioannis Masvoulas from Morgan Stanley.

**Ioannis Masvoulas Morgan Stanley, Research Division - Equity Analyst**

Yes. I've got two left. The first on the Longs business review. You suggested that you're still planning to come up with an announcement by the end of the year. Do you see any risks to that time line given the COVID situation and how that may delay part of the review and potential strategic solutions?

And then secondly, with regards to the Americas business, you indicated a weaker product mix in Q2. Can I just ask is that mostly seasonal? Or is it due to COVID? And in the latter case, would you expect any improvement in the third quarter?

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**Heikki Malinen Outokumpu Oyj - President & CEO**

First comment on the first one. So I think the only thing that -- well, let me say -- let me put it this way, we basically have put on a team and hardwired the process to come up with a clear road map and answer on the strategic review. So I'm confident that we will be able to meet the time line. And hopefully, we'll be able to come back to you clearly earlier than the end of the year. So we are working very hard, and so I'm not concerned on the LP review.

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Good. And then in terms of the Americas product mix, yes, it was a little bit weaker in Q2, but it was not a significant impact. And I would say some of this is really the sort of small shifts that we would have in this sort of pandemic period. There is nothing structural going on there. So to answer your question on Q3, I think I need to leave it a little bit open-ended. Small shifts could occur, but there is nothing structural going on.

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**Operator**

And the next question comes from Carsten Riek from Crédit Suisse.

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**Carsten Riek Crédit Suisse AG, Research Division - Director & Co-Head of the European Steel & Mining Research**

A few questions from my side. The first one is you say actually in your quarterly results that you deferred VAT and social security payments. Could you quantify the amount and whether that deferrals will continue into the third quarter? And on the back of it, when do you expect those deferred payments to reverse? That's the first one.

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Indeed. So maybe, Carsten, if okay, I'll just take that question. It's pretty specific. These are a number of different schemes that governments in different countries have put into place. So if I would mention maybe the most significant ones, they do, so to say, move VAT payments over a period of several years. So it means that it is a beneficial program from the perspective of the company. I think we are talking about an amount north of EUR 70 million where, for example, for VAT, we have applied and we have been sort of, say, awarded this right, but it's really going to impact us from Q3 in a positive way. So this is just information about how we have tried to navigate the situation of COVID-19. And then how some of these schemes work is that you have kind of an amortization scheme, and they could actually go over a period of several years.

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**Carsten Riek Crédit Suisse AG, Research Division - Director & Co-Head of the European Steel & Mining Research**

Okay. Perfect. The second question from my side is it looks like that your fixed cost base was less flexible compared to peers. Will that actually be more flexible in the third quarter, as you pointed out, to the 10% lower volumes?

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**Heikki Malinen Outokumpu Oyj - President & CEO**

I think -- so structurally, we are currently reviewing our own cost structures and looking for ways how to also increase the reliability. At this stage, I think we cannot sort of confirm or guarantee anything that will be different from the previous quarter.

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**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Maybe I could just -- I can add really a technicality, which is that you would have holidays typical in Europe, quite a lot falling into the period of Q3. And with that, usually, companies do accrue that sort of through the period of the full year. So that gives a little bit of relief then in the period when you actually are out. So typically, if you look at the pattern, that means some relief in the third quarter. But I mean it's not that -- you can look at the historical facts, it's positive, but it's not huge.

**Carsten Riek *Crédit Suisse AG, Research Division - Director & Co-Head of the European Steel & Mining Research***

Okay. And the last one I have is on the European ones and on the outlook guidance, it's a mix. We have seen in Europe, shipments only down 7%. You clearly outperformed here your peers. But looking into the third quarter, this effect seems to actually reverse and you play catch-up with the volume downside your peers showed in the second quarter, at least. Is that, that you actually -- the market share you gained in the second quarter, you will probably have to actually give it away again after the lockdowns in some other areas in Europe were eased? Is it the right interpretation, or am I wrong here?

**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Well, I would just say that there is a typical seasonal pattern as well that we have seen through the years where Q3 has been always lower than Q2. So I would say, in our own view, that seasonal pattern still exists there. But you are absolutely right on sort of shifts in a very kind of strange quarter with a lot of production curtailments and COVID kind of forces stops in the whole industry. So a strange quarter, and our view is that seasonality will kind of still be there.

**Operator**

And the next question comes from Luke Nelson from JPMorgan.

**Luke Nelson *JPMorgan Chase & Co, Research Division - Research Analyst***

First one, just a follow-up from an earlier question just on ferrochrome and the greater share of spot sales in Q2. I didn't quite catch, can you -- what was -- what are your expectations on how that progresses into Q3? And specifically, your prior guidance is for roughly a EUR 10 million EBITDA impact for a EUR 0.10 move to pricing. Is that a sensitivity that we should be thinking should normalize or use for our quarter-on-quarter bridge?

