Transcript for Outokumpu Q1 / 2024

00:00:01

Linda: Hello all, and welcome to Outokumpu's Q1 2024 Results Webcast. My name is Linda Häkkilä. I'm the head of Investor Relations here at Outokumpu. With me today as our main speakers, our CEO Heikki Malinen, and our CFO Pia Aaltonen-Forsell. As usual, we will start with our presentations and then we'll be happy to take your questions. Before we start the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements. Without any further comments, I would like to hand it over to our CEO.

00:00:40

Heikki: Thank you, Linda. Good afternoon and good morning to everybody. Welcome also to Outokumpu's webcast here to discuss our Q1 results. It's nice to see you again after a couple of months. Today, we have a lot to discuss. Again, let me start with this slide here. First of all, I'd tell you that as you've probably seen, if you followed our announcements, Q1 was a pretty eventful quarter for Outokumpu. Looking at how the year started, the first four or six weeks of the year were pretty good. Our order inflow in Europe was pretty nice, and I felt after the first month that this was going to be a nice quarter. Then, unfortunately, events changed. Political strikes began at Outokumpu and our three smelters in the ferrochrome plants and our two huge smelters in the steel plant were closed for four weeks. Also, our port was shut. As you know, within the Outokumpu system, when Tourneo is shut it has material implications. We had to make two profit warnings and ultimately we've had to guide down the results.

00:01:56

Heikki: What started as a nice good start ended up in not a satisfactory outcome. Political strikes per se have been a bit of a phenomena in Finland. The government is moving towards adjusting the legislation. Let's see what parliament decides but at least the proposal will be to modify the legislation when it comes to political strikes, that the duration would not be that long if they take place. Anyway, for Outokumpu, this was a big and unfortunate start to the year. We have worked very hard to try to mitigate the impacts. We indicated initially that the first half year would probably take a hit of about €80 million. At the moment, we think it's probably going to be about 60. It's still a big number. I said we are very sorry for the negative impacts on our customers. Not something that we want to be happening here. Beyond that, if we look at the implementation of the strategy, phase two is going according to plan. We're a little bit ahead of plan.

00:03:10

Heikki: Today we have announced that we are going to raise our performance improvement target for phase two from €200 million to €350 million. We have cost inflation. We have raw material costs rising. We've seen wage inflation and we also have now the impact of the strikes, which we have to financially recover. That is why we then decided that it was necessary to raise the performance target. That is where we ended up in Q1 and if we then look at the markets what is interesting is to see what happens with prices. I mentioned after the presentation in Q2 and then also in Q3 that I felt that as we headed up, we came out of the summer of 2023, we felt that

that was the trough in commodity prices in Europe. Since then, we've seen a gradual improvement in pricing that continued also in the first quarter. Nothing major, but we can see gradual movement month over month and on the price levels. You can also see that with that fine light blue line on the curve on the left-hand side.

00:04:27
Heikki: European prices have risen somewhat. We're not where we used to be but the direction of movement has been positive from the standpoint of the producer. In the United States, we've had some continued moderation of prices. If you look at the curve at the bottom, you can see the situation in China. The Chinese situation is, of course, complicated in the sense that China is such a huge player, and Asia in general is such a huge player in the global stainless industry. I had already expected last summer that the Chinese government would have stimulated their economy and gotten the consumer activated to buy, but that has not happened. Subsequently, we can see that the oversupply globally stemming initially from Asia just continues to burden the whole market. We see that, for example, in our case in Mexico, there are increased imports from Asia. We've seen that be the case also in Latin America in some markets and so forth.

00:05:35
Heikki: In Europe, we haven't seen that much massive import pressure despite the very weak situation in Asia and China. On the right-hand side, we can see nickel. We have been trading somewhere between 16,000 and 18,000. We've had a couple of months. Even at 19,000, that seems to be more momentarily roughly the LME nickel price range where it is trading, although many other commodities have moved up very robustly like copper. Nickel now moving sideways in that position. If we look at our deliveries, here it's again a tough story because if you look at the last three quarters, our deliveries have been somewhat above 400,000 tonnes, which of course is lower than we've seen in some of the past years. I want to comment here as we look at our results. First of all, I want to make the comment that the delivery is impacted now by the strike, where 10 percent less than in Q3 of 2020. The volumes are really low, even lower than we saw amid Covid in Q3 of that year. If you then look at the results of the company.

00:06:53
Heikki: Even though the results are modest, Pia and I were just doing some modeling that if you look at the volume level today and compare that to the past, in the past, at this level of volume, we would have been clearly in negative EBITDA. Our performance improvement measures and our cost reduction measures have brought and improved our break-even point quite clearly. Even with this lower level of volume, we're still able to maintain positive EBITDA. Again, not at all happy with the absolute level, but I do want to make the point here that our performance improvement measures have had teeth and they have had an impact. On the right-hand side, you can then see the red bars. They just pretty much significantly signify or show what the impact of the strike and declining volumes were. One thing I want to mention is I still want to come back to this scrap question because we have seen the scrap market tighten, actually now for two or three quarters.

