Transcription

Outokumpu's Q2 / 2021 Interim Report

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PRESENTATION

Linda Häkkilä

Hello all and welcome to follow Outokumpu's Q2 2021 results webcast. 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.

But now, before we start with the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements.

But now please, Heikki, the stage is yours.

Heikki Malinen

Thank you, Linda. Good afternoon, good morning to everybody and also from my side welcome to our Q2 event here today. It's really a pleasure for me to present these results because after a very good start to the year in Q1, actually Q2 was even better.

We saw a good profitability improvement within the company across all of our business lines. Interestingly, if you look at the first half year result, €400 million - this is actually the second best half year results since the merger with Inoxum in 2012. So, really pleased with how things have progressed in 2021, especially compared to a really tough 2020 year.

Our strategy execution is well on track. I'll talk a bit about that. We're making - I would say we are a little bit ahead of schedule there and overall, if you look at the results, I can say that we also benefited from the market tailwind. In many sub segments of our business we saw a very good demand which added up even further to the good quarter.

If we then jump to the next slide and then just look at these figures here. So on the left hand side you can see the bars on a quarterly basis, 223 million Group adjusted EBITDA compared to 177 million in the first quarter. On the right hand side you can see the bridge. I think the main events here for the quarter were deliveries which increased about 3%. Our capacity utilisation was very high, so 3% was sort of a fair number in terms of how full the plants were coming into the quarter.

We also realised price improvements across all of our regions, which is the second green bar, and then you remember in the first quarter we had quite material and substantial timing and hedging gains. In the second quarter, we did not have them in the same manner and that's why we have a have a red bar there. But overall 223, I feel that that was a good achievement from the Outokumpu team.

As I mentioned for us, of course, the very big goal that we're trying to reach here is to deliver on our strategy, which was to get a 200 million EBITDA run rate improvement by the end of 2022. We have a number of initiatives which relate to the cost structure or our so-called Lean and Agile initiative, which of course relates to our headcount - our plan to reduce our headcount by approximately 1,000 FTEs. In this area I can report that we are very well on track in terms of execution. About 80% of the initiatives have now been completed and by probably early 2022 we should have this stream pretty much ticked off. So, obviously an important part to help bring our fixed costs down and also lower than the breakeven point of the company.

In terms of cost and capital discipline. You know that raw materials accounts for over 60% of our cost structure. It's very important that we are able to further improve our raw material efficiency, and I was very pleased with what the organisation was able to do in terms of, for example, improving yield levels, making sure we have much less reallocations, reuse of material - returns of material, and scrapping was less. So, good work in that area.

And then I would just say that as I said a bonus on this, of course, was the strong market, a good demand across all segments, so ended up delivering then the results we can see now.

The market has changed quite significantly since Q4 of last year. It's evident in the longer lead times we have. We are now, for example - in home appliances, we are now in the third quarter where demand continues to remain very robust. Our lead times are taking us into the end of this year and will also in some segments into the beginning of next year, which historically is I think somewhat extraordinary, but anyway, that is the market. Customers are clearly prioritising supply. If one has extra capacity, there is clearly demand out there in the market.

In terms of raw material costs, nickel continues to be really volatile in the quarter. We ended up this first quarter - you remember, in March, nickel prices fell quite substantially. Then they were flat for a while and then they started to rise again as we headed towards the end of the second quarter and early third quarter. So a lot of volatility there.

We have also seen in many other metals - moly, titanium, iron, etc. - we've seen price rises, which in other words for us means cost increases and we worked very hard to mitigate and keep those cost pressures intact.

On the ferrochrome side, we saw the benchmark price rise as we came into the second quarter. Of course for us in the ferrochrome business, this is of course an important part of the profitability story.

Over the last two years, import penetration into Europe has been a very big theme, especially when the market was really weak and imports were adding, let's say, a lot of over supply into the market and now when you compare the first quarter and the second quarter to each other, pretty much flat in terms of cold-rolled imports into Europe. It seems that the situation has somewhat stabilised, which of course from the standpoint of having a stable market with a level playing field, this is sort of what we have been expecting from the European Union.

And here you can see the measures that European Union has taken. A very big decision of course was that the quotas remained in place now for three years. We were advocating that quite vocally that that should be the case. The quotas will rise on an annual basis somewhat, but still the mechanism is still intact and that is really, really important.

On the anti-dumping side, the investigations by the European Union have led to decisions by the Union and there are now duties in place for India and Indonesia. And then finally this very big decision by the EU to start pivoting to a much more climate-friendly, carbon-neutral world. That decision of course impacts the whole steel industry and us also to a large degree.

One thing I want to raise here is that in the decision or the proposal that the EU has made, they have basically said that it will only include Scope 1 emissions and you may recall that in stainless, it is Scope 2, and in particularly Scope 3, which are the big emission, let's say topics or [? 00:08:18], and then it's our view that the Scope 3 should definitely be included in the longer term when the EU proceeds with that. And then on the right hand side here you can see how the quotas were utilised in the last quarter and nothing major in that area to report.

Before we go into the financials, I want to take a few moments to talk about sustainability and the reason I raise this today is, first of all, that we believe that for Outokumpu in particular, sustainability is going to become a key competitive advantage. We are moving into a world where this theme will become a bigger and bigger issue, ESG having been the headline, and I really feel that it's important that I just report to you a couple of things.

Today I'm going to show a few specific slides after a couple of more generic slides, but my plan here is that as we go forward into the coming quarters - in each quarter, we would like to report on some area of ESG where we have made progress. So, what I want to talk about today is safety. It's part of the 'S', so to speak, in ESG. From this curve you can see that we have systematically been able to improve our safety record. The figures for the first half, as you can see from this chart, are absolutely – there are the best we have had in history. We have many plants in the Outokumpu system where we have not had a single recordable incident for a long, long time. And it just shows, I think, that underlying inside the Outokumpu system there has been a remarkable cultural change so that people really take safety very seriously.

