Transcription

Outokumpu's Q1 / 2021 Interim Report

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PRESENTATION

Linda Häkkilä

Hello all and welcome to Outokumpu's Q1 2021 results webcast event. My name is Linda Häkkilä and I'm the Head of Investor Relations here at Outokumpu. With me today, we have our CEO, Heikki Malinen, and our CFO, Pia Aaltonen-Forsell. Today, we will first start with our Q1 results presentation and after that we are happy to take your questions related to our Q1 results.

But now, before we start with the presentations, I would like to remind you about the disclaimer as we might be making forward-looking statements. But now I would like to hand over to our CEO, Heikki Malinen.

Heikki Malinen

Thank you, Linda. Thank you and good morning to everybody. Let's get down to it.

So, first of all, we have had a very good start to the year. We've made good progress on multiple fronts. Let me just first say that we have had an excellent record high result on safety, something that is of the highest importance for Outokumpu's people. We've also had a very strong financial result. 177 million euros of adjusted EBITDA, which is the second best Q1, and also one of the best quarters overall in the last decade after the merger that took place a decade ago.

Strategy execution is also on track. We are delivering clear benefits. We have structurally lower headcounts and we also have improved our cost base.

If we look at the figures for the whole company, as I said, 177 million for Q1. Clearly better than a year ago in Q1 of 2020, which was partially pre-COVID times. I'm really proud about the work our people have done during these challenging times. Deliveries were up about 16%, and our mills were running full. Our mill chops were running full in Finland, Sweden, UK and the United States. This allowed us really to maximise the full potential of our business system and really get out the benefits of having this large scale in stainless steel.

As you recall, metal prices rose significantly in the first quarter, so our result was also boosted by approximately 42 million of net timing and hedging gains. Pia will talk more about this when it's her time to be on the podium here.

Looking at metal prices so far in Q2, the first four weeks, the level of net timing and hedging gains in Q1 will probably not repeat in Q at the same level. But our operational performance as a company at the moment continues to be on a very good level.

In the Capital Markets update that we will have later today, we will go through the strategy and talk about the impacts of the 200 million EBITDA programme. So I will save that comment later then for the afternoon.

As said, metal prices were volatile. You can see it in the charts. Particularly nickel had a bit of a rollercoaster in April and then declined again in March. In spite of this, the movement in raw material prices was exceptionally favourable for us in the first quarter. We currently have a good order book and long lead times. In Europe, basically, our order book takes us in almost - well into the fourth quarter. In our order book, we have seen price levels gradually appreciating. We have also seen metal price movements translate into end product pricing.

Furthermore, we have seen our customers returning gradually to base price plus alloy surcharge pricing mechanism and in our current order book we have seen a change to approximately 50/50 split between what we call base price and alloy surcharge, and fixed price here in Europe.

Demand was strong in Europe in the first quarter. And hence import penetration did increase also in the first quarter compared to the fourth quarter and share of imports was about 25%. As you can see, the same phenomena happened also in last year between the first quarter and fourth quarter a year ago.

However, if we look at absolute imports, you can see from the graph on the left that imports were lower Q1 '21 versus Q1 2020. On the right side of the chart, in the US imports accounted for 14% of share and in absolute terms imports in the US were lower Q1 '21 versus Q1 2020.

On the trade front, there has been a lot of activity and we are close to some very important EU decisions on trade. First of all, I want to note that beginning of March, Indonesia and India have to register their imports. Secondly, a few weeks ago, the EU has communicated a decision that they will apply provisional anti-dumping measures against Indonesia and India on cold-rolled in the amount of approximately 20%. And these provisional measures will come into effect - become permanent - roughly in about 6 months' time, and in November of this year we will then get the final decision.

If the decision by the EU on anti-dumping against India and Indonesia is positive, then those measures typically are valid then for five years. We are also waiting for EU to decide on import quotas, and we believe that the decision will go down to the wire. We will most likely only hear about the final outcome in the last few days of June.

Going forward, we are going to be reporting more on sustainability in our quarterly results, broadcasts. Safety, which is shown here on this chart is of course very important for Outokumpu. It's also a very important part of our ESG agenda. At Outokumpu, we believe it is important to focus on total recordable industry frequency race - TRIFR is the key measure we monitor at Outokumpu. Of course, we also look at LTIs, but we believe this is a better indicator because, for example, in different countries, there are different ways how people may take time off due to injuries depending on their health insurance, depending on the social security system, and so forth. So, basically TRIFR basically lists every single incident that was worth of a recordable and that is the measure we will monitor, and we will also report to you on the progress. As you can see, 1.4 is the best figure so far at Outokumpu.