00:07:56
Heikki: This is not a phenomenon in Europe, but it's also the same situation in the

United States, so intrinsics are moving upward. One could ask, if the market isn't that strong, why is the scrap market tight? At least a couple of reasons. One is in Europe, there used to be some volume coming from Russia. That volume is not coming anymore. Secondly, industrial activity in Europe and also in the United States on the manufacturing side is surprisingly low. When it's slow and consumers are not buying new washing machines, you don't have this normal turnover from the residential side. Then the scrap volumes are also not circulating. Simply there is not the amount of robust supply coming and that starts to tighten the market. I do however, at the same time when I make a comment here and say that we as a company have been able to get all the scrap we need, we have a good relationship with our suppliers, Cronimet being one of them. We do not have to import any scrap from other regions, from other continents.

00:09:03
Heikki: We get everything we need from Europe. We don't need to buy any extra primaries. Also, if you look at our working capital, given the structure of the supply with our scrap dealers, we don't need to carry any huge burden of working capital. I think the way we've organized our supply chain is good in the sense that we don't have that working capital burden. Our system is pretty efficient. Then a few words about sustainability. I always want to comment on safety and you can see the long-term trend of the company. We've been working on this for decades. Today, if I look at that 1.2 TRI number and compare that, for example, to the chemical industry, we're starting to be here at chemical industry levels, which is a much more closed process than what we do in the steel side so the direction of movement is right and good. We have many plants where the TRI number for last year and this quarter was zero. We're making good progress here.

00:10:11
Heikki: In terms of recycled material rate, we are at very, very high levels, 95, 96 percent and our mission levels are going down. Then, a comment about shareholder returns. We're very happy that our AGM approved the 26-cent dividend for each share. That has been paid in April. We renewed our dividend policy two years ago in the summer at the CMD. We have completed the second share buyback, which is related to our convertible. We have returned €144 million to our shareholders. We have a strong commitment and dividends remain an essential part of our equity story. Then, before I hand over the presentation to Pia let me comment briefly on some of the recently announced changes. First of all, Pia, after working for about five years for Outokumpu, has announced that she is moving on to a new challenge. I'm very, very happy that we were immediately able to appoint Marc-Simon Schaar, who you will then see in Q2 live here next to me.

00:11:25
Heikki: Marc-Simon Schaar has been working for the company for over a decade. He has a very strong financial background. He's worked in many different roles. Last role now he's in charge of all of our procurement, raw material procurement, and general procurement, and has been leading that very successfully. I was very pleased that Mark-Simon is excited and willing to take on this very, very important role. You will then see Marc-Simon from August onward when he shares the podium with me. The other major news, of course, was my announcement that I have submitted my resignation and have decided to take on a new opportunity working for another

company, another industry. I have worked for the company in different roles, first as a board member in 2012, after the merger for eight years, and then, four years in the role of CEO.

00:12:23
Heikki: We may come back to this topic in the Q&A, but as I said, I do feel that I'm leaving the company in very strong hands and, in many ways, in a very good shape, not only looking at it from the standpoint of where we lie in terms of the balance sheet. Maybe we come back to this question, if you have any, if you want to delve into that a bit more. With those comments from me, let me hand it over to Pia and she will dive into the numbers, and then I'll come back and make some general comments about how I see the coming near-term future. Thank you very much.

00:12:58
Pia: Very good. Thank you, Heikki. I have to say, this feels quite special and a bit emotional as well. My last and final presentation here as CFO for Outokumpu. It's been a true pleasure and privilege to be in this role and also to serve all of you to the best of my ability. I also want to say something about Marc-Simon. I'm not going to make a bad joke. I'm going to say we worked side by side in some really tough spots. I think the professionalism that Marc-Simon showed also, for example, during some refinancing events, and during some other important events in Outokumpu's history, I think shows me that he has what it takes to become a successful CFO of Outokumpu. Now, let me go to my presentation today. First of all, repeating the strength of the balance sheet, we have the strongest balance sheet in the industry. That's the result of a lot of hard work and also a very consistent policy, the way we have worked together with Heikki and also with the whole management team.

00:14:08
Pia: That's visible now with still a negative net debt figure at the end of Q1, and also through the fact that our position in terms of cash and liquidity remains strong. That has enabled us to fully remain committed to our policy when it comes to shareholder returns. We have paid dividends of 110 million this year. We have also completed the second share buyback program. I think all of those are really good and strong points. Let's then look a little bit at the announcement that we made today about hiking the target. Heikki already mentioned this, but let me take you through a few more details on that. We announced that we will hike our strategy execution target when it comes to the EBITDA run rate from €200 million to €350 million. First of all, if we think about what's the nature of these improvements, I would say it's about fifty-fifty into more corporate-like operational efficiency, raw material efficiency also costs, and about half is more on the commercial side.

00:15:22
Pia: You may remember that when we launched the strategy phase two, we also talked about the fact that we wanted to be able to release some more capacity in America with a very modest investment. We talked about some $20 million investment and 80 kilotons more capacity being released from our current platform. We are very well on our way in terms of enabling that so the investments have proceeded well. However, the market has not quite been there to absorb it. That's something that we still have ahead of us to benefit from. We also talked quite a lot about the throughput efficiency, especially in the commodity business in Europe. I

think that has been well projected as well. We can see that already in reduced working capital, in reduced inventory needs, but as well they're placing that in the market still lies ahead of us.