It also shows the way we operate. Personally every month I have a CEO safety call. I get reports of every single incident we have globally, and we share the best practises across the whole system. So it is really a key part of the CEO agenda to make sure that this trend continues, and that people are safe when they work at Outokumpu.

At the Capital Markets Day in May, we announced our plans to head towards or to develop the company towards the SBTI target of 1.5. We already had the two degree target aiming to reduce our emissions so that by 2023 we would have been able to achieve a 20% reduction vis-a-vis a sort of 2014/2016 level. That target we will achieve. Now we have a new target by the end of the decade, working together with SBTI to achieve that 1.5 degree level, but technically that means for us about a 30% approximately reduction in emissions, and that will have an impact on where we invest in the company and how we invest.

And here you can just see the data on our missions. I want to draw your attention to the box in the middle where you can see Outokumpu's total emissions in the value chain - 1.5 tonnes of CO2 per tonne of stainless, and then you can see the data for others. Compared to agents, for example our emissions are 80% less, and I come back to this EU Fit for 55 CBAM policy, where they only included Scope 1. Outokumpu of course includes all of these emissions, and we really would like to see the Scope 3 be part of the policy of the EU in the future.

And then finally, I just want to highlight that we are actively participating in different types of benchmarking exercises that these organisations do, and we have been globally recognised as being really a strong leader in sustainability. So, I'll come back to this theme in the coming quarters and always highlight something which we think is relevant and important for you to know when you think about different companies from an ESG perspective.

But now let's go to the financials in more detail and I'll hand it over to Pia. Please.

Pia Aaltonen-Forsell

Thank you, Heikki, and good afternoon and good morning to you all. I certainly hope you are doing well and keeping safe.

So, let's have a look at the financials here. Starting first with a few important key figures. If we first looked at the stainless steel deliveries, you see we were very much here according to our expectations - a small increase compared also with the first quarter. But let's keep in mind that in the good demand situation that Heikki also has described we are operating at really high capacity utilisation levels and therefore I would say a good achievement here with these volumes in the quarter.

And then if we look at some of the other key figures, the EBITDA for the quarter at €223 million - nice round figure also if you combine it with the €177 million from the first quarter. So, still improving there and maybe from my perspective really on the Group level as well, remembering that we had a fairly significant timing and hedging gain in the first quarter. And certainly they are back to a low level gain in this quarter, so operationally I think we have really been improving throughout the second quarter here.

Net result at 129. Then the operating cash flow here at €6 million, and I think that's worth some further attention. I will come back to that and the working capital changes here during the presentation.

Our net debt is down. We had an equity issue in the month of May. We used that repay debt and that clearly impacted on and really lowered here out net debt level. Leverage is now at 1.8 and you remember that for the strategy Phase One we set the target of being at the leverage below 3 times net debt over EBITDA or leverage. And I would say here we have really been able to accelerate the improvements and we will come back a little bit to that as well in the presentation.

And maybe then a final just confirmation of something Heikki said earlier, but looking here at the advancements in strategy. When it comes to the restructuring, obviously from the personnel number we can now see that we are very close to the 9,000 levels already at the end of the second quarter. And certainly this gives good confidence that by the end of this year we will be clearly below that 9,000 level.

So, let's have a look at the BAs still with a bit more detail for each of them. Obviously you see here our business area Europe where the EBITDA for the quarter reached €98 million. And just looking more first from the market perspective, you see that the delivery increase was maybe modest; however we did have a good step up when it comes to prices, and I think this is really reflecting the stronger market environment where we are. And first of all, just sort of taking a step back and trying to look at that market improvement. We are clearly still in this rebound phase from the very low COVID levels, that is for sure, and this sort of restocking cycle somehow makes an attempt. But then again, if we look at distributor inventory levels, we can see that they are as they were in Q1 still at the end of Q2 as well. They are at even much lower levels than what they typically are, so lower than average levels. So, these restocking attempts are, I would say, still ongoing at this point in time.

I think that's also visible from the orderbook going forward. I mean, we are practically booking five to six months ahead at this point in time, so we have a lot of visibility also towards the end of the year and particularly towards Q3. And then when you reflect that into the price here, a final point from my side there would be that even though it looks as if there is a good price increase here realised in the quarter, please keep in mind that this is only rebounding from very low levels. So, if we just look at where the price levels are right now and then back to some of the earlier graphs as well, I mean we are still only rebounding from very low COVID levels there.

Finally, then, if we look at some of the other elements here, you see that there's a big negative from the net of timing and hedging. I mean, the figure itself was not very big in the quarter, but it was very positive in the first quarter. So, in that sense, this is more of a bridge impact that you can see here in this slide.

Maybe one word more from the sort of risk side. Clearly through the quarter, and I would say increasingly through the quarter, we have seen that supply chain issues are also visible through many of, for example, consumables that we are using or if we think about freight availability, logistics, etc. So, it is clear that the whole market and the system is under more pressure. I think we have been successful in mitigating those. Also if you look at the European figures, there's really not any inflation to really mention in the real life figures here yet, but obviously these are sort of things in the market that we continue to follow.

But I would then like to really speak a bit more to the BA Americas. And here also the market rebound from COVID is really visible and at the same time a very strong macro environment generally in the market, particularly in the US. So, I would say we are in a good market position right now and that has clearly also been an opportunity for us to operate on a high capacity utilisation level and to really give us that opportunity to have a good look at our portfolio, be able to address the number of leakages, continue with really, really important yield improvements, which get more and more important here as we are sort of fine tuning and fine tuning and improving and improving.

