

Outokumpu Q4/2022 results webcast - transcript

Linda Häkkinen: Hello all and welcome to Outokumpu Q4 and Full year 2022 Results Webcast. My name is Linda Häkkinen 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 the management presentations and after that, we're happy to open the lines and start taking your questions. Year 2022 was definitely a historic one for Outokumpu. Our earnings were on a record level and Outokumpu was net debt free at the end of the year. Before we start going through the presentations, I would like to remind you about the disclaimer as we might be making forward looking statements. Now, without any further comments, I would like to hand over to our CEO.

Heikki Malinen: Thank you, Linda. Good afternoon. Good morning, everybody. Welcome also on my behalf to Outokumpu's earnings webcast. It's really great to be here today. I feel extremely proud and happy to have the honor to go through the results of 2022. As you noticed on the first slide, we had that photo of some of our Outokumpu employees from Vilnius in Lithuania. That big smile that the team here had on the photo, portrays a bit of the sentiment in the company at the moment. A lot of big smiles for the hard work of the last years they're materializing in such a good financial performance. If we now dive into the actual story here, so as Linda already said, €1.3 billion of EBITDA is by far the best financial results of this company probably ever. Of course, there are many things that drove that result. As we all know, last year was a story of two parts. The first half market situation was extremely strong, and of course, that further gave the company a lot of momentum. We were running pretty full all the way through summer.

Heikki Malinen: Our operations overall, performed very well last year especially with the very challenging energy crisis that hit us then as we went through the summer of 2022. Our Ferrochrome operations probably was the one that was hit most. Clearly from energy, of course, it's a huge electricity user and therefore when electricity prices spiked up so highly in Q4, we of course had to take rapid and decisive measures. Cost inflation, of course, has been a much broader topic, not only in energy, but also many of our consumables other sources, factor inputs have also been rising. As we'll probably cover later on today, the enormously volatile nickel story of last year with some historic phenomena in Q1. Then finally, when I mentioned that sustainability, of course, is an extremely important part of our strategy both in terms of raw material and recycled material content, we are really the leader and also in terms of CO2 emissions in the industry globally.

Heikki Malinen: A few words first about the market. If we take a quick look at the upper right hand corner where we have nickel price, this is an averaged out picture. Therefore, you don't see the month and day to day volatility. However, as you recall, 2022 was a pretty weird year because we had that huge short squeeze in nickel already in March. I think in general, that just shows that 2022 has been quite a difficult year from the standpoint of how to manage nickel risk in our business. As you can see from the picture in this slide, nickel price has been trending upward. We're actually still at a fairly highly elevated level. We're

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almost touching \$30,000 per tonne. Historically speaking, in an environment like we're facing today, nickel typically would have been at a lower level. It is high LME and the inventories are very low. Of course, one might ask or one has to ask, so what is driving that? It's very difficult to get an exact answer. Is it the boom in electrical vehicles? Although even that has somewhat softened here recently. Is it energy costs? We just don't know for sure, but anyway, this is kind of the situation we're facing and that we have to manage.

Heikki Malinen: On the lower left hand side, you can see transaction prices. Last year, of course, and the second half of 2021 was really a period of fairly high prices. In some way, we were back to record levels we had not seen since 10, 15 years prior. I guess what I can say about that is that you should think about the price level where we are today more as a normalization of prices. Yes, they have been coming down a percentage wise quite a lot, as you can see, in particular for Europe, but this is more normalization of the level. That's how I would ask you to interpret that. You can also see that the gap between Chinese prices which are shown here in green and then Europe, which is the light blue one, that difference has also narrowed. This of course, is critical because that delta between Asia and Europe does in many ways, when you factor in of course, freight rates, it does drive the level of imports into the European Union. We have had COVID restrictions in China for three years. The Chinese market has been probably quite weak, and of course, that has sort of put increased pressure. Either Chinese producers don't produce stainless or then they just have to export and of course, Europe is a popular destination for a product originating from China or Indonesia.

Heikki Malinen: Then if we take a look at the results for 2022 for the whole year, 2021 was a great year in itself. Nearly a billion in adjusted EBITDA, we ended up with €1.256 billion for the fiscal year 2022. Really, as said, a record achievement. Our deliveries were down by seven percent. Very strong in the first half and in the second half, clearly weaker. Our prices were clearly higher, as you could see from the previous price curve chart. It did, of course, drive our results upward as seen. Then of course, we had as a negative factor, cost inflation. I have to say in 2021, we were able to manage costs quite well. Inflation was creeping in, but we were still able to buffer that. Then in 2022, the inflation just started to come through and even with our best efforts, we just couldn't stop it. It just came through various sources in the company.

Heikki Malinen: If we then look at the fourth quarter and of course, this is an interesting situation because I have to say that the first half of the year, we were very much capacity constraint. Demand was very, very high. Then we're moving into a market where suddenly we're seeing the market demand drop. Especially as we got into Q4, demand in some pockets of the market really started to almost hit the brakes. We as a large company with thousands of people and many sites, had to pivot the organization very quickly from a model of being a capacity constraint to a demand constrained model where the focus is extremely on cost mitigation and even harder driving productivity. I'm really pleased with how well we were able in the summer months of the year heading into Q3 and then Q4, really do the pivot and get the organization to focus a little bit differently on how to run the business given the changing circumstances of the fourth quarter.