00:16:18

Pia: We have also added here a number of cost measures. I think the harshness of the market situation, the fact that we can see both the price level under pressure now already for a longer period, we can also see that our volumes are quite low. All of these measures have been necessary already from that perspective. Then, adding the strike and the inflation that we have been going through in the last years all add up to the necessity of doing this. On inflation, I still want to say that even though inflation now is slowing down more back to historical levels in Europe, we have not had a deflation so the cost levels remain elevated compared with a few years ago. That's the rationale. Someone asked me why we just keep doing these improvement programs, why is the result then not every year up to several hundred million more? I would say that we constantly live in a very dynamic market with a lot of changes.

00:17:29

Pia: I think that the fact that under this market pressure, we are still able to achieve a positive result in our EBITDA level in Europe despite a very difficult situation is proof point of the success of these programs. Now, let's look a little bit into the results. I'll start with BA Europe and I think we already commented quite many things here on the harshness of the market. Heikki also gave a good overarching view of the scrap situation both in Europe and in the US. That's valid for both and that's adding as well to a squeeze on the margins that we can feel right now. Are there some good elements? Yes, there are some good elements. We can see that inventories are now really low when we talk about distributor inventories that we can measure. It also means that some sort of replenishment has started. Heikki talked about the activity that we could see on the order intake early in the year. The strike situation was hurting us.

00:18:35

Pia: We were not able to take as many orders, but we can see again, a healthy order intake now that we are back after the strike event. Also, Avista and our more specialized grades, I think we have continued to enjoy a reasonable or even good market situation in some subsegments where it's energy, maybe it's green transition-related, where projects are still carried out, despite the fact that we haven't seen the interest rate cuts yet. The market is gradually improving. It's not improving at any rapid speed, but there is indeed a gradual improvement that we can see right now. The volumes, however, remain on a very low level, and I think if we paint an even longer time series here, you would see the low market volumes that are prevailing currently. I will move to BA Americas and here I would also start by pointing out the volume. I mean, we had a 150 kilotons quarter. You could say that it's still a testimony to the US market being in reasonable shape.

00:19:47

Pia: What we can see, however, is that the market in Mexico has been under a lot of pressure from imports. There is a link here to the situation in Europe. The European demand has been weaker, price levels have been lower, and there have been some measures to curb some of the imports. Holistically, this overcapacity that somehow originates in China but finds its way globally through maybe also third countries has been flowing into Mexico, I assume not only Mexico, I'm sure also to other countries, for example, in Latin America. All of this is adding to the pressure in Mexico. Mexico is a market with less trade protection or less trade protection than, for example, the US. Why is that important for Outokumpu? If we look at our balance of capacity, if we look at our cold rolling capacity, out of the 600 kilotons of cold rolling, we have 350 kilotons in the US in Calvert, and we have 250 kilotons in Mexico. The majority of that stays in Mexico.

00:20:59
Pia: That market dynamic also is meaningful and important for us. I don't think that this impacts our long-term view of the market. However, short term, clearly some of the turbulence globally now has somehow also been finding its way into the Mexican situation. Not so much the Americas situation, even though there are imports, they have been on a fairly stable level. What else is there to say? There's still one important topic relating to this quarter and also impacting the second quarter, and that's some issues that we've had on the operational side. We are just now out of a big maintenance break where we were repairing some of, for example, these exhaust ducts, and we have had some issues there already during the first quarter. We were now able to repair and fix all of that, but I think that has to some extent kept us from doing those top volumes in the quarter as well.

00:22:04
Pia: To remind you, there was this Mexican situation, but the 150 kilotons, I think you should compare with other top quarters where maybe we have done like 180 kilotons. There was some volume also missing on our side. Then, we could see the same issues on scrap as in Europe. I hope that clarifies a little bit about our performance. These operational issues now should be something that we have in the past, but they are still impacting also the second quarter. Maybe I'll take ferrochrome a little bit more briefly. I think we were able to mitigate some of the strike impacts. However, we did also feel the strike during the first quarter here. With that in mind, I think there was a very reasonable result of €22 million in the quarter. When we think about capacity utilization, we still have one of the smaller furnaces shut down temporarily until August of this year. It still talks about a market that is only maybe starting to recover.

00:23:12
Pia: A big part of our ferrochrome demand goes also internally to our stainless, and when those volumes have not been at the strongest level, that also impacts then ferrochrome. My final slide is on CapEx guidance for this year and also on the cash flow. On the cash flow, I think it's enough to say that having this big effect, like a strike, certainly put a really big pressure on our supply chain. We did continue to buy raw materials. We continue to operate in the Americas despite the fact that we had some operational challenges. We continued buying in Europe. Avista was operating as normal and we also bought something for Tourneo but we had a lot of disruption in our production and the flow was not as smooth as it usually is. With all of that in mind, I'm happy with the result. Our working capital was, in the end, balanced and kept under control also in this quarter. Now, just looking into where we are headed, we were still negative net debt at the end of Q1. Q2 sees a similar or slightly better market environment or results.