Our CO2 emissions are well aligned with our current science based targets – initiative targets and you have today probably seen our release where we have communicated that we're going to even raise the bar further and set even more ambitious targets on climate change. You will hear more about that in a moment later today. I'm also very proud about our recycled content at 90%. We are also going to increase transparency of our supply sources.

So with those words, I hand it over to Pia. Please take it from here.

Pia Aaltonen-Forsell

Thank you, Heikki. So, good afternoon, good morning. I do hope that you are all safe and well today.

So, let me start with a bit of updates from the financial side and let's start with the Business Areas and the performance there. So, first, of course, the key figures. Let's just enjoy the improved figures here that we can see both on the delivery side; obviously also then translating into the top line. And from an adjusted EBITDA perspective, of course.

Looking back one year, the first quarter of 2020 - that still was not heavily impacted by the COVID - one of the things I think is worth mentioning here is that in Q1 of ’20 we still enjoyed a rather good share of the value added grades. That was one of the things we then saw around COVID really going lower and lower and still really not rebounding in the first quarter figures.

So, when you see the comparation here, I think I can really agree with what Heikki said earlier; this has been a particularly strong Q1 with 177 million worth of EBITDA here. Also, then translating into €0.20 earnings per share, which is another good figure. I will come back to the cash flow and net debt figures in my presentation.

So, let me now turn to the BA figures. And let's start with Business Area Europe. And obviously here I think a first point is really to talk about the demand and the volumes in the quarter. So, you see from this presentation that as part of the EBITDA improvement from 36 million euros in the fourth quarter in the 78 million in this quarter, increased deliveries really had a significant impact.

So, if we look at the demand across the various segments. I think by now we have really seen demand rebound in all of the standard or more classical grades, I think with the minor exception where we still see the sort of catering segment being a little bit weaker than normal, but otherwise a really strong rebound. And as said, value added grades were not yet at a high level. They were actually still quite low in the first quarter, and if we now look into our order intake, I think we can clearly see that the more sort of investment cycle driven demand is coming back. So we are also now seeing gradual increases in these value added products, more than towards the future.

I think still from the demand side what I want to mention - because obviously there is an element here of restocking to inventory, so I think looking at where the absolute level of distributor inventories are, as per end of March, still quite on a low level and actually particularly looking at sort of number of days in inventory, it really seems sort of clearly below the average level there.

Next point here, then looking at other impacts in the results, you can actually see that in the BA Europe result, there is also some positive support from higher prices, and I think that's something I believe Heikki already commented on as well-sort of looking also into the demand that we've seen through our order intake. Obviously, this sort of stronger pricing environment has enabled us to clearly digest the higher metal prices, which is obviously a very positive thing here.

And then finally, net of timing and hedging. I want to comment that for all of the bigger BAs here because as Heikki said, on a Group level it was significant. So just repeating the Group level figure of absolute or 42 million euros in the quarter, it was really a lot about the metal timing gains that we had there. If we really look at the hedging result, it was actually very close to zero in the quarter. So, it was more about sort of our other value driven metals - value driven movements there that we could see.

But for BA Europe, here we can say that as you see in the bridge, the bridge effect actually compared with Q4 was rather small, and the absolute figure was 18 million euros in the quarter.

And I think that well summarises the main points for BA Europe. Maybe still one more important point: we will revert to the progress that we are doing on our strategy execution in the CMD part of the presentation today. So, then we'll go through more of the details of the progress there. But of course, overall, already in the first quarter figures, we already see some positive support here and from a Group perspective it is quite significant. But let's get back to that. But I want to say that sort of embedded here in the good performances is also progress on the strategy side.

Okay, I let me then move over to the BA Americas. And here as well - I mean, first of all, obviously want to say really happy to see a record quarter: 54 million euros' worth of EBITDA in the quarter. And obviously demand and really much higher deliveries has clearly boosted the result here. So, demand across Americas really remains on a strong level. I mean we see the strength through the automotive, we see it in appliances but particularly also, we can say that distributors - that is that is an area with very strong demand.