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Heikki Malinen: Now, if you look at this chart, it's interesting to note that Q4 deliveries at 450,000 tons were relatively speaking, absolutely low if you even compare it to the COVID lows of Q3 2022. It's my sense though, that many of our customers, especially in the distributor segment, had bought a lot of product. We heard in Q4 that a lot of customer inventories were very full with the product including some of the harbors. Many of the distributors just decided, hey, the fiscal year is coming to an end, probably we had a good year. Let's hit the brakes. That, of course, led to a pretty rapid deacceleration of demand for us, then, of course, bringing deliveries down quite substantially. Here on the lower left hand side, you can see our EBITDA 110 for Q4. Q3 was extremely strong over 300 million. The best quarterly result we'd ever had and then we dropped. Relatively speaking, quite a huge drop but then if you look historically at Q4, it's not that terrible a quarter in many ways. It's a reasonable quarter given the acceleration of the market. Given the energy crisis, I personally feel 110 was a pretty okay result even when you compare it historically and the headwinds and overall the costs. Here we are at 110 and I said stainless deliveries decreased by eight percent, and then the price declined, which accelerated as we headed into the end of the year, 60 percent impact on that red bar. The rest came from the fact that we did not have these one off positive metal impacts that we had in the third quarter, minimizing the price decline. That's the story for Q4, and we can answer your questions a bit later in more detail.

Heikki Malinen: I would like to say a few words about sustainability. This is, of course, a very important part of our strategy. At Outokumpu, we start every meeting and session in the company with safety. If you look at that upper right hand corner, you can see our safety trajectory. For many years now, we have been able to reduce our Total Recordable Injury Frequency Rate, TRIFR. With 1.8, I would claim that we are not only one of the best in the stainless steel industry, but we're probably at the world class level compared to many other industries. We have many sites in Outokumpu where actually we didn't have any major accidents during the whole year at all. Just looking at the side by side results, I'm really proud with the work we're doing and obviously, our target is to have no accidents. The work is definitely not done, but the trend is strong and it does position us in this respect as a sustainability leader. On recycled materials, the level of 94 is probably, I believe, very, very high world leading. As many of you probably are interested in how our company is positioned vis a vis the EU taxonomy, I wish to remind you that 91 percent of our sales in '22 was both eligible and aligned with the EU taxonomy. Please factor that in your analysis.

Heikki Malinen: We're on an ambitious journey to decarbonize Outokumpu. We're the only company that has committed to the SBTi 1.5 percent and that has an approved SBTi target. This is the journey. We will systematically reduce our emissions by 30 percent till the end of the decade. This is keeping us at the forefront of emission reduction and keep making us the sustainability leader.

Heikki Malinen: Then the last slide I would like to show you before I hand over to Pia is just say a few words on Long Products. I think over the past years you've asked me from time to time our plan on Long Products and I've said it is non-core and we have had a strategic review. We kicked off a turnaround program with a whole new management team in July of

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2020. Over the last two plus years, we really fundamentally improved the way the business was run, we improved the profitability of the business and performance. Safety also became better. In many metrics, LP was a much better performing business. The reality is, we have a strong focus on the core of the company. We would allocate our capital into the core stainless business, commodity side and the advanced materials. Therefore, Long Products did not fit into the portfolio. I have to say I'm very pleased with the outcome of the divestiture that we have now completed. We have the money in the bank. The total consideration on a debt and cash free basis is 228 million and our net debt in Q1 will be impacted by having a reduction of 100 million.

Heikki Malinen: Overall, if I look at the earnings we generated between the summer of 2020 until the end of Q4 2022, plus the residual in incremental cash that we got from the divestiture, that amount of money in my view is quite substantial and we have created good shareholder returns through the way we managed both the turnaround and through the way we executed the divestiture. With those words, I think the LP story as far as we are concerned is done and I wish the LP team good success with the new owner. Now, let me hand it over to Pia to go more deeper into the financials and I'll come back with some more commentary about Q1 and the future, please.

Pia Aaltonen-Forsell: Thank you, Heikki. Dear audience, what an honor for me to be here as CFO of the company today us being debt free and resilient and the de-risking completed. We are financially stronger than ever before and we deliver a record result for the year 2022. Let's first look at a few facts around the balance sheet. On a high level, liquidity as well increased and I'll actually have a bit more detail of that still talking about the funding structure that we have right now, but it's now up to 1.4 billion. We have an 800 million committed credit facility that we haven't used. That's something that we did refinance during 2022. Actually, during the first half. At this point, we have no commercial paper funding left at the year end. On top of that, obviously, our balance sheet is already impacted by the full share buyback program that we're now in progress of doing. It will amount in total up to 100 million. At this point in time we have already taken that as a liability, so that in full is impacting our net debt now.