00:24:38

Pia: We are paying the dividend, so clearly that puts some pressure now on the debt in this second quarter. Finally, on CapEx, you recall that we said €600 million for the strategy phase two execution. We are now all in for delivering improvements and that means that we will also stay consistently within the 600 million CapEx limit for these three years. We were 170 last year so we will hike this up a little bit this year to make sure that we can deliver all those improvements, so about 220. I think that leaves a little bit north of 200 then for the year 2025. With that said, back to you, Heikki.

00:25:23

Heikki: Thank you, Pia. A couple of slides here to finish my part of the presentation. First of all, a few comments on how we see these opportunities in the market. The US is such an important area for us, the stimulus in the United States, as the elections approach is remarkable. Even though we have rates at fed funds over five, we're having this massive amount of federal government stimulus and that seems to be keeping employment good and demand still at a reasonable level. Also, we started to see German PMIs bottoming. German service PMIs are starting to move upward a little bit here. Manufacturing PMIs are not declining anymore. Hopefully, Germany will start to climb out of this weaker period as well. As I mentioned already, the year started with a better order book for Outokumpu, and that gradual improvement in demand seems to continue.

00:26:30

Heikki: Distributor inventories now after almost a two-year decline in stocks, clearly have bottomed. Gradually the restocking just has to start to take place. They cannot forever maintain so low inventories. When rates are very high, I understand that many companies don't want to hold working capital, but still eventually the buying to restock has to start. Then, we have all the green transition investments, which of course take their time until they come. However, as we move here through the decade, gradually they should start showing up in terms of project orders, especially for our advanced products, but also some commodities, stainless, for example, hydrogen-related investments. Uncertainties, as we're all following the US fed rate cut decision and also the ECB, I think for us it does mean two things. One is, that we know that a lot of companies are holding off restocking because the working capital is very expensive.

00:27:37

Heikki: Then, we live in a buy now pay later world, so when everything is happening based on when the rates are high, people postpone the purchase of a home, and the purchases of home appliances are delayed. Then, car buying is also postponed. Rates do have a material impact on our business directly and indirectly. The war unfortunately continues. That is, wars are always inflationary, which is a problem. Then, we have this whole question of the unresolved Chinese or let's say Asian overcapacity. Most of that is somehow linked to China in the end, so I'll just call it Chinese overcapacity. That remains to be seen how in the future that will be managed and resolved. Let me finally summarize the outlook for the fourth quarter. Group stainless steel deliveries in the second quarter are expected to increase by about five to 15 percent compared to the first quarter. The recent political strikes in Finland are expected to have a similar negative financial impact in the second quarter as in the first quarter.

00:28:50
Heikki: The scrap market is expected to remain tight, as we saw in the first quarter. With current raw material prices, some raw material-related inventory and metal derivatives losses are expected, and they will be realized in the second quarter. Our guidance for Q2 is that the adjusted EBITDA in the second quarter of 2024 is expected to be at a similar or higher level compared to the first quarter. That, in a nutshell, is our presentation, and we are happy now to entertain any questions that you may have. Thank you very much.

00:29:31
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Ansi Rousey from SEB. Please, go ahead.

00:29:58
Ansi: Thank you for the presentation, Heikki and Linda. A few questions from me and the first one is about BA America. Could you maybe quantify the impact of the strike in Finland and also these operational challenges and talk about the impact on EBITDA in the BA Americas? They're trying to figure out the run rate.

00:30:25
Pia: Ansi, is it okay if I briefly answer that? I think first of all, when we look at the strike impacts, 30 million was very much upstream in the first quarter. That's natural so those impacts I would say were broadly out of BA Europe and very much out of direct deliveries. Q2 impacts are more downstream and there were one or two deliveries that were planned to go also to the US and Mexico. That's why we mentioned that there are some impacts. However, if you think that there is in total 30 million impact in the second quarter, only a part of this relates to the US and it's a smaller part. We haven't given the country split. It's not a double-digit number, let's put it that way. If I may then really briefly continue on the operational issues. You saw that we were still able to do 150 kilotons deliveries in the quarter. I think there were a lot of mitigating actions and making things work. However, it was very harsh and hard work. On the margin, we lost something.

00:31:34
Pia: We also are not able to get out of those issues before this maintenance break. We are out of the maintenance break now. It's the 7th of May today, so an early part of the quarter has also been impacted by that. It means that we cannot speed up from where we were in the first quarter before that.

00:31:56
Heikki: Maybe I'll just talk about the failure. We have predictive maintenance, which we carefully monitor all of our production lines to make sure that we don't have any unplanned needs for maintenance. Unfortunately, in this particular case, there was some damage to one of the ducts. The unfortunate situation here was that it's a duct which is very, very high on the top of the furnaces. You needed a special crane that was able to lift a very, very large weight piece of equipment, and getting the crane in place and doing all the maintenance was just technically a bit of a challenge, especially when we needed to make sure that everything was super safe. Anyway, the work has been completed. Everything is okay. As I said, it was a bit of a more

complicated thing to manage this time. We will learn from this as well and do our best to make sure that doesn't happen again.

00:32:57
Ansi: Got it, thanks. The second one is about Europe. There have been some comments about the demand picking up in white goods, but have you seen anything like this? Maybe if so, how long does it take for you to see it in the scrap market activity?