And I think overall if I look at the results that we have here, €65 million in the quarter - yes we had a little bit of positive boost from net of timing and hedging as well - not as much as in the first quarter, but still a good figure - but the underlying performance has certainly improved and I think by now, with many quarters of positive developments, I think we have also shown the strength of the underlying improvements that we have been working with over, of course, an extended period of time. But clearly a very strong market situation here. Maybe a final word on the market situation. Also here, inventories at distributors remain at lower levels than average as we speak.

From the cost side, you can see that some cost increases have indeed already occurred, and that, I would say, particularly highlight the freight costs here that has been something where we have already observed prices going up.

Okay, and then over to ferrochrome, and certainly a different type of market here. Very tight market still even as we speak. Looking at spot prices in China increasing. And I think it's important to look here at sort of both sides of the equation. So obviously demand side is there as you look at the stainless and sort of observe the good market momentum there. But then from the supply side I think certainly a number of issues have occurred and I think that’s still really impacting the market and the prevailing price level that we can observe. And you can see that also during the second quarter, these positive price improvements impacting our results.

And then on the other hand from our own internal performance, some cost increases, some of them related to the overall 10 million maintenance increase that we had throughout the Group. There is a small section here on ferrochrome. But certainly also a number of other fixed costs have increased throughout this quarter in particular. And I think that's a bit of a mixed bag of several items, so maybe that's just worth a more general comment that you can see overall, the cost increases here were negative about 8 million compared with the first quarter.

And then finally, Long Products BA, and yet again, especially if you look at the year on year figures comparing the second quarter of last year - well that's a very weak competition point - but the delivery increase has been very significant and if you look into the details compared with the first quarter, you even see that this has really been sort of the core product offering of Long Products as well and less of the semis, the slabs, which is good also from here a mixed perspective certainly. You see also here in Long Products some cost increase, but I would hear say it’s clearly on the back of the growing volume and overall if I look at the success of the turnaround programme that Long Products’ management is working with, I think we're making good progress there and actually, particularly on the cost side, have already made a lot of those advances and they're already now baked in here in the figures that are clearly improved.

Then let's change gears here little bit and talk about our cash flow. So, maybe still the starting point obviously for the cash flow being that we have good profitability in the quarter and that’s certainly sort of the first cornerstone here. We have a pretty significant investment in the working capital. And if I put that into perspective, I would say during COVID, during particular the year 2020, we were really driving inventories to a very low point reflecting the market that was slower, the demand that was slower, and if we now compare the situation where we have seen an improved demand throughout the first quarter and into the second quarter, obviously gradually we now try to build up a bit higher inventory position to be better able to serve our customers.

So, a part of this inventory increase for sure is something we would also like to sustain going forward, but I just want to say that out of this Q2 impact, we had about 96 million of inventory increase and 40% of that was purely from the higher metal prices. So, even just comparing quarter on quarter, and particularly if you look from a year ago or from here, there is really quite a significant delta from the price level alone.

Another important part here is obviously the accounts receivable, and if I just look from sort of the health of the business and the health of the balance sheet in particular, of course, I think we have extremely good control of our overdues. So, this is really a function of prices increasing, volumes being strong through the quarter, and I would say particularly towards the end of the quarter as well. So we clearly have realised a lot of sales where we now have the receivables building up.

And then again, if I just look a bit forward and look into sort of the development into the third quarter and into the fourth quarter as well, then clearly I would say we need to be prepared to make some investments into working capital for the full year as well to be able to serve our customers. However, we still have the seasonality in our business. That's typically means that we bill working capital in the first half of the year, and we have some releases in the second half of the year here.

Well, you do see some other facts in this picture as well. I'll touch on them really briefly. The provisions obviously on the back of the big restructuring that we are also now seeing giving us some lower cost levels. But clearly there is a price to be paid for that. We have had quite significant provision pay-outs early in the year, so this will become a little bit easier towards the end of the year. But we still have some, I would say, maybe 20million/25 million remaining for the rest of the year there as well.

And then finally you can see our CapEx has been very much aligned with the annual target of 180 million that we have here.

And then from the strategy execution side, actually I think Heikki really gave super good highlights of it. Still just looking at overall here, the elements of it. If I look at the 123 cumulative run rate savings that we have until the end of June, I would first say restructuring is really the change where the execution was very early in this programme and it's clear that we are now approaching about €50 million run rate impact from that. And that's also something that will sort of start to fade out now. What I mean is that we are starting to reach the targets that we set initially here.

Another important portion of this is clearly what we call cost and capital discipline. So, that's really the cost side of the equation we have here seen the improvements, quite a lot actually from the melt shop and then also yield generally, but I would say sort of throughout the categories and the work that we are doing there on the cost side, and we're getting almost as much – so almost 50 million as well then from this on an accumulative basis.

And then from those commercial initiatives that we have described earlier, it is a little bit more than 20 million in this time period. So, I really think going forward now we will see more and more delivery out of the commercial initiatives. And we will also continue to see a strong delivery from the cost initiatives whereas the restructuring is not yet fully done, but it's certainly - we have reached most of the targets there already now. So, generally I would say we have had a very prompt and actually even early delivery on many of these.

And on the right hand side, just wanted to share with you the implementation pipeline in terms of the number of initiatives that we already have implemented – that's 707 - and then 1,007 initiatives that we have in progress as we speak.