At the same time, obviously the restocking momentum should be there, but if we look into the absolute figures of distributor inventories or days, they are still, at this point, and particularly when looking at end of March figures, clearly below the average level. I think both for Calvert and obviously for Mexinox, I think it's well worth mentioning as well that we have a long lead times at the moment. So, we are sold out way through July, and actually I think this even means a little bit more as you know it's a very good demand environment at the moment.

And then finally, I want to say that operating on such good capacity utilisation levels clearly has also impacted our ability to operate really efficiently with really good cost structures. And finally, on net of timing and hedging, obviously we have here a good positive impact of the same magnitude as we saw in Europe. So, on an absolute level, it was 20 million euros, really from timing, and at the same time I think we can also say here that it was quite a change compared with Q4, so you can see it that the bridge effect actually is quite significant here.

So, overall a really good proof point also of what we've spoken about already during some of our earlier presentations that we can clearly see that the turnaround in Americas has taken place and we are now on a much stronger level when it comes to the EBITDA performance.

Then I want to say a few words about Ferrochrome, and as I know that the changes in Ferrochrome pricing have been really rapid during this year, I just want to make sure that we recap sort of the two most significant points there. One of them is maybe more forward-looking. We know that the European benchmark price has been agreed to the level of 1.56 dollars per pound, whereas it was more much lower 1.18 in the first quarter. But there has also been another change which relates to the pricing on a spot level then in China. And clearly here again, the movement was already seen early during Q1, so we saw the rise sort of starting end of January, and then being on that higher level all until the end of March.

It has subsequently then of course declined as some of you may very well know. And I think when you then look at the BA Ferrochrome result here, you can see that we already enjoyed some benefits of the higher pricing in this quarter that you can see here as one of the really sort of positive impacts in the result. And then there was something negative that really related to the specific conditions and, I would say, very challenging weather conditions in Northern Finland with really sort of cold, snowy, icy weather throughout the early period of the year here. So, you see that compared with Q4, our production was a little bit down. So, this really was sort of more relating to those operating circumstances rather than anything else.

And I still want to share a few short comments also on Long Products, and obviously really good to see here the turnaround proceeding. You also can see that really the major positive impact to the result in the first quarter was from higher deliveries. I mean an increase of 53% sounds extremely remarkable, which of course it is. I also want to say that we do have, as part of these deliveries, also increased deliveries of semi-finished goods into BA Europe. So, this is also reflecting the better demand then on the flat side, but obviously a very strong performance here from the BA Long Products team, who have obviously worked really hard with the turnaround progress. So, happy to see here the 11 million euros quarterly figure.

And then finally, a few words from the cash flow and balance sheet perspective. So, if I just start with the cash flow, I want to say that reaching a 27 million euros operating cash flow in the first quarter is, for me, a really good proof point about our ability here to really steer and improve the cash flow. It's obviously driven by the improved EBITDA figure, so that's really the main contributor. But if I think about the first quarter, and if I also think about the sort of demand sentiment where we are, also looking at strong volumes in the second quarter, also looking at the much higher metal prices, it is obvious that this, on top of the normal seasonal development, really drives working capital.

So, the fact that the increase finally in the working capital here was 80 million euros is still a testimony to all of the work that we've done in terms of improving the working capital efficiency. We've also had cash outs already relating to our restructuring programme. it is 24 million as you can see in the chart here. And then, the usual suspects here. Some payments to pensions and also 23 million into financial items as per, I would say, a pretty normal sort of Q1 figure there.

So, overall from an operating cash flow perspective, 27 million euros. And then when you look at the CapEx figure, that is very much aligned with our plans and then you can look at the annual CapEx guidance that we have here on the right hand side. You see that we are having the same 180 million euro CapEx plan for this year, so that's well aligned with our strategy that we launched earlier, and you can also see that we do continue our investments, the strategic investment, into Kemi Mine, so that is also according to the earlier plans here.

And finally, how does this then translate into the balance sheet, and particularly to the debt? So, looking from an overall debt perspective, we are of course very close to the figure that we had at the year end. We are now close to 1.1 billion euros' worth of net debt. And obviously then, our leverage figure now at 3.3 times.

And then translating this into a bit more detail of the debt structure, I think here my most important message is that we continue with a very balanced debt structure. You can see that we have here several different types of instruments, and you can also see from the chart on the right hand side that our debt maturity structure has improved as per the announcement, as per the work that we did also end of last year. So, here you can see the maturities into the next years. And obviously, the amount of current debt for this year is lower than the cash and cash equivalents balance that we have.