**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

I think it's been -- Luke, that's been a very sensible and a very reasonable rule of thumb with sort of the normal split and share of sales. And obviously, the difference is that with pricing benchmarks or others, this is sort of more clear that this is the impact that we would expect. And then if you have sort of sudden shifts in the mix, that could be caused, for example, by just lower internal deliveries as well, if our stainless deliveries are down. It's clear that, that has that kind of impact in that very quarter that could as well be negative if the share of spot sales is higher.

So I think it's too early to say that here would be kind of a pattern for the future. I think this is very much pandemic-driven. That's at least my view. I don't know, Heikki if you...

**Heikki Malinen *Outokumpu Oyj - President & CEO***

I would agree. And obviously, in the third quarter, we have the maintenance. So please make a note of that.

**Luke Nelson *JPMorgan Chase & Co, Research Division - Research Analyst***

Okay. Sure. That makes sense. And second and final question for me. Just on the U.S. import penetration rate, I know, clearly, it's a better position than where it is in Europe, but it does look like it ticked up slightly. Again, is that just sort of a COVID Q2 issue that's muddied that a little bit? Or is there sort of anything specific you're seeing in that market that maybe caused that import penetration to tick up?

**Heikki Malinen *Outokumpu Oyj - President & CEO***

We don't have anything specific that would have sort of changed -- anything material that would have changed quarter-over-quarter. I think the key point is that the level is clearly lower than it is in Europe. And obviously, the recovery will very much depend on how these sort of end use markets evolve and how the different end use markets actually buy imported materials. So in some segments, they probably buy more imported product, and in other applications, they buy less imported product. So -- but then that comes into -- we come into the very much detail here if we start discussing that.

**Operator**

And the next question comes from Bastian Synagowitz from Deutsche Bank.

**Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst**

I have a couple of questions left. And just firstly, on the raw material efficiency in the European business, which you said has actually gone worse in the second quarter. I think that's actually been one point where it seems like you did actually fairly well in the first quarter as well as in the fourth quarter of the last fiscal year. So could you let us know, is it basically your scrap rate -- ratio which has come down? Or is it -- has it been also worse terms in terms of scrap purchasing costs? So what has happened there? And will part of that potentially reverse and restored in the third quarter?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Bastian, I mean, obviously, you are spot-on in your historical analysis here. I mean if we look at this sort of through Q4 and through Q1, we were able to get some improvements. And obviously, Q1 was a good volume quarter if we compare with Q2. So I don't think that there is, let's say, a fundamental shift or any sort of structural change in terms of going to lower levels here, whether it's scrap ratio or whether it's other factors, whether it's yield or something like this. But now clearly, we have been, so to say, battling a pandemic situation. So this remains our top KPI, the thing that we are really pushing for all the time for improved performance.

**Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst**

And would you be confident enough to say that, that will improve again in the third quarter?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Talk about the long term, I think we have all of the right things on our agenda. If you talk about a particular quarter, I think it's also sensitive to the very mix, the very customers, the very type of products, everything. So I think it's just a little bit -- there's too many factors to take in to give you a clear answer on that.

**Heikki Malinen Outokumpu Oyj - President & CEO**

And I would say, obviously, the lower the utilization rates are and the shorter the batches of production are, that is not sort of a positive factor for raw material efficiency. So like in the first quarter when we were running more full, able to run longer batches, longer customer runs, that gives you a much better opportunity to optimize your raw material flow, your yield and your scrap rates. So with the declining or lower demand expected, that's not sort of helping the situation in the third quarter.

**Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst**

Okay. That is very clear. And then my next question is a quick follow-up on ferrochrome. And I guess, if I look at the slide deck here, you only show a small improvement in price realizations. And if I hold this against the volume performance and your top line, it does suggest that you probably have been building some inventory, I guess, for your maintenance break in the third quarter, unless I'm missing something. Could you please let us know whether that is what has happened and whether that also means that your shipment volumes in the third quarter in ferrochrome will actually be largely stable despite the maintenance break?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

I mean there's a number of customers that we do need to serve despite the maintenance break, so there needs to be some preparation. But it's been a tough game finding that optimal balance, as I described earlier. So we are preparing in an appropriate way, but probably trying still to keep it at the minimum we can.

**Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst**

Okay. So -- but does that mean that shipments will be more flattish rather than heavily impacted by maintenance?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Yes. I think we are not giving really that detailed sort of forecast information, so I think I just need to leave it there.

**Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst**

Okay. Fair enough. And then my last question, Pia, is probably one for you as well, just on balance sheet. So I mean if we go back, obviously, you always expressed a lot of comfort around balance sheet and your covenants related to the gearing or equity ratio. But then, obviously, the window of strength in the first quarter has not been used to roll over the convertible back then. And obviously, the

timing of the recent convertible suggests that conviction on the balance sheet has probably dropped a little bit. Are you generally still happy with the current balance sheet and to run with it?