And then maybe sort of a few concluding slides on the balance sheet side. I still wanted to recap first on the equity issue. I think it's also important to link that now to the lower debt levels that we have and then also to the positive impact that we have through our cash flow and profitability, as on a run rate basis we are now able to lower our interest costs with €18 million. And we have also subsequently seen the Moody's upgrade of our credit rating, which certainly is also a good step forward.

And then when you look at the net debt development here on this slide, you can see that we now reach the level of 897 million at the end of the quarter. And just sort of linking back to my earlier comments about seasonality also from a cash flow perspective, obviously this is something where we will continue to ensure that we can deliver cash flow and continue to reduce the debt also throughout the remaining parts of this year. And you see that our leverage here is at 1.8 times net debt over EBITDA.

And then my final slide really on the funding structure. I still think it is a super relevant thing but happy to report of course that if you look at this slide, you see that we have extended maturities of our revolving credit facilities, we have a lower amount of commercial paper issued at the moment, and you can see it in our debt maturity profile here where clearly now - a lot of the maturities into the year 2024. And you can also see that a fairly significant part actually of our facilities are undrawn at this point in time. And generally, from a debt structure perspective I think we have a balanced mix of various instruments here.

So, with that said, I think a positive development when it comes to our financing and certainly we continue to be active in this area and fine tune and make sure that we have the best portfolio also on the funding side.

So, thanks very much. And Heikki, I would hand back to you.

Heikki Malinen

Thank you, Pia. And as always, the last slide is the outlook for the third quarter, with stainless steel deliveries in the third quarter expected to decrease by 0% to -10% compared to the second quarter in line with the seasonal pattern. European ferrochrome benchmark price remains stable at USD 156 per pound for the third quarter, planned maintenance costs in the third quarter expected to increase by approximately €10 million compared to the second quarter and with current raw material prices and exchange rates, significant raw material related inventory and metal derivative gains and losses are not expected in the third quarter. Adjusted EBITDA in the third quarter of 2021 is expected to be at a similar level compared to the second quarter, so that is the outlook for the third quarter.

And now Pia and I are pleased to take any questions you may have. Thank you.

Linda Häkkilä

Thank you for the presentations, Heikki and Pia. Please, Operator, we are ready to take questions from the line.

Q&A

Operator

Thank you. Ladies and gentlemen. If you do wish to ask a question, please press 01 on your telephone keypad now.

And the first question comes from Luke Nelson from JP Morgan. Please go ahead. Your line is now open.

Luke Nelson

Hi. Good afternoon. Thanks for taking my questions. Three from me. I'll take them one after each other. Firstly on pricing and mix. The waterfall chart Pia talked us through for Europe and Americas maybe looked like a bit more of a larger price effect than I was expecting in those two segments for Q2. Can you maybe just talk about to what extent there was a mix effect helping within that waterfall quarter on quarter?

And then secondly just in terms of underlying base price or price improvements. How much can we expect to see in Q3? You talked about more pricing to come. Can you maybe give a sense on what we can expect in Q3? That's the first question.

Pia Aaltonen-Forsell

Certainly. Thank you, Luke. And first on the pricing mix. I think the really short there would say that for Europe it was really about pricing and actually we were not in a significant way improving the mix. So even, I would say on the contrary, maybe slightly weaker than in the first quarter overall.

So, in Americas on the other hand I would say that we were able to do some optimisation in this good demand situation and it means for us from a portfolio perspective. So, a little bit of actually positive mix there even though when we talk about mix in Europe, we really typically tend to talk about the value added grades, the pro grades, etc., how we can add them and that plays less of a role certainly for Americas. But within sort of the Americas portfolio we have been able to make some improvements there.

So, I would say that would be sort of the short answer to it. And then obviously when you talk about pricing going forward. I would say the visibility that we have obviously is into the order intake. And certainly I think our comments are also if you look at CRU data or any data out there, it's clearly visible that there has still been order or price increases also occurring during the second quarter. And with the long order books that we have right now, I think it's just good to keep in mind that any orders that we would have booked in in Q2, we would be delivering them towards the end of Q3 or maybe into Q4.

In Americas, it goes a little bit quicker - it's between three and four months these lags. So, there is this whole sort of motion moves a little bit quicker there, but overall just still keep in mind that we do have a number of longer term contracts that – some of them even agreed sort of late last year, so that's why when you observe the improvements that we had during the second quarter, I think that it's just from the order intake obvious that that sort of positive movement can continue also into the third.

Luke Nelson

Okay, that's very clear. Thank you. Second question on inventory and hedging gains, which I think was around 7 million, which implies a fairly big quarter on quarter headwind. Can you maybe just breakout what was an inventory effect and what was a hedging or derivative effect? It just seems at odds with one of your peers that reported recently where they guided to more of a positive effect in Q2.

Pia Aaltonen-Forsell

Yeah, I would say sort of the timing components is here really. It's the big one clearly and yeah I actually noted the same. So the hedging component is not being here. Sorry I don't have the figures on the top of my mind, but sort of 7 million comes to mind. But just to say the hedging impact was not significant at all. This was really more around what we call timing impacts.

And maybe to answer to your question because I did note the same. Just need to say that of course it depends on the metals that you have and the particular impacts whether it's more nickel, whether it's more ferrochrome, or whether it's maybe more moly or something else even that we would have kind of built into our mix. And then it also just depends on where we have the inventory, when did we actually book it in, etc. So, still keep in mind that this sort of gross value of the inventory is actually huge. Just look at the balance sheet, talking certainly above 1 billion. So, even these small changes have a big impact. So, I understand your question, but I think per se the fact is we had more sort of - the timing had more of an impact than the hedging.