So, with that said, I would hand back over to Heikki, please.

Heikki Malinen

Thank you, Pia. So, the outlook for the second quarter. Stainless steel deliveries in the second quarter are expected to increase by 0% to 5% compared to the first quarter. European Ferrochrome - benchmark price increased to $1.56 per pound. For the second quarter, plant maintenance costs are expected to increase by approximately 10 million euros compared to the first quarter.

Raw material prices have recently been volatile, with the current prices, the significant level of raw material related inventory and metal derivative gains, in the first quarter are not expected to be of the same magnitude in the second quarter. And finally, adjusted EBITDA in the second quarter of 2021 is expected to be on a similar or higher level compared to the first quarter. Thank you.

Linda Häkkilä

Thank you for the presentations, Heikki and Pia. Now we will start the Q&A session and we will be using the next 20 minutes for your questions regarding our Q1 result. Please, Operator we are ready to take questions from the line.

Q&A

Operator

If you wish to ask an audio question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do by pressing 02 to cancel.

Our first question comes from Seth Rosenfeld from Exane BNP Paribas. Please go ahead.

Seth Rosenfeld

Morning. Thanks for taking our questions and congrats on the very strong first quarter. Two questions specifically on Q1 on the medium-term outlook, please. In your prepared remarks, you touched on a recovery or a return to the base price structure within Europe. So, very positive to see. Can you give us some context how 50% of sales on base price with alloy surcharge compares to the [inaudible] we witnessed last year. My understanding is that given the contract structure or longer term sales were consistently done on the base price, how big of a Delta are we looking at for that recovery? I'll start there, please.

Heikki Malinen

Okay, so thank you for that question. So, as per the 50/50 split, this is sort of a gradual evolution, I would say, that it has only sort of started to migrate in the last sort of months, so to speak, so I don't have an exact figure, but I would say it's sort of a gradual movement. We're not talking about massive change, but I think the point here that we wanted to communicate is that we do find that getting back to sort of a more normal system of pricing which is similar in other geographic markets like the US, is good and it provides some stability to our business as well.

Seth Rosenfeld

Great, thank you. And when you touched on the outlook for value added grades, coming back to your order book, can you please remind us of the historical mix of value added versus commodity grade. And historically, what was the margin differential between the different grades please?

Pia Aaltonen-Forsell

Yeah, Seth, hello, it's Pia here. Thanks very much for the question and I think on a more normal periods now, really excluding the COVID periods, we have communicated that about 30% of our Group volume, on the stainless side obviously, has been of more value added grades. And we did see a good growth of that with particularly we used to talk about the pro grades and a lot about the deliveries based on our Swedish system and Avesta, in particular, and here we did see an important drop during the COVID period.

And I think what I wanted to communicate and say that Q1 was still fairly thin on those and I think what we have seen now in our order intake is that we start to see, even so to say within oil and gas, some projects returning and also more generally of course orders from industrial usages, etc. Sort of the more heavy duty usages. Here, clearly the sentiment is now much better. So, I think we are now sort of - it is, of course, a gradual improvement. It's not like we will suddenly have a peak, I want to communicate the gradual improvement. But clearly now, we have more within line of sight returned to the pre-COVID levels also in value added grades.

Seth Rosenfeld

Thank you. Just to follow-up, what was the margin differentials historically to those value added sales versus commodity? What do you think about their mix shift over the coming quarters?

Pia Aaltonen-Forsell

You understand that that is a really important question, and I think we have said that it is important. I mean we are talking, of course, many X, but I think I would leave it there.

Seth Rosenfeld

Okay, thank you very much.

Operator

Our next question comes from Carsten Riek of Credit Suisse. Please go ahead.

Carsten Riek

Thank you very much for taking my question. My first question again on the return of customers to the base price plus the alloy surcharge and during the first quarter. In your opinion, is that more a short-term phenomenon or will it last longer? I get the feeling as long as the alloy elements are favourable, and inventory remains tight, customers are happy to return to base price plus alloy surcharge, but once this is more normalised, do we see that the customers fall back in the old patterns and going on the transaction price basis? What is your view here? What kind of customers actually do you see returning to the base price plus alloy surcharge?