00:33:20
Pia: I think in terms of white goods, you can look at the large white goods suppliers. Their last two or three quarters have been very, very difficult for them. I said the rate level and the uncertainty that consumers face drives and postpone their decision to buy. There are some indications of pickup here. I would caution you to assume it's going to be a rocket launch like we saw after Covid. It does seem that we're starting to hit the bottom here in that respect. Now, in terms of the scrap side, it is more of a question that we need to get the overall industrial machine to run in Europe, and then we will have more scrap running through. This isn't only about home appliances. There's the chemical industry, and many other sectors, which are also using a lot. The whole German economy is very export-driven, as you know. The German economy also has to start running its machines and then the volumes will start picking up.

00:34:26
Pia: I said, as I mentioned for Outokumpu, we are able to get everything we need. Our scrap sourcing is completely under control. We get what we need and we have good relationships. I said we don't have a system where we need to carry a big working capital burden, which is a positive for us.

00:34:46
Ansi: Thanks. Finally, about your guidance. What kind of scenario do you see that your EBITDA would remain flat and not increase in Q2? After all, your volumes are increasing. You have mentioned that prices have maybe bottomed already, and now the impact from the strike is also guided to be flat Q on Q so what do you see here as a risk?

00:35:12
Pia: I would maybe say a few topics that we need to keep a clear eye on. One of them being the tightness in the scrap market. I mean, we start to be already mid-quarter soon. Soon enough we'll know the situation until the end of the quarter. That has been a situation that developed early this year and got tighter and tighter. We need to keep a tight eye on that one. We also need to keep an eye on the operational issues that we face, for example, in the Americas. Now that the recovery is prompt, as we have assumed, and at least we have been successful until now the maintenance break went as planned. However, that's also something to keep an eye on and that brings some variation. Then there has been volatility in the nickel price. Much of the things for the second quarter are already locked in. However, they're still on the edges, probably something that remains open as well as the hedging results. I think several topics will just merit to be monitored as per usual.

00:36:19
Heikki: Maybe it's still talking to some of our suppliers who have been following the scrap industry for decades. They're saying that they have not seen a situation like we're seeing now when industrial activity is so low and the scrap supply is so reduced. That is fairly uncommon. Typically the system circulates much better. Waiting really for the industrial activity to restart and consumers to buy and then scrap should start flowing again normally.

00:36:52
Ansi: That's helpful. Thank you.

00:37:02
Operator: The next question comes from Tristan Gresser from BNP Paribas Exane. Please, go ahead.

00:37:12
Tristan: Hi, thank you for taking my questions. If I may follow up on the scrap market. With the comments you made, it doesn't seem you will start to see some sign of easing even in Q3. You rely on industrial activity to pick up to finally see this headwind move away. Do you expect that to happen in Q3 or do you expect more of the same? Also, I would be interested on the spot basis. Have you witnessed some improvement in margins in recent weeks because we've been talking about higher prices? If I look at the price on a chart, the differential between prices minus the cost of scrap still has increased. I would be curious to know if you've seen that happening in both Europe and the US. That's my first question.

00:38:06
Heikki: I think on prices, as you know, we also have a lot of contract business. When you have capacity available and if there is demand, then you have a chance to price it on a spot basis. That's a good question. How long will it take for the European machine to restart and reset? We don't have a point of view on how long that will take. I mean, what we can talk about only now is Q2, and we see it is still somewhat sluggish here. I said we can get the scrap we need. I'm not worried about that. However, when you look at the overall cost side, as Pia said, at the moment that pressure is still there. We're doing everything we can to reduce it, we're working on our yield. We're looking at all kinds of ways to reduce our metal costs and our metal usage. We have a lot of things going on in the company to reduce the cost of metal that we use ourselves in terms of the amount and then optimize that all the time to find the right mix of metals. I said this may take a while before the machine restarts, but I said we don't have any formal point of view on that, unfortunately, to share with you.

00:39:23
Tristan: That's clear. The second question is about the import pressure in Mexico that you've seen of late. I believe the Mexican government has put in place some license requirements and has also hiked tariffs for several steel products. Do you think that's enough, that's going to move the needle, and that's going to bring more relief into coming quarters? Given that you'll see operational issues alleviate and maybe the import situation turning a bit better, you reference 180,000 ton of volumes in the US as a good quarter. Should we expect that level to be reached, maybe not in Q2, but in the second half of the year? Thank you.

00:40:17
Heikki: In terms of Mexico, the United States has also raised its concern about the import volume into the Mexican market. Some of that ultimately will then flow well, at least in terms of finished goods into the United States. For us, a good part of the production we do in Mexico remains in Mexico. We're an active participant in the Mexican market, which is a long-term advantage. I believe we're the only supplier, stainless producer on location in Mexico. However, I said, for the time being, this global oversupply seems to be putting pressure on Mexico as one of the markets. At least we don't see at the moment that that tariff in itself will completely mitigate the issue, simply because the oversupply is too large with Asia being too quiet. In terms of the 180,000, what point of view would you like to share?

00:41:15
Pia: I think it's a historical figure as well, depending on the mix. I just think it shows the opportunity that is there and that we are still not at the top of the market. I think we are climbing towards that with some improvements quarter on quarter as we seasonally will see the weakest quarter than in Q4. Will we reach there in Q3? I would not make any statements about that yet.