And maybe one for Heikki. Heikki, when you think about the strategic journey you're basically embarking on, I guess, you probably have a good idea already. Do you feel at this point that you are appropriately capitalized for the strategy you plan to embark on?

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Yes. So if I just first answer to your question, I mean, yes, obviously, you're right, we paid back the previous convertible in February, and now this new issuance was in July. There's certainly a lot of things that have happened between those 2 dates, for example, the pandemic. So I think sort of given the pandemic situation, at least, I'm really happy with the convertible bond issuance. And I think these are -- we need to pay a lot of focus to our maturity profile, of course, for maintaining liquidity, which, of course, as you see from our figures, is really good at this point in time. But just keeping that up in a pandemic is a key priority, and a higher debt level is more -- something that needs even more focus during this kind of time period. I think I now leave it there.

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**Heikki Malinen *Outokumpu Oyj - President & CEO***

So obviously, we'll come back with a lot of detail when we then present the results of the analysis to you. But I think sort of generally speaking, to your question, obviously, every company, every business has a lot of ideas on where to invest and how to grow. And to your question, it depends then what -- the balance sheet, of course, will impact what type of investments we can make in the future and in what sort of time sequence, but we'll come back with that also. But at least for this year, we're confirming the EUR 180 million, and that's the amount of money we will spend on Capex.

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**Bastian Synagowitz *Deutsche Bank AG, Research Division - Research Analyst***

But at this point, if you look at your balance sheet structure, you do feel that you are appropriately capitalized for essentially what you plan to do?

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**Heikki Malinen *Outokumpu Oyj - President & CEO***

The amount of the -- well, the actions we are going to make, we will present them later. And some of them may have, some of them may not have impact on the balance sheet. I'll have to come back to that later.

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**Operator**

And the next question comes from Ola Soedermark from Kepler Cheuvreux.

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**Ola Soedermark *Kepler Cheuvreux, Research Division - Equity Research Analyst***

Yes. Sorry, I had to come back to the bridge and the impact of the 10% to 11% drop in volumes quarter-over-quarter and year-over-year there. Can you talk a little bit about the dynamics going forward? And should we expect the same magnitude of EBITDA drop when you are guiding for 10% lower volumes in the third quarter?

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**Pia Alexandra Aaltonen-Forsell *Outokumpu Oyj - CFO***

Ola, it's Pia here. I mean, obviously, it's a really valid question. And I think the dynamic of the pressure that you get just through the lost margin when you have a lower volume, I mean, that's a pattern that definitely then -- provided what the margins were in the previous period, that's really the impact that you will see in a bridge like this. And then what's really the topic is what are the other measures that can be taken in order to fight that back? And they can be cost measures, they can always as well be improvements in raw material efficiency or other similar.

So I would say that our efforts are obviously in those buckets that we can touch and that can be helpful. And as mentioned, typically in Europe, you would have summer holidays that would bring some ease on the personnel costs, also being as restrictive as is reasonable on the maintenance front. However, it's clear that there is one more, so to say, potential negative, which is the price pressure that we have described here. So somehow, you need to combine all of those and our efforts need to be in those areas where we can have an impact, and that is not only dependent then on the market.

**Ola Soedermark Kepler Cheuvreux, Research Division - Equity Research Analyst**

Yes. But we are -- if we are talking about volumes isolated, then this is kind of the impact we can look forward to?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Yes. I mean when you -- yes, yes. I mean, partially, we are maybe talking sort of bridge technique here. But the bridge technique is really you look at the loss volume and you look at the loss margin and that's what...

**Operator**

And the next question comes from Alan Spence from Jefferies.

**Alan Henri Spence Jefferies LLC, Research Division - Equity Analyst**

Just one follow-up question for me. Regarding CapEx and the EUR 180 million budget, it looks like the annual maintenance is decently lower than what it previously had been. Is -- the things that you have deferred there, are those items that you're comfortable of getting through this period having not spent on? Or should we assume that there needs to be a catch-up spend in 2021, please?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Yes. Alan, it's obviously -- it's a tough job cutting CapEx in an industry like this. And we have had to take several and very deep and thorough discussions with also all of -- also all other members of the management team as well, as you know, a big number of people in the organization to find that right balance. And obviously, you are right that in some cases, it's more a question of timing, when should you do something. Then for me, that doesn't automatically mean that we just sort of move things into 2021. But there might be a later point in time when somethings will have to be carried out.