Pia Aaltonen-Forsell: The KPI table on the next page talks about a strong financial performance. I will come back with a few more comments on the BA specific figures and talk a bit more on the deliveries. As Heikki had pointed out, obviously that is a figure that particularly for the fourth quarter, is a weaker and a lower one due to the softer market and destocking. However, if we look at the result of 110 million for the quarter and the adjusted EBITDA of almost 1.3 billion for the year, this has also delivered us a really good net result of more than a billion euros. What is of course a bit extraordinary in the year is that due to the improved performance in the US, we were also able to recognize in our balance sheet basically the right that we have in future years to use old losses or recognize taxable losses so that we don't have to pay cash out taxes in the future years. Let me just say that from accounting perspective, this is important. It adds something to our balance sheet. It actually adds profit to our PNL. However, from a cash perspective, this doesn't make any difference.

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I actually wanted to point it out here that really from the underlying operations, more out of the record level earnings per share of €2.40, we did have €0.67 out of this deferred tax asset booking in the US. We also published a separate release of that in December, if you are interested in more detail. For me that leaves €1.74 as a more regular EPS to be looked upon. On other important KPIs from this page, I would highlight the return on capital employed now at 22.6 percent as well as the net debt being negative.

Pia Aaltonen-Forsell: I have one page here about strategy execution. You remember that we launched the phase two of our strategy execution last summer. Now we have started the journey of reaching the financial target of 200 million EBITDA run rate improvement that we're targeting. I think what I want to illustrate with this chart is that we have now come after a good start. We have €28 million run rate improvements that we have achieved during Q3 and Q4 of 2022. If you just look at linearly, you know how much we need to do monthly to reach the 200 million by 2025. We're actually in a really good pace there. The three areas that we're focusing on here are the growth from productivity, the customer focus steering and sustainability. I think these are areas we will then return to also in our later report. The start has been good and solid since last summer.

Pia Aaltonen-Forsell: On to my next section where I have comments on our business area performance. I will start with business area Europe. Obviously looking from a profitability perspective, deliveries as you can see here have been at a somewhat subdued level, however, with not much change anymore from Q3 to Q4. Heikki already talked about some of these impacts, but obviously the destocking and the distributors turning to a lot of imports that happened in Europe earlier in the year of 2022, particularly during the summer. I would say towards the end of the year, we already saw imports declining. We also saw an end of this destocking cycle and what we see now is somehow the light in the horizon so to say. We do see a return of the distributor replenishment gradually starting. When we're now looking at the current market environment in Europe, obviously, annual contract negotiations are just in the completion phase and we have completed more contracts compared with the previous year. I get a lot of questions about what is the price level there, and I and I always want to refer back to something I also said a year ago, which is that through the years we have observed that there's less variation year to year when we really talk about long term annual contracts. Without saying, well, it's exactly €100 or it's exactly €150 or something, if you just look really longer term, it's clearly a flatter curve with some variation and I would say, in 2023, the contracted prices are a bit lower than they were in 2022. However, I certainly would only talk about a slight impact there. You may also ask that, since it's growing, how big is it now? Well, the share of annual contract is still below 50 percent, but we have been able to increase it from the previous year, which I think is a good sign in this market environment.

Pia Aaltonen-Forsell: If we look at the market and what has impacted it, obviously the whole autumn was also all about electricity. How expensive it is to run operations and that impact the margins. Of course, higher electricity prices also impacted our BA Europe result. However, we have been able to continue with operations throughout the autumn and I

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would say the same goes now for the spring time. At the moment, we're fairly well booked for the first quarter. I think that also gives us the confidence for the guidance we have on the higher volumes. We have a little bit left to book for March, but we're really focused now on booking the second quarter. Just the final word on BA Europe and the electricity in particular, this also impacts ferrochrome, obviously even more so than the stainless steel operations. As those of us living in Europe have noticed, we have definitely been able to regain, maybe even a little bit of optimism or at least a more neutral position when it comes to electricity and of course, in particular gas, where prices are down to the level before the whole Ukraine war started. This also has an impact on electricity. Weather has been much better or much warmer than could be expected. Q1 normally should be, at least in the Nordics, still a really cold period, but actually weather has been to some extent warmer. This has taken away some of the spikes. In Finland, we're still due to wait for the new nuclear power reactor Olkiluoto 3 to really get into commercial operations. We're still in a trial period at this point in time, and that is still important for the future. We're hedged about 70 percent now on electricity for the first quarter, so I think we're in a good position to continue operations here.

Pia Aaltonen-Forsell: Then onto BA Americas, obviously here the distributor de-stocking has been almost more brutal, I would say for the fourth quarter. You see a really low volume, 125 kilotons. This is really impacted by the typical seasonality where Q4 is the weakest in the US in particular, but at the same time, a real soft underlying market because the destocking has impacted the fourth quarters. However, we still see that it could impact into Q1, and maybe even during full of Q1. The destocking cycle is still definitely ongoing when it comes to the US in particular. I think we need to mention one more thing that actually in the BA Americas context was quite big in the fourth quarter and that's the negative impact of net of timing and hedging. That's really negative timing that's impacting here. It's a 29 million figure in the fourth quarter comparing with the overall results that has of course, some significance. If we look at the full year, obviously Americas has delivered a remarkable result and really good operational performance. I don't want to leave the team without a thank you. I think given our overall performance here for the year, we should still be really, really proud.