00:41:43
Tristan: That's clear. Regarding the debottlenecking operation in the US, I think you managed to unlock around 50,000 tonnes back in Q4, out of the 80,000. Any update there?

00:41:56
Pia: We still have work to do on the remaining 30 kilotons So those projects are still ongoing. I think the key question here is when will the market opportunity be there to benefit from this?

00:42:11
Tristan: Perfect. Thank you very much for the answers, and all the best for whatever lies next for you, Pia.

00:42:17
Pia: Thank you so much, Tristan.

00:42:22
Operator: The next question comes from Ioannis Masvoulas from Morgan Stanley. Please, go ahead.

00:42:30
Ioannis: Thank you very much for the presentation. The first question is for both Heikki and Pia. As you're leaving the company in a far stronger financial and operating position, from your perspective, what do you think the main priority should be for the new leadership team once the transition is completed? Thank you.

00:42:54
Heikki: I'll try and give you a short answer. I'd like to talk about this for a while, but where are we today? We know our balance sheet is as strong as in the industry, where financially we have a lot of a strong backbone. We have a strong management team and a good sustainability record. We're well ahead, in terms of phase two. I think if the economy stays tough here for a bit of a longer time, the new management, the new CEO, and the CFO, have to make sure of getting us through

this tougher financial period. For us, of course, it means very much cost control being very efficient, and trying to increase, and further improve the productivity of the company. Then going forward, it's going to be all about phase three and making the right choices in terms of capital allocation, the dividend policy, and the focus on shareholder returns, where I think the company and the board are very committed to this. How to then find the right set of investment options that provide us the longer term returns. That is a fundamental strategic choice.

00:44:04
Heikki: I think the new management, both the CFO and CEO will have to make those choices. We're doing a lot of good background work here and analysis to compare different alternatives. We have a lot of investment ideas from which we can choose, but it's more about creating the right package than sequencing that over multiple years and looking at how we make sure that those investments then really return what they need to, and that the investments are executed in a way that they are on budget and on time. I think that's probably going to be some of the priorities to how I see them at the moment for the new. Anything you would like to add?

00:44:48
Pia: I'm sure Marc-Simon is watching this. Marc-Simon, make sure the balance sheet stays strong. Then all of these other things will be possible.

00:44:59
Ioannis: Very clear. Thank you. Thank you very much for the comments. The second question, just on the guidance for Q2, you mentioned negative raw material effects despite the rise in nickel prices. I guess that's separate from the comment on scrap. Can you remind us of your hedging policy here and what drives the guided loss for the quarter?

00:45:23
Pia: Thanks. First, I would say when we talk about the raw material-related inventory gains and losses, I'll just say historically it's been a lot about nickel. It's nickel where we also can hedge. If I would look where there is maybe some kind of a bit of negative momentum right now, it relates to ferrochrome. Just to put that out there. However, if I return to nickel and how we hedge, I would say we have some ability here to make judgments. However, we have a very conservative core of the policy which relates to where we have certain commitments in terms of buying and selling, that we also then need to go in and hedge accordingly. Then, we are not hedging inventories in full, but there we have some opportunity to flex, maybe also dependent on the market situation. I was really happy with how this risk management policy worked last year, where holistically, the position on nickel timing and hedging was very close to zero in a year that was plagued by a rapid deterioration in the nickel price. Now, we've seen the opposite movements, but I think still this has worked out in a good way for us.

00:46:42
Ioannis: Thanks very much.

00:46:47
Operator: The next question comes from Bastian Synagowitz from Deutsche Bank. Please, go ahead.

00:46:57

Bastian: Thanks and good afternoon, all. I do have a quick follow-up on America if that's okay. If we look at the bridge that you are providing in your chart deck, you're not referencing the new hot rolling agreement which has started as of January 1st. Could you please give us the all-in impact of the new agreement versus the fourth quarter? Then also, was there any impact from customer commitments in Europe, which you try to honor via supply from the Americas, and if so, how much? That's my first question.

00:47:28

Pia: To start with, on the customer commitments, it did not go the way that we would have delivered out of the US or Mexico to Europe. That did not impact the figures here. Then, we have not disclosed the full commercial impact of the new hot rolling agreement. However, at the point where we disclosed that we had entered into this agreement, we said that we believed that our sustainable EBITDA level in dollar terms, which used to be 200 million, we see that at a level of 170 million. We have impacts both on the variable side of it and the fixed side of it. However, when you look at the bridge, as obviously, you have done, you will see what major impacts were from Q4 into Q1. It was this lower price level impacted a lot also by what's going on in Mexico as we have discussed and then the tighter scrap market situation.

00:48:26

Bastian: Thanks for that, Pia. On the outlook here and also in the context of the 170 million mid-term EBITDA perspective, which you're providing and which you're still committed to, it doesn't seem, at least for the moment, like the current market situation is unwinding. I think maybe some volumes are coming back. Some of the operational issues are dragging on, but then we still have the pressure in Mexico, as you say, and also the tighter scrap market, and maybe that will unwind later but doesn't seem to be for the moment. Even besides that, do you think that you could get this back towards the 170 million run rate level in Q2 or Q3?