And the second question I have is on net trade. We have seen quite a substantial pickup in stronger imports, in my opinion, due to the rather big stainless price differences to Asia. And it could have been even bigger if we would have not had the container shortage. Is that something you are getting worried or to you believe that with the end of June, the European Commission will actually step in and close that gap? Thank you.

Heikki Malinen

Yeah, thank you. Well, first of all, the question about how our customers behaved - how have customers behaved. I would just say that of course for long-term contracts, annual contracts, the pricing mechanism to people typically is fairly stable and fixed. And of course we had to have a certain proportion of that traditional OEM business where the mechanism doesn't change. So, this of course would then apply to new business. It could be distributor business, but it could also be direct business.

It is impossible to forecast what exactly will happen in the coming years. I can only say that the trend has been now towards normalisation and of course we hope that will stay the way. But again, I cannot forecast on that.

Then in terms of the EU decisions and also the volume into Europe. Yes, I do think that of course indeed the fact that the freight rates from Asia to Europe have been quite high, in some months probably very high. We had the Suez canal phenomena. We know that demand for stainless in Asia has also been very strong. So, the combination all of these effects have probably also impacted the volume coming into Europe.

It depends then on what happens with Asian trade and freight rates. Maybe they will gradually normalise as we head into the next year. But then on the EU Commission, as said, we have been very actively making our case through Eurofer that the quotas should remain in place. We do feel that they are an effective and necessary measure to create a level playing field. And let's see. A couple or six to seven weeks to go that we will see the final outcome. I really do indeed hope that they will keep the quotas.

Carsten Riek

Okay, perfect. Thank you very much. I'll get back into the queue.

Operator

Our next question comes from Krishan Agarwal from Citi Group. Please go ahead.

Krishan Agarwal

Hi. Thanks for taking my question. I have two questions. First on the pricing. Your guidance for Q2 is flat to slightly higher than it was in Q1. Could you elaborate a little bit more in terms of pricing, as in how much of the pricing, please, you expect to realise in the Q2 which you have taken into your guidance, particularly in the context that you're seeing a gradual return of the high value added products. So how much of the benefit you get from the pricing and how much of the benefit do you get from better product mix in the Q2?

Pia Aaltonen-Forsell

Yes, thank you, Krishan. It’s Pia here. I want to say that in terms of looking at also our Q2 and the guidance that we've given here, I would just reiterate what Heikki spoke earlier first about what we have seen in our order intake, and I think that’s the most important factor points that we have here. Of course there we have seen gradually increasing prices.

Obviously, then, when it comes to the value added mix. I think here as well, my message would be that we see it gradually improving, so I just don't want to sort of say a peak or some sort of quick boost, because typically these are also projects that have longer lead times or are earlier on during that project. So therefore, my message would just be repeating what we said before: what we have seen to date in our order intake is this sort of gradual increase there.

Krishan Agarwal

Okay, got it. My second question is sort of a more longer term in terms of CapEx. Your guidance for 2021 and 2022 has limited the CapEx at 180 million euros. Now, given the fact that you have reasonably higher share of Kemi Mine development CapEx into that 180 million number, do you see a scenario or risk where you may end up underinvesting into the business, especially given that activity levels currently are higher in terms of production volumes.

Pia Aaltonen-Forsell

Maybe I can just say there on a very general level that as we’ve spoken about the Kemi Mine, you know that still in ‘22, the order of magnitude is still around 60 million to 65 million euros that we have there during the year of ‘22 as well. So, then obviously, only with a small tail in ‘23. So this does create - there is the room when that is completed, but other than that, we haven't communicated yet the exact figure that we would be looking at after that. But Heikki, if you want to add anything here.

Heikki Malinen

So, I think if you look at the strategy, and we will talk about it a little bit later today, for this second phase of the strategy, it's obviously we are going to be looking at targeted investments to further open up bottlenecks and increase our productivity. I would also say that if you look at the company in general, we are reasonably well-invested, and our assets are in fairly good shape. We are investing currently to augment our IT systems. We've then been going through a fairly substantial programme to further update our ERP systems and that is still going to go on for some time, so I think that is the colour we want to give at this stage regarding phase number two, years ‘23 onward.

Krishan Agarwal

Okay, I will probably be back.

Operator

Thank you. Our next question comes from Patrick Maan from Bank of America. Please go ahead.