Pia Aaltonen-Forsell: Finally, Business Area Ferrochrome. Here, the high electricity prices have really given us no choice but to really curtail production. We have discussed this before, that one of the furnaces has been closed and we have continued with optimization. This is really electricity price driven. This continues now a bit into the first quarter. We're still at this point now looking at 50 to 60 percent capacity utilization.

Pia Aaltonen-Forsell: A few more words on the cash flow. I think we had a strong cash flow on the back of a good performance result wise. In the fourth quarter, we already turned into actually getting some cash out of the working capital. However, if I look a bit at the full year and focus on the build up of working capital, I think there's a few words that are worth mentioning. The first one, obviously, is that when it comes to inventory, this is really not about volume, this is about value and the same goes for accounts receivable. There's one more important item that has contributed or resulted in this quite big working capital

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buildup during the year, and that is the accounts payable through redirecting of some supply chains where earlier we were sourcing from Russia and now have been then looking for other sources. I think that's worth mentioning that the AP impact in this working capital is also fairly significant.

Pia Aaltonen-Forsell: I will move on to my next slide and this is the final time I will show this slide. It shows our debt and leverage development and you can see that we have now reached our target, actually, no net debt. We have promised as a target that leverage would be below one times in normal market conditions. I think that's fulfilled. This is now the grand finale for this page. I also want to still include one page on our funding profile. I think this shows a balanced funding profile. Obviously, our gross debt has decreased a lot and also when you look at our debt maturity profile, it is balanced and well managed at this point in time. With that said, may I hand back over to you Heikki.

Heikki Malinen: Thank you, Pia. Let me say a few words about the coming quarter and make some general observations about the environment that we're living at the moment. We're obviously, going through some dramatically changing times. It gives me a lot of comfort here as CEO that I can say that with that balance sheet and the financial situation that Pia went through, we have a significantly improved resilience and that will really allow us to create value in these changing circumstances. You've seen our strategy roadmap before. To just summarize where we are again. Phase one was completed. The de-risking is done. We have the strong balance sheet, as Pia already mentioned, and now we're in phase two. It's about strengthening the core and Long Products has been sold and now we're really trying to extract even more value from our existing assets by allocating Smart capital. We will remain capital disciplined and the focus on shareholder returns is now higher than before. Sustainability, of course, is underlying everything we do.

Heikki Malinen: Now in terms of shareholder returns, it does give me great pleasure to report that the board directors propose to the AGM that we will pay a base dividend in the amount of €0.25 per share. That's the base dividend. On top of that, as a plus, we will pay an extra dividend of €0.10 per share for a total of €0.35. That amounts to about €150 million. On top of that, as you know, we have the ongoing share buyback program in the amount of €100 million. All those together amount to €250 million. As I said before, our aspiration is that we're seeing attractive, especially for a longer term shareholders. We understand the volatility of the business, but we hope that this type of an approach gives our investors comfort to stay with us through their longer term.

Heikki Malinen: Now, here's a new chart I want to show some observations about the market environment and really more a bit of a holistic view on what's happening around us and what might be drivers of our business. I want to underscore the fact that this should not be taken as guidance. I'm just trying to raise some of the key themes that we're also monitoring carefully. On the left hand side, more looking at positive upside impacts. I said the distributor replenishment should now begin in Europe. We have clear signs it is starting

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in the United States. It may be still going through the end of Q4 before we really start seeing that happen. Eventually, we're now coming closer and closer to the point of restocking and of course, that should then give us upside trajectory in our order inflow. Also, there are signs that ferrochrome demand is picking up. That's a very positive thing. The demand for advanced materials continues to be strong and I would say that with the exception of the construction sector, which is probably at its weakest in, let's say, a decade, all the other sectors where advanced materials products are sold, seem to be doing reasonably or very well. Finally, on the positives, I think we have a lot of positive momentum with our low carbon offering. Circle Green was launched last summer. Now, the volumes are still small, but I think it allows us to position Outokumpu really at the cutting edge of low carbon product supply. Here we really are the leader.