00:49:11

Pia: Maybe this year as we have experienced it now, has come with many surprises and this is maybe a bit of a transition year from what was a deteriorating market situation back into something more normal. When exactly then is that pivot point? I think that's maybe a bit difficult to foresee. However, as a direction, I'm sure that we are heading again back towards that 170 million annual run rate. The speed of the movement here, I think, is dependent on many external and macro factors, that are sort of big themes, that maybe would take up too much time to comment here.

00:49:57

Bastian: Perfect. Then, lastly on cash flow and your investment line in particular. I'm wondering how much the actual underlying CapEx number has been and how much has been the part attributable to Cronimet. The way I understood it is that roughly a 45 million difference to last year's CapEx number has been attributable to Cronimet so you spend a 15 million underlying, but I'm not sure I got the statements right.

00:50:24

Pia: I think that is a little bit of a harsh conclusion. I wouldn't go that far. We also have some of the CapEx that is under this header of energy efficiency and strengthening the core, where I think we have now successfully launched some projects. Some projects brought in, for example, are Torneo and Avista as well. I would not attribute that to all. We have not disclosed the exact figure for that, but that is jumping the gun a bit. It's a smaller number that is coming through the share purchases.

00:50:59
Heikki: Still, for the whole three-year period of phase two, it's 600 million. The 220 is a bit of a bigger number but then in 2025, it will be a little bit of a smaller number adding up to 600.

00:51:13
Bastian: Okay, but the Cronimet number is not included in the 220. I was just wondering how much of the 220 budget you spent.

00:51:22
Pia: It is. Apologies, Bastian, if I understood that wrong. It is included. I mean, when we talk about the CapEx, it's the full cash out, including also these other types of investments, for example, in the share format.

00:51:36
Bastian: Including Cronimet. That is a good clarification. Then, looking at the overall CapEx budget and the cash flow outlook for the rest of the year. You talked about working capital, because of what's happened due to the strike, I guess you've been clearing at least maybe some of your distributor network inventory. It seems that you may be still freeing up some further working capital in the second quarter. Maybe in the second half, at least. If the business is picking up you may have to rebuild some inventory and working capital. What's your outlook here for the free cash flow side, would you be confident to say that you expect to be able to generate cash this year?

00:52:25
Pia: I think it's pretty much that where we stand right now is still a good balance. I think that we already during Q2 might have a little bit of investment into working capital, particularly if we consider some of the seasonality, I mean, some of the maintenance breaks in Europe during Q3, et cetera. There's probably a bit of buildup that we will at least try to do. Let's see now, I mean, this is a tight situation, following the strike, just to rebalance the system in Europe here again. I would say in terms of working capital, what I would expect is somewhat of an investment, particularly towards the end of the year. I would not call or deem this material. Our working capital is at the level of about 900 million right now, in some earlier sort of top years, we have been a little bit over a billion. The fluctuation will not be hundreds of millions, but certainly, from what I see right now, I could imagine that we would go 100 million up from the previous year.

00:53:23
Pia: That remains to be confirmed by Marc-Simon as the plans for the remainder of the year get more clarity. Then, I think this CapEx figure is quite clear. Then, it's really up to the recovery of the market and how results can pick up towards the end of the year. I think that's really what we need to observe. It's still possible, but I think it's too early to give a prediction for the end of the year, given just that the market development will be a key to that. As I said, the market development also depends on some very big macro events, such as, for example, lowering of interest rates, et cetera.

00:54:05
Bastian: Excellent, very clear. Thanks so much, Pia, also, from my side. All the best in your next step.

00:54:09
Pia: Thank you so much.

00:54:17
Operator: The next question comes from Moses Ola from J.P. Morgan. Please, go ahead.

00:54:24
Moses: Hi all. Thank you so much for taking my question. A few from me. Firstly, please, just on the impacts on deliveries in the first quarter from the strike direct impact in Europe and the Americas, is it possible for you to just quantify what that direct impact was, please?

00:54:46
Pia: I think this may be a big picture, I can give a little bit of a flavor for that. I mean, we initially thought that we would be able to increase our volumes quarter on quarter with roughly 10 percent. What we saw here in the end was that we were pretty flat quarter on quarter. That impact was really more from Europe. The downstream impact, including the Americas, can be then visible to some extent in the second quarter. That's as much as I can say, I think the mitigation actions that we took that also took the strike impact in total, down from 80 million to 60 million, are those that are then also benefiting Q2, so that the Q2 impact, the downstream impact is not as harsh as we initially thought.

00:55:36
Moses: Within the five to 15% higher, quote unquote guidance, that still relates to the Americas as well. The downstream impacts that you've said.

00:55:50
Pia: It does, you're right. Absolutely.

00:55:53
Moses: Then, the second question is related to the Americas market. Given the ongoing weakness in Mexico, and the lower pricing environment, do you feel that there is perhaps, a risk in the US given Mexico is a key supplier in the US? If you look at the import share deliveries for the US from Mexico, in your experience, do you see that that could become a risk over time if the lower pricing environment in Mexico is retained?

00:56:35
Heikki: So far in the past, we have not seen that flow through. We cannot forecast the future, but at least at the moment, we're not getting a signal from our organization saying that would be a concern.