Luke Nelson

Okay, that's clear. And then final question from me is just maybe one for Heikki on ferrochrome and more on the ferrochrome market. Obviously we've seen a lot of changes, which I think you alluded to: Russia export tariffs, power issues in Mongolia, and recently Zimbabwe banned the chrome exports as well. Can you maybe just give a sense around how you see this market developing over the medium term? Are you seeing any additional opportunities to extract more value? Obviously development at Kemi will provide some optionality there, but sort of opportunity from a market perspective that was not otherwise there. Would be interested to hear your thoughts.

Heikki Malinen

Right, thank you. First we have to say that coming into Q3 - coming into Q2, we were wondering how the ferrochrome price would ultimately develop because historically that has been quite volatile. I think at least we were somewhat surprised that the market really tightened again in the second quarter as much as it did, and that has seemed to continue even into the month of July through the supply issues you mentioned - electricity, power shortage, power cuts in Mongolia, the Russian tax, different types of cyber security issues in South Africa, of course, and rioting and so forth, which all of that has sort of constrained further the supply of ferrochrome.

Obviously what happens in the third and fourth quarter will be, I think, very much impacted by supply side issues. If the supply constraints remain in place, obviously that would probably maintain the situation as it is. However, if there is of course very sufficient global supply of ferrochrome to meet the demand, so if those constraints go away of course, then the market will be in a different level of balance.

I think overall for Outokumpu, our mine and ferrochrome smelting is running at full capacity. We've got pretty much sort of near a point where we are maxed out. We're trying to in our long term strategy to readjust the mix so that we would have more value added - even higher margin, higher value added ferrochrome grade. But I think in the short term for this year those product development initiatives will not bear fruit, and we're pretty much going to be just sticking with our current product line. So, I think the performance we had in Q2 is indicative of how the business is performing properly this year, but we'll see.

Luke Nelson

Thanks a lot.

Operator

Thank you. Our next question comes from Carsten Reik from Credit Suisse. Please go ahead. Your line is now open.

Carsten Reik

Thank you very much. Two from me. The first one is actually on your ESG measures because you mentioned you want to invest in CO2 reducing measures. My question is what will be the investments at least monetary wise and when will you actually recognise them in the CapEx? That's the first one.

Heikki Malinen

So, thank you. I want to revert to the conversation we had during our Capital Markets Day in May. At that stage we indicated that we had just made a decision. We had made preliminary calculations about what the journey - assuming that the 1.5 degrees will mean a roughly 30% reduction in CO2. So, assuming that's kind of the baseline case, then we had calculated that this is probably going to be somewhere in the 300 to 400 million range. We obviously are going to look at, will the European Union want to contribute in any way to some of these investments. That remains to be seen. And also in some areas we would see that some of our suppliers would be making the investment and then of course from that standpoint we would pay through the price of the raw material or service then we will then cover that capital outlay.

In terms of timing, I think it's realistic to say that we will use the whole decade for this journey, and I think in the strategy as we've launched it, we have been very explicit that for 2021 and 2022 our focus is very much on just getting now the Kemi deep mine investment completed and we have some CO2 reduction initiatives underway for the next couple of years, but nothing major. So, the more substantial investments will probably come in the mid – let's say, halfway through the decade and then as we head towards the latter part of the decade. That's the current view, subject to change. But one thing is certain for 2021 and 2022: Pia told the 180 million CapEx and we're sticking with that.

Carsten Reik

Perfect, thank you very much. This second one is probably one for Pia. You mentioned in your presentation a few times fixed cost increases. Do you see the cost inflation as a trend rather than a one-off? Or do you think it will reverse?

Pia Aaltonen-Forsell

Yeah, so I think what particularly happened in this quarter, if I'm looking at the full Group, is also that we are recognising somewhat higher STI levels, somewhat higher production bonus levels, and also if I look to for example Long Products, it is clear that we have been able to ramp up some shifts et cetera to support the higher volume on a temporary basis, so I think the nature of these for me is not a trend but rather recognising higher production levels, etc., as higher production bonuses for example. So, not a trend there.

I do think that we are observing extremely carefully what's happening in our environment, because clearly, I mean on a macro level there is inflationary pressure, so I'm not sort of ruling out that there is pressure on the cost side. That could also be a trend going forward, but for these particulars, I would say no, more of sort of particular events in the quarter.

Carsten Reik

Perfect. That helps a lot. Thank you very much.

Operator

Thank you. The next question comes from Ioannis Masvoulas from Morgan Stanley. Please go ahead. Your line is now open.

Ioannis Masvoulas

Yes, thanks very much for taking my questions. I'll start with the first one. As activity returns, you mentioned that you're looking to invest in working capital, particularly inventories. If we were to assume that spot market dynamics persist, what sort of investment should we expect for the full year, including obviously some of the release that you're expecting towards the end of the year?

And the second question is around Europe. So, if I look at EBITDA we are still far below the 2017 quarterly peak levels, despite exceptionally strong base prices on the spot market and the headcount reduction that is progressing well. I appreciate the negative volume seasonality in Q3 and the fact that spot prices are feeding through with a lag, but could you give us a sense on when we should expect to see a step change in profitability in Europe? Should the spot dynamics persist, and do we need to possibly wait until the first quarter of next year? And I'll stop here. Thank you.

Pia Aaltonen-Forsell

Thank you, Ioannis. Indeed. First let me let me address the working capital question and I still think that there are a few things that we are following up extremely closely before we take the final decisions on how we run the inventories towards the end of the year. And that's really also a lot to do with sort of the market visibility into the first quarter, which I think after our earlier comments, I mean we are clearly today at least experiencing customers asking for contracts even into 2022, but as always, I mean this is something we need to monitor really carefully.