Heikki Malinen: On the uncertainty side, we, of course, have the timing and impact of China reopening. Three years of COVID lockdown, now, when they open, things could get hot. We just don't know the timing and we don't know the impact for sure, but I would see this more as a positive upside. When we will see that in the second half of the year or will that impact 2023, it's still uncertain. However, when China reopens and if it reopens with a vengeance, it should also impact somewhat the demand for stainless in that Asian region, which of course maybe has some impact on exports out of Asia into other parts of the world. We've seen interest rates rise quite a lot in some countries. A lot of discussion about a soft or hard landing. Well, as we all know, the data that we're getting every day is giving us somewhat different signals. On the one hand, it seems we're heading towards a soft landing and other data is indicating a harder landing. Just cannot really say yet but at least at the moment, things are a bit more heading towards a more positive direction. On the war in Ukraine, this terrible situation that we have here in Europe does create inflation. We have to hope that crisis and war will cease soon, but in the interim, we will probably be facing different waves or pulses of inflation in the future. Finally, energy markets in Europe, as Pia mentioned, it's been unseasonably warm here. The German natural gas inventory levels are very high. I think it's clear the winter of 2022-2023 should be pretty much handled. However, we look at next year and I think what will happen in 2023-2024, we will then have to come back to that after this summer and see what type of actions are needed to prepare for a potential next wave of challenges. We still have six months to go before that is again a topic. Let's hope we can find new ideas on how to mitigate that potential risk. That's sort of a big picture of themes we're monitoring. I said it should not be taken as guidance, but more of a general overview of the types of topics which can impact our business.

Heikki Malinen: Finally, I want to just go through the outlook for the first quarter. As it's stated here in the slide, our group stainless deliveries in the first quarter are expected to increase by 10-20 percent compared to the fourth quarter. Ferrochrome production continues at 50-60 percent of full capacity as a result of the plant optimization we're doing because of the higher energy electricity costs. Also, we have had a disruption in one of our three furnaces in Tornio. Inflation in energy and consumer price is expected to continue in the first quarter. With current raw material prices, no significant raw material related inventory and metal derivative impacts are expected to be realized in the first quarter. Guidance for Q1 2023 is that adjusted EBITDA in the first quarter of 2023 is expected to be

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higher compared to the fourth quarter. With that outlook, we had forward and Pia and I are happy to answer your questions. Thank you very much.

Operator: If you wish to ask a question, please dial Star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Star five again on your telephone keypad. If you're using speakerphone, please make sure your mute function is turned off. Voice prompt on phone line will indicate when your line is open. Please state your name before your question. The next question comes from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen: Thank you and good afternoon. Maybe on the answer of the cost side, both in the Americas and Europe, it looks like at least the calculated cost per ton seems to have declined from the third quarter level. Even if you saw this decline in volumes. I'm just wondering, where were the key inputs or was it energy, scrap or other factors explaining in that division? Maybe another one related to ferrochrome coming into the first quarter, is there a difference in the maintenance cost and also, is there an increase in cost in Q1 because you're opening that third furnace but still keeping the volumes down? Thank you.

Pia Aaltonen-Forsell: Thank you, Harri and hi. I think on the cost side, first of all, when we look at realized energy prices, we have a mix of a small share of spot prices and the earlier agreed contractual or hedge prices. Then on top of that, specific results of the optimization from ferrochrome. If I try to look at this rather holistically, I think we were able, even in a difficult environment, to keep the energy costs rather in balance, even though the pressure was really high. On a global level also, we have more maintenance in the third quarter compared with the fourth quarter. That also eases a little bit on the cost side. Those to me are two most significant underlying contributing factors and we've had a lot of focus on the improvement actions. On the scrap side, you may recall that particularly for the BA Americas, we said during Q3 that there had been some more advantageous circumstances that we perceived as fairly one off, and that's actually getting a bit worse in the fourth quarter. I cannot really say that would have helped. If you look at our bridges, various metal impacts go into this pricing and mix part of the explanatory bridge.

Heikki Malinen: If I could just say on the ferrochrome, we have had a disruption there. We're now working to repair that this spring because of the technical problems we had in one of the furnaces. We have to run with a bit of a lower energy load and of course, that means also that the output is going to be less. We're going to have to have a maintenance here further this year, but until then, on the larger furnace, the energy load has to be lowered.

Pia Aaltonen-Forsell: Heikki if I would still continue specifically on the maintenance costs, I think in ferrochrome, we're still talking about a very low single digit millions additional maintenance cost during the first quarters. However, this is because we have made some, interim improvements. If we take the bigger maintenance stop in Q2, we will then talk

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separately about that when we have our Q1 report to be a bit more specific. That will be more like kind of the normal bigger maintenance breaks that we have had in ferrochrome historically.

Harri Taittonen: Great. Thanks for that. Maybe just a slot in one third broad question. After this strengthening in balance sheet, how do you view continued share buybacks as a complementing measure once the current program is completed? Is there something you could say about that?

Pia Aaltonen-Forsell: Well, first, we will need the AGM to accept the proposals that are out there, that there is an authorization. I think it's probably something that we need to then consider once we have that authorization in place.

Harri Taittonen: Thank you.

Operator: The next question comes from Bastian Synagowitz from DB. Please go ahead.

Bastian Synagowitz: Good afternoon, all. I've got one question, please. On your guidance for better EBITDA. There's obviously a lot of moving parts, but you gave us the ones and volume and the metal charges, which is very helpful. The only missing part are probably your gross margins. I'm wondering whether you could help us understand whether you continue to see the benefits from better mix and whether we've seen the trough in realized margins in the fourth quarter, at least when you adjust for the negative impact from metal effects. In other words, will you realize gross margins be stabilizing in Q1?