00:56:52
Moses: Thank you. Then, finally on the ferrochrome business. You reported the deliveries separate from the production, which is useful. I see that in 2023, you built up around 50,000 tonnes of ferrochrome stock. Even into this quarter as well, production outpaced deliveries. Do you feel that your current utilization rate is still

appropriate, given the weakness in downstream demand? How do you expect to work through that inventory into the rest of the year?

00:57:31
Pia: I think we will see some lower inventories already at the end of Q2. Where we are right now, I think we have one of the smaller furnaces temporarily closed, and that's planned to continue until August. With that, we are balancing the system and finding a pathway here to a more optimal inventory. I would just say with much of the uncertainty that there has been with this sort of rapid movement, strikes, all sorts of issues, of course, there is probably a bit of a higher inventory level that we want to maintain long-term compared with maybe very low historical values. Nonetheless, I would say from where we are, seeing the inventory at the end of Q1, we still expect it to be somewhat lower at the end of Q2.

00:58:21
Moses: That's understood. Thank you very much and wish you both the best in your future endeavors.

00:58:26
Heikki: Thank you.

00:58:31
Operator: The next question comes from Maxim Koga from Ordo BHF. Please, go ahead.

00:58:42
Maxim: Good afternoon. My first question is on the plan to expand the cold rolling capacity to align it in the US with the hot rolling agreement and universal capacity. Are you still on track to make a decision by early 2025? I think that was a deadline that was previously mentioned. What do you think of the project in the current environment?

00:59:06
Pia: Yes, absolutely, Maxine. Thanks for the question. We can talk about it. I think our underlying view of the US as an attractive market certainly remains. As I said before as well, we have already unlocked some capacity in this phase two execution, and now certainly also await the moment when we can deliver that to the market. Our work continues in the background. As always, if there's any relevant update, we will share it. I think there's background work we need to do and the team is working on and we will continue to do that now. It's the February timeline then of next year that still is relevant at this point.

00:59:54
Maxim: On Mexico, is it fair to assume that you will remain there, either loss-making or only barely profitable, given that you have no real competitive advantage? You are not integrated upstream. You have further competition from imports. Is that country bound to remain in this difficult situation for the foreseeable future or do you see a way? Do you see room to reverse the situation?

01:00:31
Heikki: I almost believe you also want to answer, but let me just first say, at least clearly from my side, that I don't think we are at a competitive disadvantage. We are the only producer locally anchored. This situation where there is big global pressure

and excess volumes somehow seek an outlet. This can also be mitigated by proper trade policy and stabilizing the situation. I think there's probably a path forward that brings back the balance. Right now the situation is tough, as you have also alluded to.

01:01:13
Heikki: Maxim, thanks for the question. Somehow I feel like I'm looking at it completely differently from another angle than you are. As I said before, from a geopolitical standpoint, we believe Mexico will become a very fundamental place for manufacturing for the US market. We will see less, for example, home appliances produced in Asia for US exports. Depending on now who is going to be running the White House, time will tell what happens to US import policy vis a vis Asia and China in particular but we believe nearshoring, or friend shoring as they call it, will become a big theme. Long term, Mexico is an exciting place to be. As I said, we're the only one on location. I don't see any disadvantage. I see a superior advantage for us. We can provide local support, local service, fast delivery, and tailor-made customer demand locally vis a vis importing it from somewhere else. I'm very pleased with our situation. As I said the import pressure at the moment is a bit of a headache, but I'm sure eventually that also will be mitigated like it's been solved in many other jurisdictions as well.

01:02:25
Maxim: The last one is on potential share buybacks because I think you still have a bit of a buyback to realize to fully cover the dilution from the convertible. What are your plans in that respect notably in terms of timing?

01:02:41
Pia: You are correct that we currently have about 33 million shares in the Treasury and currently looking at about 45 million shares that would be necessary for then the repayment of the convertible in July of 2025. That remains a tool. We could still use the share buybacks for that purpose. There are also then other ways of settling that. At this point, we have not announced more share buybacks. Let's see then, it's probably for Marc-Simon to answer then in the next course.

01:03:21
Maxim: Thank you and good luck to both of you in your next endeavors. [inaudible 01:03:24- 01:03:25] I had the pleasure to meet you.

01:03:28
Pia: Thank you very much.

01:03:31
Operator: As a reminder, if you wish to ask a question, please dial Pound Key five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

01:03:54
Heikki: Thank you very much and once again, excited to have you join us here for this one hour. Let me finish off with a couple of thoughts. First of all, as I said, the first quarter started pretty well for us. Unfortunately, we had the strike, but it's now sorted out and we are on our way to recovery. We have also decided to raise our run rate target for phase two, from 200 to 350 million, to boost our returns. Secondly, we also

commented that we feel confident that America's business area can deliver, under normal circumstances, $170 million adjusted EBITDA performance. Then thirdly, as a company and management and also the board, we are committed to strong shareholder returns and we stick with the dividend policy. That is the backbone of all of our doing. I look forward to seeing you again in the second quarter in August when we've released our results. As I said, we also wish Pia all the best in the next part of your journey.

01:04:59
Pia: Thank you so much, Heikki.

01:05:00
Heikki: Thanks so much.

01:05:00
Pia: Thank you all.