But let's say on the assumption that the markets continues on a strong note, it is clear that if I sort of look at – let me just take it as a sort of a euro amount, I mean, big picture, 2019 we brought home €219 million cash from working capital. 2020, we did the same and a little bit more, so it was like close to 250 million that we brought home. Cash in from working capital. So, we have significantly reduced those levels during the last two years. Also at the same time obviously the market was going down and down. Now if I look at the first half, now in a better market situation, we have invested cumulatively 255 million in working capital and really sort of the big ticket item from inventory with also a lot of value change and then the second big one from accounts receivable.

My best sort of assessment of with the current knowledge that I have, but this is still subject to the final decisions that we will take towards the end of the year, it is that for the full year we will need to invest somewhere between €100 million and €150 million. So if the market is really strong, it could certainly go up even to the €150 million, so that would imply that we would have a little bit of cash in from Q3 and Q4, but those would not be significant amounts, so I think that's sort of the order of magnitude where we can see it or where I can see it right now. But still subject to basically – from my perspective, not daily, but the weekly review of how things are proceeding.

So maybe then further to the BA Europe question, I think that you did pick yourself on one really key item there, which is the lagging when the pricing is actually visible in the P&L. And I think that's just down to the fact that okay, first of all, with a five to six month order book, it just means that we see those realised prices at a later point in time.

Another point that I think is important is also mix because the value added grades are still at a lower level than what we have seen in 17 or in 18 or even in 19 and I think particularly that value added impact - also, the profit is quite significant, so I think that those are sort of two key elements that at least I would sort of immediately say that we have to observe how the development of the mix continues. And I think in the order intake we have seen a gradual uptick, but I think, as I also said, quite carefully in some early, of course, as this gradually really means gradually to be seen in the invoicing. So we are maybe from the interest in the market and the dialogue with the customers approaching more normal levels, but we are not yet there when it comes to the value added. So at least those from the revenue side, I would say sort of immediately comes to mind.

Obviously 2017 that you compared with also was a really, really different year in the sense that the first half was really strong and then we really had a dip towards the second half and now it seems that the sort of annual dynamic is a bit different this year.

Heikki Malinen

Just to build on that value added grade, you remember that for example in 18/19 we had a very strong scrubber business and the scrubber business at the moment is pretty much not active. So when will that return? Hopefully soon, but these are sort of sub-pockets of the pro grade business which are important for profitability and at the moment they are missing, and the order book has had a very high wait of these so called flat stainless classic rates.

Ioannis Masvoulas

That's very clear. Thanks for the comments. And maybe one more question on the Americas division, if that's okay. So you guided the medium term EBITDA potential for this division in the order of $150 million to $200 million, which translates to around 200 euros per tonne at the upper end of the range.

And the fact is, if I look at H1, your EBITDA per tonne has been north of 300 euros per tonne and US based prices continued to rise into the second half of this year. So shall we expect even higher profitability per tonne in H2 this year versus H1? And then is there a case for revisiting your medium term guidance or is that upside fully a function of better market dynamics? Hence there is no reason to change your medium term outlook. Thank you.

Pia Aaltonen-Forsell

If I start answering the question just from the sort of perspective of the medium term outlook with 150 million to 200 million. Obviously, we want that to be sustainably strong on an underlying basis, so in the realised EBITDA as we see right now, obviously we still have some timing and hedging gains both in the first and in the second quarter. I mean order of magnitude closer to $20 million. So, just to keep that in mind, but I'm sure you already did.

Overall, of course, now the market momentum is good and the macro environment in the US is really good right now. Can we assume that this is a sustainable position? Well, we have visibility with the order book, etc., and clearly - well, we are all following the market dynamics in the US. So how long will this last? We will see.

And then what is really important for us is to build that underlying sustainable strength in sort of the overall platform that we have there. And I think we are making a lot of good progress there, but certainly not yet at the point where we would change that midterm view of the potential.

But then as to your more specific question also about margins in the second half. Obviously we are not guiding for the second half. Just sort of the components as we can see right now really from a volume perspective obviously.

Historically there has not been seasonality in the US the same way as for Europe. So the seasonality with lower volumes has historically really been more a European phenomenon based on just how markets operate here and then as well in the US we have seen in the order intake the pricing momentum. So, obviously there are some key components and then as to development throughout the rest of the year, we will continue to observe.

Ioannis Masvoulas

Understood. Thank you very much.

Operator

Thank you. The next question comes from Patrik Mann from Bank of America. Please go ahead. Your line is now open.

Patrik Mann

Good day. All of my questions have been answered except for just one, which I maybe wanted to ask Heikki a little bit more about. You spoke about how the CBAM doesn't particularly help stainless if it excludes the Scope 2 and Scope 3 emissions. Could you just talk a little bit about why they've been excluded from your perspective and what is the difficulty in getting them included? It does seem like quite a glaring omission if you only look at Scope 1 to compare the products, as it seems pretty meaningless. So, why has the situation developed this way? And what does the EU see, or EU need to see in order to expand it to include Scope 2 and Scope 3? Thank you.

Heikki Malinen

Yes, thank you. It's a very important question. I'm not able fully to answer that in particular because we don't have sort of visibility on the, let's say, decision-making process within the European Union and the specific sort of thinking that would have gone through.

If we look at, for example, the Scope 2 piece. So there we know that there is a link also to these energy cost compensation mechanisms that we have in different countries like in Finland where basically the market - the government is sort of compensating for part of the extra energy costs that we are incurring and the thinking there is that if Scope 2 were to be included in the CBAM, then that energy piece would be taken away.