Pia Aaltonen-Forsell: Hi, Bastian. Again, if I may at least have some perspectives on this, I think, first of all, indeed, if you just look from a bridge perspective, then obviously in Q4, we had on a bridge level the negative impact that we had a positive one on the metals in the third quarter. However, if I try to think more on an absolute level that what are the various things impacting us then I think obviously, price development is an area where I have some difficulty commenting prices going forward. However, if I just look at one of the basis, which for us is the annual contracts that we have concluded, then I think that the decline is very modest that we can see in those. Those are still an important part of our base. Of course, you can follow the CRU pricing and that's one indication of the spot deals that we're seeing right now. However, we're already fairly good booked through the first quarter. There's no much new orders taken anymore for the first quarter. Those prices have already been realized just a little bit earlier because we're definitely in shorter order books right now.

Pia Aaltonen-Forsell: If we look at various components of the markets, indeed, as Heikki said, actually the advanced materials business, the more value added grades is still showing

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strength. I think overall with higher volumes and with the strength from that market, those for me are like positive signs.

Bastian Synagowitz: Thanks Pia for walking us through that. Maybe a follow up a little bit more on that. Again, if we look at the volume increase, whether it is 10 percent or even 20, obviously those are very large increases with the contribution margins in your business. Obviously, that will give you a very positive effect on operational leverage. As we've been hinting, it seems like you're still probably taking a little bit on pain on average pricing because net-net probably still realized prices may come off a little. Maybe costs are not fully compensating for that. However, if we take those two effects together, so volume is up and prices maybe slightly down, do you think that part will already be sufficient to stabilize your profit and then the metal effects basically do what they do? Maybe they are flattening out or there's still going to be a negative, but net-net volumes and prices will still keep your numbers more or less stable?

Pia Aaltonen-Forsell: Yes, I think there's a good boost from the higher volumes. I agree with that. Even though I don't have an exact figure to give you, I do think that those two elements are important as you mentioned, but I cannot really say if they exactly compensate each other. I think overall, when you add up all of the elements, we are indeed looking at the higher EBITDA in the first quarter.

Heikki Malinen: Maybe if I can just come in. If you look at our sales, one way to dissect it is we have the advanced materials value added business and then on this commodity stainless, we have the end user business and the distributor business. So far, the advanced materials is quite stable. The long term contracts business is also fairly stable. The volatility really is the distributor business and at the margin, certain distributors who are very actively buying and selling products from Asia. We really are seeing the incremental orders coming at the margin from those customers who have been buying less when they took advantage of the Asian influx of volume. As you know, with these large mills like Tornio, the higher the operating rate, the operating leverage really starts to kick in. That's why it is important to get those large assets like Tornio, running reasonably well. I think that's what we're aiming to do here.

Bastian Synagowitz: Great. Thanks for that. One more question on Americas, if that's okay. Clearly as I said, it's been a very challenging quarter. If I look at the volume numbers, I have to go as far back as 2015 to really see a number which has been similarly weak on a volume level. However, on the other side, if we look at prices, maybe that's softened a little, but they're still very high. It seems like you're able to keep up a decent level of market discipline there. Now, what do you see in terms of the destocking? Do you think it's going to last just until Q1? Are you already seeing any signs of improvement? Since clearly, whenever those are coming through, it will give you at these margin levels like a very strong operational leverage.

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Heikki Malinen: I'm a little bit speculating about Q4 behavior, but I think for many customers, 2022 was a really good year, and probably many of them had achieved their financial targets. When they ended up buying a huge amount of excess volume, of course they're sitting on that inventory. I think we have seen some decline in end user demand because initially, we internally thought that the destocking would end a bit earlier. At the moment, as we said, I think we think that the destocking or the stock replenishment should start kicking in as we head towards the end of the first quarter, possibly even the second. We just don't know for sure, but we're starting to see customers order now. It's more than green sprouts, but it's still not kicking in full throttle. I think the next four to eight weeks will probably give us better sense on what's happening.

Heikki Malinen: Clearly there's been some end user softening and if you look at, for example, the US housing market, people are now changing houses because of the high mortgage rates and home appliance sales is weak. You can see the end user demand has softened here. That is probably flowing a bit into our customers and then to us, so let's see. We're still reasonably optimistic that replenishment is approaching in the coming weeks, but again, I cannot promise anything yet.

Bastian Synagowitz: Thanks. That is a very helpful color. Thanks Heikki and thanks for taking my question.

Operator: The next question comes from Ioannis Masvoulas from Morgan Stanley. Please go ahead.

Ioannis Masvoulas: Hello, good afternoon. Thanks for taking my questions. The first question is around your ability to fully pass through the raw material costs. As you mentioned, nickel remains elevated. Molybdenum has also surged. How is that ability to pass that through to your customers playing out into the quarter, especially based on your current order book in Europe and the US? Within that, are you seeing any signs of demand destruction for grades that are high in molybdenum content? Thank you.