**Heikki Malinen Outokumpu Oyj - President & CEO**

I mean there are CapEx related -- I mean, safety-related CapEx, there also legislative environmental compliance-related CapEx that we will have to spend no matter what, and then the rest is something that we are working on. But obviously, if the utilization rates are lower, then of course, it gives you some sort of flexibility on postponing CapEx. But if and when the market, of course, at some stage, clearly picks up, so then that maintenance will be, of course, going up as well.

**Operator**

And the next question comes from Harri Taittonen from Nordea Bank.

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

Maybe time for two questions here still. Looking at the import sort of restrictions or safeguard measures, I mean, one question is the -- about the older antidumping duty regarding the cold rolled against China, which has been enforced since 2015. Is there any sort of news? Or do you see any sort of -- what's going to be the outcome or sort of the potential sort of continuation to that because it's sort of started 5 years ago and it was for 5 years?

And the other question is related to the carbon border adjustment. You mentioned that it takes -- it will take a few years. But are there any kind of, in that process, sort of decisions so far that you -- we could be sort of expecting during this year or earlier that we should be looking at in order to get a feel of where that process is going?

**Heikki Malinen Outokumpu Oyj - President & CEO**

So in terms of the import restrictions, I have no new information on the first question at this stage.

And on the second one, I mean, the thing here is, of course, EU and combined with the WTO, it's a complex organization. And so I think it's almost impossible to project when decisions will be made and also in what magnitude. It seems also there are -- on many topics, there seem to be different points of view among the EU member states. And then it, of course, depends on what is sort of the consensus view. So I'm very hesitant to make any projections on what the outcome would be. But on a high level, as I said earlier, for us, of course, the safeguards expire next summer, and we have to find urgently a solution well before that.

**Operator**

And the next question comes from Seth Rosenfeld from BNP Paribas Exane (sic) [Exane BNP Paribas].

**Seth R. Rosenfeld Exane BNP Paribas, Research Division - Research Analyst**

If I may, just with regards to the strategic review, you mentioned this is going to be announced later this quarter before Q3 results. Can you, at this stage, just give us some framework regarding what's included in that scope? Is this essentially going to be an updated version of Vision 2020 with EBITDA and returns targets? Or are you considering more structural changes, such as whether all of your operating units are still core to the asset portfolio? Just how broad should we consider the work being done?

**Heikki Malinen Outokumpu Oyj - President & CEO**

I don't want to preempt the decisions or the sort of the decisions we're going to take simply because at this stage, we're doing a fairly comprehensive top-down and bottom-up review. We also need to -- we're doing a lot of benchmarking and also a lot of calibrating in terms of the outlook -- we have to obviously have a point of view on what's the outlook for the market in the coming years. And based on that, we are working backward to determine what type of targets, and in particular, what type of actions are needed in order to get us on the -- keep us on the right path going forward.

So sorry, I cannot go into more detail at this stage, but we'll try and get back to you. Obviously, we need to make decisions as quickly as we can, but as I said, before the end of the third quarter, before we come up with the results, you'll hear more.

**Operator**

And we have no further questions.

**Marja Mäkinen Outokumpu Oyj - Head of IR**

Thank you, operator. We have a couple of questions from the online audience. One, if the current market conditions remain until year-end, is it possible you will have to take impairment by year-end? And if so, in what approximate magnitude could those be?

**Pia Alexandra Aaltonen-Forsell Outokumpu Oyj - CFO**

Yes. Well, I think it's one of those things where from just an audit perspective and sort of running a good diligence on our balance sheet, we would be testing even more frequently than at year-end. So I mean we have already tested a lot of assets in Q1 due to the pandemic sort of starting up. We've also tested assets in Q2. So I mean we have reflected the current situation and our current view of how things are developing in those tests. And as you've seen in our results, there has been no report. But obviously, we'll continue to do it. And so it's sort of a process that is now much more frequent because of the pandemic.

**Marja Mäkinen Outokumpu Oyj - Head of IR**

Thank you. And the next one, how do you see inflation coming into the metals? And when do you see stainless steel prices going up in a meaningful way?

**Heikki Malinen Outokumpu Oyj - President & CEO**

We cannot forecast on that. Obviously, metal prices are a function of demand/supply and also, to some degree, on how the exchange rates vary. Those are the primary drivers. But we -- I cannot forecast on what happens to exchange rates and supply/demand at this stage. But those are the primary drivers of metal prices.

**Marja Mäkinen Outokumpu Oyj - Head of IR**

Thank you, Pia and Heikki, for the answers. Now I think we have time to conclude our news conference. Thank you for all the participants for their good questions.

Outokumpu will publish January-September results on the 5th of November. Thank you, once again, and have a nice weekend.

**Heikki Malinen Outokumpu Oyj - President & CEO**

Thank you. Have a nice weekend.



**Operator**

And that does conclude our conference for today. Thank you for participating. You may all disconnect.

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