On Scope 3, my guess – and this is purely a hypothesis - my guess is that this CBAM in itself is quite a complex animal. The next couple of years there will be a testing how the system works, getting the reporting going. It will be probably I would assume a bit of a challenge and for that we can probably just doing Scope 1, because that is also the same for carbon steel. That was sort of probably an easy, straight forward mechanism how to move forward at this stage, but I do want to underscore that, as you saw from that ESG slide I showed where we have our 1.5 tonnes of CO2, this is a fundamental issue for us.

The overall carbon footprint difference between us and the Asians is so dramatic - it's almost four to five times. That if one wants to really have C brand with some validity and some peace, one has to include it. This is my personal view and let's see what time will bring.

Patrik Mann

Thank you.

Operator

Thank you. The next question comes from Rukuz Braouneiser from Kepler Chevreux. Please go ahead. Your line is now open.

Rukuz Braouneiser

Yes, thanks for taking my questions. First one; let me go back to the previous question on inventory gains. I want to get a better feeling about what's happening in Europe actually. I think you had a negative effect of 13 million in the quarter from timing and hedging versus a benefit in Q1. And I think that was pretty much in contrast to what your competitors were reporting, and also the outlook for Q3 where you're not expecting any meaningful effect because there seems to be some difference. Can you explain to us what is running differently? Is it just the mixed metals in the quarter? Or how shall I think about that?

Pia Aaltonen-Forsell

Thank you for the question. I think it's a really – it's a fairly detailed question, but let me try to make sort of a few observations. I think first of all, looking back at the first quarter, where, from our figures as well, you can see we had really significant gains in this area and at that point it was really we could see nickel running through the system. We could see also at that point, some in ferrochrome, and also for example in iron ore. So, from all of these important cost components, we really sort of have this boost and this increase.

And then if you think about sort of the nickel movements and then we had this kind of sudden drop in the end of the quarter and then of course sort of gradually climbing up again. But looking quarter over quarter, there is not any more sort of on average level that's significantly different.

Obviously also we haven't had, let's say, the same boost in that sense as we had in the previous quarter through all – then we had all of the three and now we just have sort of smaller movements.

But then the other part of the equation that I think is more company specific, it is of course the mix. Do you have more austenitic? Do you have more ferritic? What sort of metals do you actually have there? And then obviously as well where do you keep your inventory? When were you pricing in? There's a lot of sort of detailed differences that still if I look at the significant amount of money that we have tied in these metals through the chain and in our inventories it is just that that underlying amount is so big that the level of changes as we see right now are still, at least for me, understandable that they could vary and that they are not necessarily in the same direction.

Rukuz Braouneiser

Right. Then the second question is on your others line. I think different to previous quarters, you recorded, or you showed up pretty high negative number this time - like 19 million versus 7 million/8 million in previous quarters. Can you help us a bit how we shall understand the changes and what we shall think about the run rate for the second half year?

Pia Aaltonen-Forsell

Indeed, and I think sort of the biggest impact that we have here, the delta in this others, is relating to the sort of internal inventory - should I call it gains - or valuation gains that occur through our chain, if we are selling good between our business areas and then need to eliminate it on the top. So I think there's just been a little bit more of this sort of cutting the inventory values on the Group level in this quarter. And I don't think that you should interpret this as a trend, but rather of course if you look at sort of historical averages, how this has varied, now we I think ended really at the top end. I wouldn't expect us to always be at the top end, but this is maybe one of those areas that is even internally - really getting the estimate right on this one would require to know exactly at the end of the month exactly where we have the goods and whether they sort of pass on already to customer or were still in house.

Rukuz Braouneiser

Right, understood. So, again on the fixed cost items, but maybe specifically on ferrochrome. So when I look at your performances, I think volumes were in line, and I think your average realized prices were pretty strong actually, but in contrast to that I think there is obviously some effect coming from the cost side running against it. Can you explain to us -

is this the same story? Is it kind of the bonusing? But I don't think there's so much of an element of dealing with higher volumes. So, what is the nature of the fixed cost increases at ferrochrome?

Pia Aaltonen-Forsell

No, you are absolutely right that really from sort of a production bonus perspective, the impact is not as significant in ferrochrome. There is some from the more sort of general STIs obviously, as our profit levels are improving, and we are hitting some of those trigger levels and also some other KPIs that we are you doing – I think we are sort of showing good numbers at this point in time.

So yes indeed, out of this 8 million in total I mean not more than one quarter was from slightly higher maintenance in the sintering plant, and some of these sort of STI related accruals. But that's not even a quarter of that. That might be sort of slightly less than that. And then there was just a number of, let's say, other discourse increases in the quarter here. So I would say certainly an area that we are paying attention to. There was actually even a little bit of variable cost increase because that 8 million is the overall cost increase there. So, I would say a number of cost increases across the range in this quarter in ferrochrome.

Rukuz Braouneiser

Okay. And then on the whole 2021 and beyond, how should we think about your actual cash taxes? How long can you run with such low cash taxes from your loss carry-forwards?

Pia Aaltonen-Forsell

I think sort of based on the balance sheet from the end of last year where I think we are also sharing the sort of country by country, we still are running more than 500 million or so of gross tax losses in, for example, Finland, we have tax losses in Sweden. We have tax losses in Germany. And particularly in the US we do have a long tax loss history without even recognising them in the balance sheet. So, I would say that we still have some runway ahead of us. I mean we are speaking here more than months here sort of from a cash perspectives, tax is not likely to be high. We do have some countries where we are paying tax and that's why you will see sort of a slight cash tax out there and that's what I would also expect sort of in the near term future.

I'm trying to see if there's sort of any country where - significant operating country where we would be running low, but no, not yet.