Pia Aaltonen-Forsell: Maybe I can start with a few reflections on the high nickel price. Obviously, this is one where the transaction price gets higher and that fine balance between what is the price level where, for example, distributors will find it attractive to start importing from Asia. I think that's the fine line and the balance that we need to strike all the time. With the current price level, what we experience is that import levels have clearly come down. It seems that there's now a better balance and not the need for distributors to play this import game as we speak. Maybe that's at least to part answering the question with the combination of the current high nickel price. At least in the US, clearly lower import level and in Europe maybe, somewhat stabilizing import levels. Maybe there's a balance at the moment, but of course it's always a fine balance.

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Pia Aaltonen-Forsell: I think the question of molybdenum is very recent. It's a very recent issue that has surfaced and probably there's both issues on the supply side of molybdenum as well as on the demand side, demand being strong. This is something that you need to produce very strong products including even needs for military equipment, et cetera. Before I hand over to Heikki for any further comments, if I think of the first quarter, we're pretty much booked. We still have some room towards the end of the first quarter, but that means that this is not really such a Q1 topic, but obviously it could have impacts then going forward possibly.

Heikki Malinen: I think this moly challenge really originates from both Chile and Peru, where the miners have had labor disruptions and that basically is constraining the supply of the ore. We don't see demand problem, it's purely a supply issue and we hope that those issues in Peru and Chile will be resolved soon. Then of course, we will see more volume coming to the market. As I said, it is a very recent phenomena from almost the last two weeks.

Ioannis Masvoulas: Great. Thank you very much for that. Second question on the Q1 guidance, is it fair to assume that the improvement in volumes is mainly driven by Europe, given the destocking pressure in the US? Or do you think the US could also contribute sequentially on the volume front?

Pia Aaltonen-Forsell: I think under these circumstances, it's still fair to assume that both will contribute somewhat. I think the Q4 figure for US was really historically a very low figure. It's a low level to start from obviously, but both BAs will contribute.

Ioannis Masvoulas: Very clear. Just the last question from me on the energy costs. If I'm not mistaken, at the Q3 results, you said that you've hedged 60 percent of your energy costs for 2023. I'm just wondering on those hedges, are you in the money now, given the pullback in energy prices, or have you hedged at the high levels relative to what you can secure now in the spot market?

Pia Aaltonen-Forsell: I think it's an excellent question. Obviously, we have even increased the hedge level a little bit early in the year. We're actually now at 70 percent. I think the nature of this is that we have now built up the hedge portfolio in a sort of increasing price environment. Some of them were still made at some pre-crisis really low levels, but obviously then we also have an increase there. I would say we're starting to have more of a so-so situation there. I don't think we have really published exactly where we are, but in the nature of things, I think right now, if we get really a drop in energy prices, then obviously we have locked in at higher values. Do we really get a drop? I don't know yet. In gas prices, indeed, we have already got that. In electricity prices, you typically always have also some seasonal variation that is obviously counted in when you make these longer term contracts.

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Ioannis Masvoulas: That's very helpful. Thank you very much, both.

Operator: The next question comes from Rochus Brauneiser from Kepler Cheuvreux. Please go ahead.

Rochus Brauneiser: It's a Rochus Brauneiser from Kepler. Most of the questions are answered already. Maybe again, on the volumes when you're guiding the 10 to the 20 percent. If I remember correctly, the midpoint is about what you typically record in an average Q1. In that sense, the range is pretty much built around the usual seasonality. You said the US comes from a lower starting point and there's still a bit of a lag, whereas the EU is now showing some clear improvement. Is it fair to assume that you would expect the Q1 rather on the higher end of that range you're given? Is that a fair assumption?

Pia Aaltonen-Forsell: Rochus, thanks very much for the question. I think the usual starting point for us is if we give a range, we try to be somewhere comfortably in the middle when we start. However, obviously we give a range because there is some variation during the quarter. It's a range for a purpose and we will get improvements both from Americas and from Business Area Europe.

Rochus Brauneiser: Another question is, I think one of the big variations and big surprises, positive and negative in '22 was that metal effects which had most of your business in Q3 and then reversed in Q4. Is this something which could happen in '23 again, or was that pretty much a story of last year?

Pia Aaltonen-Forsell: I wouldn't rule it out. I think in a volatile market environment, situations and market situations can vary. I would say that if it's something that we can foresee, then there's no reason, not to mention it. At the moment, I cannot foresee anything like that, but of course I cannot rule it out because I think it comes more from what the market dynamic is.

Rochus Brauneiser: Then finally on the working capital, can you get a bit more specific about your direction and magnitude in the Q1 and what is your current thinking around magnitude of working capital release maybe in the whole year?

Pia Aaltonen-Forsell: First of all, if I look at the build up during '22, it was almost 600 million during the year and some of that was due to the higher price level and then some of that was due to the redirection of the supply chains. I think in an earlier call, I said the fact that we cannot buy from Russia but are buying elsewhere is adding at least 100 million to the working capital. Maybe I would even hike that figure up a little bit now that I see the

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outcome of where we have landed in terms of new contracts and new setups, new supply chains. Maybe it's even north of 200 million. That is something where I think we cannot expect a quick release. I think it's good to keep that in mind. Otherwise, I would, of course, expect that when we build a lot of working capital because of higher prices, this will fluctuate according to where the market is developing. Obviously, already when you look at Q4 under direction, the direction has been for lower prices indeed.