Patrick Maan

Hi. Good morning, thank you very much for the opportunity. I just wanted to ask on the Ferrochrome, can you give us an idea of the proportions that are sold on spot where prices seem to be coming down and then the proportion sold on benchmark, which is obviously much higher. That's the first question. And then the – I'll wait and ask the second question afterwards. Thanks.

Pia Aaltonen-Forsell

Patrick, thanks very much. It's Pia here. So, first, the thing is that obviously if you look at our long-term strategy and the direction that we want to take, we want to go for a structure with more long-term contracts and we really also worked a lot in that direction when we prepared for this year 2021. So, the share of spot price sales is fairly low, I have to say that.

Then obviously, there is a business opportunity short term appearing in Q1, because the Chinese spot prices moved up very quickly during the quarter and I think if you just look at the end result of the quarter you see that we did benefit some from that. So, we have seen a bit of an uptick. It was actually more than 10 million euros that we benefited in the quarter from sort of having the opportunity of higher prices.

But overall the direction - and you are right of course that clearly then the majority of what we do is on the longer term contracts where we also then have this European benchmark pricing. I mean it's the normal way of doing the business.

Patrick Maan

Great. Thanks. And then maybe the second question going back to the transaction pricing versus base and alloy. What is it doing to the - are you getting very similar prices in terms of the structure at the moment or is the base plus alloy giving you a slightly better or slightly worse price relative to transaction at the moment, given that you've kind of passed on the alloy risks to your customers?

Heikki Malinen

I think the base plus alloy, especially when you have a bit of a longer order book, gives you a certain amount of – how should I say - protection or hedge to rapidly changing circumstances, vis-à-vis a very fixed and transactional model, so I can't really make comparison about - when the deal is done, the price is the price, but maybe of course the base plus alloy of course does allow us to then factor in some of the prospective volatility. And so that's why it's preferable.

Patrick Maan

Yeah, maybe another way to ask it is, is the implied base in the transaction price higher or lower than the base price you're getting when you're contracting base plus alloy?

Heikki Malinen

I think in today's circumstances - and this is sort of an almost hypothesis here - but I would say that that given kind of also what we said about the orders we have been able to capture in the first quarter, that probably the pricing on the base plus alloy could be a bit more favourable, but I don't have a magnitude for that.

Patrick Maan

Okay, thank you very much.

Operator

Our next question comes from Bastian Synagowitz from Deutsche Bank. Please go ahead.

Bastian Synagowitz

Yes, good afternoon. I've got two quick questions on Ferrochrome. So last year, you've been talking about not having captured basically the full benchmark price and probably having a higher share of sales into the spot market. I was wondering; the first quarter. Does this now already reflect a pretty normal split of volumes as you would usually ship it? And hence, have you basically pretty much exhausted your ability to capitalise on the first quarter benchmark price of 1.18? That is my first question.

And then my second question; you obviously provided the sensitivity for how the numbers move in Ferrochrome relative to the benchmark price. Now we have a very large price move upcoming with obviously $0.38 and hence I'm wondering whether you could give us a bit more steer as to whether your sensitivity in the ferrochrome business into the second quarter would maybe more, say towards the lower end of the guidance or towards the upper end of the guidance of, I think, 10 to 15 million for every 10 cents in the benchmark. That would be my questions.

Pia Aaltonen-Forsell

Hi, Bastian. Thank you very much, and I think that's a really good clarifying question as well. And I think that these two are obviously connected because, as we've seen these very rapid moves are also in the China spot, obviously that's sort of something to factor in here. So, your first question, which was more about really the structure, and I think I want to be clear here; what we want to achieve is certainly a move towards the longer term contracting.

There's also a logistical disadvantage, obviously, if we would consider selling really spot into, for example, Asia. So I mean, it's clearly under normal circumstances more advantageous for us to concentrate on where we can also make longer term contracting. So when you ask then 'were you successful with that already in Q1, because obviously last year was quite disruptive, quite different', then I can say that yes, indeed, many of these contracts are even for an annual cycle, obviously, not all, but many of them.

So, I think we have definitely taken a step in that direction in the first quarter, but the proof is also there in the EBITDA that you do see that we had a bit of a tick up there because of the spot price increasing, so something we captured still from that front, which was pretty specific for this quarter, I have to say.