Rukuz Braouneiser

Okay, that's pretty helpful. And then finally on the CBAM proposal and for the pass way [ph 01:03:18]. What kind of view do you have until that whole European framework in regard to CBAM, EU funding, etc., etc., is being fixed in a sense that you could start investing into the decarbonisation projects you have in mind? If there's kind of a two year story where we don't actually know exactly what's happening? Do you expect this to be clearer with the test phase of CBAM? What's your thinking on that?

Heikki Malinen

Obviously we don't have a crystal ball, so these are more sort of our personal observations and views which are based on different sources. Some maybe people who know for sure and others who are maybe just guessing, but I would just say that it's our understanding that there's probably a lot of political, let's say, will to move forward with CBAM and with this whole programme very quickly. But I think the reality is that as part of the political will, things just take their own time and as we see the next couple of years on CBAM will be simply reporting and then really the rubber will hit the road after that, when the moment comes that you actually have to transact and potentially buy these ETS credits or put money on the table if you are importing.

That moment will be critical, and we will then see what happens when we get to - is it 2023 or 2024. In terms of EU willingness to support industry, the EU has of course made very bold statements about their willingness to allocate quite substantial amounts of capital. If there are opportunities for us to participate in applying for types of EU funding, we will indeed explore that. I think as I said to your colleague earlier, when he asked about CO2 related investments, the next couple of years for us are times when we are doing a lot of research and exploration. And the time for larger investments around carbon will be in the future and when we start talking about step two of the strategy and particularly step three of the strategy, then we will bring sort of concrete ideas to the market on what we intend to do. But the time for that is not yet.

Rukuz Braouneiser

Okay. Got it. That’s clear. Thank you very much.

Operator

Thank you. The next question comes from Anssi Kiviniemi from SEB. Please go ahead. Your line is now open.

Anssi Kiviniemi

Hi guys, thanks for taking my question. So, I have three of them left. First looking at the mix in Q2, it was weaker in Europe. Can you elaborate a little bit why is this and what should we expect in Q3? That's the first one.

Pia Aaltonen-Forsell

Yeah, thanks. Hi Anssi. So, I think why is this? I would say generally when we've seen the rebound in volumes it's been extremely strong in the kind of consumer driven or sort of closer to consumer appliances, automotive, and this sort of almost like later wave of more the industrial, the big projects is probably sort of only starting or maybe even somewhat ahead of us. So, Heikki spoke about the scrubber business. That business is certainly not alive yet. It has been extremely still now for a year. So, I would really say we are at a lower level than normal in the value added grades in Europe. And then compared with Q1, the change was not significant. But there was a little bit more of the standard grades for short.

And in the order intake, we can see more interest and also we are booking orders so I would expect that already for the third quarter we have a step up, but this is not a huge step. This is more of a gradual increase that we will then more see also in subsequent quarters.

Heikki Malinen

And if I could just build on that. We have to recognise that we have a lot of demand now for also these classic grades. So in order to make progress we will then have to take out capacity for classic grades and reallocate that to pros. And when you're sort of full, as we are, that's not an easy choice because you will probably disappoint some customers who want classic if we start producing pros. So, I think we cannot make a dramatic shift here. Even if we had customer demand for pros, we have to make sure that we first take care of the commitments we made with our existing clients and then gradually [? 01:08:12] a bit more value added when that market starts to move.

Anssi Kiviniemi

Okay, thanks. It makes sense. On volumes and guidance on Q3. How will Europe and Americas contribute to that? Is the kind of idea right that in Europe perhaps the volume is going to decline more, whereas Americans will be quite stable? Or how should we read that situation?

Pia Aaltonen-Forsell

Yeah, thanks, Anssi. So, first of all I would just say that based on the fact that we are already on high capacity utilisation levels, I mean it's clear there's a limit to what could actually grow basically throughout the flat business. Then again we do not give guidance per business area, but I still think it's fair to say that we do observe these typical patterns where in Americas if you look at seasonality, it is really usually the fourth quarter with Thanksgiving and maybe even Halloween, Thanksgiving, Christmas that tends to be a somewhat slower quarter. Whereas in Europe really, Q3 is all about summer holidays throughout the European countries. So, obviously we are observing the same pattern, I would say, as has historically been there.

Anssi Kiviniemi

Okay, thanks. Then the last question is on the market balance. I mean, looking at the stainless spot prices in the US and Europe, the latest moves up have been basically driven by the expanded steel margins or base prices for the producers. You have quite a lot of pricing power currently. In your view, what are the most relevant risks for this situation to end or unfold? What do you see in the market?

Heikki Malinen

Well, obviously when you look at - if you look at the market dynamics from a supply demand standpoint, of course, when it comes to imports outside of Europe, which would bring in substantial excess capacity short term. Well we have now the EU's decisions on quota. We have the antidumping duty. So, those are enforced. They are valid. I would pretty much take that risk out.

Then there is of course just how consumers are behaving, but what we are basically seeing from different EU countries is a quite strong economy. Consumer confidence is very good actually. There's a lot of liquidity in the market. Asset prices are going up. It would have to be something that - really sort of a shock of some sudden nature for this to change short term. But of course we know that we live in a world where sudden shocks can come. We've seen them in the past. It’s impossible to project. So at the moment we are, I would say - the situation looks quite good for us, and it's very much now just make sure that our mills run effectively, we manage costs, and we complete now the strategy projects towards 200 million that we promised, and we will definitely do that.

Anssi Kiviniemi

Okay, great, that's all from me. Thank you.

Linda Häkkilä

Thank you all for your very good questions and thank you Heikki and Pia for the presentation.

Before we close the event, I would like to remind you that Outokumpu will publish its Q3 results on November 4th. But now, thank you once again and have a good day.