Pia Aaltonen-Forsell: I would indeed during the full year, definitely expect the release. However, if I talk about the first quarter, this is seasonally typically for us a quarter where we still build both AR and inventory. Usually, we have built maybe a couple of 100 million. If I would look more into history and just say right now, I would definitely expect typical normal seasonality and a build of working capital in the first quarter.

Rochus Brauneiser: Okay. Therefore, when I take the average of the last couple of Q1s, that will be probably the best guesses at the moment?

Pia Aaltonen-Forsell: I think we will follow typical seasonality. That's why I think looking at history, it's a good guideline. However, if I look at Q1 bill working capital. Q2, maybe stabilize. Q3 to Q4 is really, working capital. That would be the typical annual pattern, and I expect that to repeat this year.

Rochus Brauneiser: That's very helpful. Thanks, Pia.

Pia Aaltonen-Forsell: Thank you.

Operator: The next question comes from Tristan Gresser from BNP Paribas Exane. Please go ahead.

Tristan Gresser: Hi, thank you for taking my questions. The first one may be on Europe and the market conditions you're seeing there. We've seen import falling quite a bit and you talk about some restocking even, but it does not look like the market has really reverted back to the base price mechanism. Do you still expect the market to return to this old model? Would you believe this change will now be permanent? The base price system used to be one of the key advantages of the stainless sector, and it provides some key visibility on quarterly pricing and cost development and now it's pretty much gone. I would like to hear your view on that. Thank you.

Heikki Malinen: Maybe if I can answer that. I think we have seen some fluctuation if we look at the overall order book over the past two years. What percent is effective pricing or fixed pricing and then what is base and alloy. I have to say there's probably some correlation

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between the amount of imports from Asia and how that share of fixed pricing or effective pricing increases. Obviously from review and from our side in the past, it's been always the view that the base plus alloy is an effective, transparent, good mechanism. It's pretty much a function of competition which way the wind goes here. At the moment, I think in the fourth quarter, the share of or more the Asian price model was becoming more prevalent in Q4.

Tristan Gresser: You mentioned the three area of your order book between advance material, end user and distributors. It would be helpful if you could give us a rough sense of the split between the three.

Heikki Malinen: The advance materials we have had roughly about 15 percent, and then with respect to the contract business in the remaining part of the company, probably about 45 contract, 55 distributor. Again, this fluctuates year over year, plus minus five percent. Roughly speaking, would you agree Pia? Do you feel comfortable with the examples?

Pia Aaltonen-Forsell: I think with the advanced materials, we didn't really refer to those highest, like the pro grades, et cetera like really this specialized grade. Therefore, with that narrow definition of the portfolio there.

Tristan Gresser: That's a that's helpful. Maybe a question on the CBAM, you made some helpful comment in the release. What's your understanding of the policy right now? Scope one, direct emissions were always kind of part of the debate and should be in the policy. What your view then on scope two and also you mentioned scope three there. A little bit of clarity here. Thank you.

Heikki Malinen: Obviously, political winds come and go, but I personally do believe there's a lot of momentum for the European Union to take a holistic and comprehensive view on this and gradually factor everything in. Obviously, the implementation of this still remains to be done. There's an agreement or a commitment to implement this but until we see in concrete terms what the officials really put on paper and how they really make this happen, I would be a bit cautious to make any strong statements.

Pia Aaltonen-Forsell: Indeed, Heikki. The design that was now agreed on European level just before Christmas does include for stainless, the most important scope three input factors. I think from a design perspective, it's a good achievement and design. As you said, implementation rules and how to implement remain really important part of how this will actually pan out.

Tristan Gresser: All right. Very interesting. Thank you very much.

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Pia Aaltonen-Forsell: Thank you, Tristan.

Operator: There are no more questions at this time. I hand the conference back to the speakers for any closing comments.

Heikki Malinen: Thank you. I'll just summarize the presentation today and the discussion with a couple of observations or a couple of key messages. I said Outokumpu is now net debt free. We're in a whole different situation. Financially, the company has never been this strong before. In some ways, I can say the destiny is now much more in our own hands. I look very optimistically towards the future. Secondly, as you've seen, we are guiding in Q1 for a positive outlook. We have increasing volumes 10-20 percent, and we're also guiding upward trajectory in EBITDA. Then finally, as we said, with respect to our strategy, we're going to raise total shareholder returns really much higher in the agenda of the company. I'm extremely pleased that the board is committed and has decided to propose to the AGM the dividend of €0.35, which includes both the base dividend plus the extra dividend. Also, we have the ongoing share buyback program of 100 million, totalling 250 million. I hope this is something that will make Outokumpu seem much more attractive for a longer term investors. With those words, once again, thank you very much for your interest and your good questions. I think Pia, Linda, and I wish you a very good continuation of the week. Thank you very much.

Pia Aaltonen-Forsell: Thank you.