And that would then also lean into your second question, which was how should we think about the regular sensitivities? Well, I always have this 10 cents, 10 million, in my head. But you are right that there are other factors there could be around US dollar, et cetera. And obviously there underlying somewhere is that do we have this sort of normal volume also then into the sort of longer term contracted benchmark business? And I would definitely go - when you gave the range, I mean, I would go there towards the lower end and then I would still say, 'Hey, look at Q1. We did capture a little bit of the benefits there.' So maybe sort of to factor that in as well because that is then obviously - we're clearly producing as much as we can from the capacity we have, so it's not a matter of that. We can sell what we produce, but there are of course - the capacity is the limit there, clearly.

Bastian Synagowitz

Thanks, Pia. So basically, from the comments, do I understand correctly that maybe the sensitivity may be towards the lower end or possibly slightly below the lower end? Is this what you want to say?

Pia Aaltonen-Forsell

Indeed.

Bastian Synagowitz

Yeah, okay. Very clear. Then one other quick question, Pia, probably one for you on working capital. Obviously, it's been a pretty decent performance you did over the last year and then in the context also very strong volumes and prices. I mean, the uptick probably in the first quarter doesn't even look too dramatic. Is there further working capital build we should see in the course of the second quarter?

Pia Aaltonen-Forsell

Now if I think about the environment here, clearly now as we have also guided for the second quarter, we see strong volumes that also in the second quarter here. And that clearly then led to us as trying to have sort of an optimal also inventory level at the end of the first quarter. When you then think about the seasonality from Q2 onwards to Q3 and Q4, usually that implies a somewhat slower season in Q3, particularly in Europe, so from the inventory side, of course, maybe that doesn't request exactly the same sort of amounts there. But, and this is the big but, what we have said about the prices, etc., and this whole movement that we have, obviously that does mean something then on the receivables side, for sure. So I think that towards Q2, just based on the facts that we have today, I still think that depending then exactly on the demand in Q3 still, but this could be still some further need for working capital.

I'm not talking huge amounts, but I can see that there would be still a little. Then what happens towards the end of the year? Here we are then already more talking about what will truly be the business sentiment into ‘22 and I think it's kind of maybe a bit too early to comment on that. I think we will be very diligently following this up. We’ll probably sort of early autumn then make the plans towards the end of the year and only at that point can I then be like really specific about kind of how we see the end of the year turning out.

But I can only assure that in terms of working capital efficiency, we still put a lot of emphasis on that and really focus on that, but we would always adjust to the particular market conditions.

Bastian Synagowitz

Okay, perfect, I actually have one very quick one, if that's okay, and that's basically on the volume outlook. You've been talking about volumes being very strong. I guess all of the market anecdotes very much support that. I think lead times are at a very, very good level, which ultimately means that you probably have already probably some very early visibility even into the third quarter. And clearly, I'm not asking for third quarter guidance, but basically from how you read the market at the moment, would you say the third quarter is actually going to be maybe stronger than usual third quarter? Third quarter obviously usually being slightly weaker for seasonal reasons. Do you see that some of this seasonality is actually maybe not be coming as apparent and pronounced this year?

Heikki Malinen

Maybe just one comment that in terms of our annual maintenance schedule, so we obviously have to take some downtime for maintenance. So, usually that happens in the third quarter. So just worth understanding also in our own seasonality through the year how things evolve. But as said, it is quite interesting that certain end-use markets, even if we go back to home appliances which were very strong already, starting to recover and they still continue to be strong. And even now in the US, with the stimulus cheques, there just seems to be this underlying consumer demand, which seems to be just continuing and with positive momentum, people are more confident. I think it just seems to be - we're just continuing to see this consumer demand. [inaudible] many of our customers are saying that.

And then in terms of Pia’s earlier question about the value added grades. So in the last - I would say in March - in January, February we started to see some clear activity among customers. In March we started to see the first really interesting pieces of business on value added grades come in. So, if this investment cycle continues like it typically would happen as the economy picks up, then of course, we hope that we will also see then in the second half some pick up in value added grades but remains to be seen. It will come to Q3 then later at the appropriate time.

Bastian Synagowitz

Okay. Very clear. Thanks so much, Heikki.

Linda Häkkilä

Unfortunately, we don't have time to take any more questions at this point, so I would like to thank you all for your very good questions. Now, we will have a short 15 minute break and we will continue with our Capital Markets update in this same event at 2 EET. Talk to you soon.

[no audio 00:46:50 to 00:]