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## CORPORATE PARTICIPANTS

**Christoph de la Camp** *Outokumpu Oyj - CFO*

**Roeland I. J. Baan** *Outokumpu Oyj - CEO, President and President of Europe Business Area*

**Tommi Järvenpää** ☒

## CONFERENCE CALL PARTICIPANTS

**Alessandro Abate** *Berenberg, Research Division - Head of Metals and Mining*

**Alexander Berglund** *BofA Merrill Lynch, Research Division - Research Analyst*

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

**Carsten Riek** *UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research*

**Johannes Grasberger** *Nordea Markets, Research Division - Senior Analyst of Materials*

**Johannes Grunselius** *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

**Luc Pez** *Exane BNP Paribas, Research Division - Analyst*

**Michael Shillaker** *CrÃ©dit Suisse AG, Research Division - MD and Head of Global Steel and European Miners*

**Seth Rosenfeld** *Jefferies LLC, Research Division - Equity Analyst*

## PRESENTATION

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### Operator

Good day, ladies and gentlemen, and welcome to the Outokumpu Interim Report First Quarter 2017. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Tommi Järvenpää, Head of Investor Relations. Please go ahead, sir.

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### Tommi Järvenpää ☒

Thank you. Good afternoon, ladies and gentlemen, and welcome to Outokumpu's First Quarter 2017 earnings webcast. My name is Tommi Järvenpää, I'm the head of Outokumpu's Investor Relations. With me here today are also our CEO, Roeland Baan, and our CFO, Chris de la Camp. We will be referring to the presentation that can be found on our website. As always, please pay attention to the disclaimer on Page 3 in the presentation as we will be making forward-looking statements. With these remarks, I'm pleased to hand over to our CEO, Roeland, please go ahead.

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### Roeland I. J. Baan - *Outokumpu Oyj - CEO, President and President of Europe Business Area*

Tommi, thank you very much and welcome to everyone on the line. Good afternoon, good morning. As your used to for me, I will start with our vision 2020. I do expect that in future meetings, I can ask you to repeat it to me. But until we are there, I'll keep on telling the story. So our vision is to be best value creator of stainless steel by 2020 through customer orientation and efficiency. And again, the various angles to that are the customers, the shareholders and employees. And we have to succeed to be the best value creator in all 3 areas. It is time bound, due to its sense of urgency, and it is all back to basics. Customer orientation and efficiency is where the rubber hits the road. So with that, I'm very pleased to say that the initiatives we have taken to fuel this vision are really taking hold and have led to a particularly strong Q1 performance.



You can see, our adjusted EBITDA was EUR 294 million for the quarter, which is a tenfold increase over the first quarter of last year, and the tripling of the fourth quarter of last year. In fact, the full adjusted EBITDA of the first quarter is more or less equal to the full EBITDA of the full year of 2016.

Moreover, all our businesses delivered black numbers. We were positive not just in Europe, where you are probably used to it, we were positive in Long Products, which had a difficult 2016 and, most importantly, we have -- made extremely strong positive numbers in the Americas. One of the questions you have been asking us all the time, when will Americas be positive? There you are. Americas are positive. This is all the result, of course, partially from a good market and I'll come back to that. But the productivity and efficiency improvements were very much visible in the results. In just a few examples, in the U.S., our very low cash conversion cost improved by 12% quarter-over-quarter. In Europe, it was 4%. For such a mature environment, extremely strong performance. And on top of that, we had significant reduction as well in the absolute fixed cost.

When you look at SG&A, which is one of our other big initiatives, we, again, are well on track to make the targets that we had of the EUR 300 million run rate by the end of the year. And actually given the development, we think that we are on track to beat that target.

Talked about the markets, markets were strong with good base price increases if you take year-over-year, we were up about EUR 100 in Europe and up about \$170 in the U.S. And of course, ferrochrome, as you know, at USD 1.65 was a big tailwind.

We had as well, as you can see -- this essential net working capital increase, which led to a -- partially led to our negative cash flow. The investment in net working capital, however, is mainly due to volumes and pricing. And we expect the payback to be very strong in its cash flow for Q2.

When we go to the next slide. Already talked about the base prices, up EUR 100. What is interesting to see is, if you look at the imports, they stay more or less at the same level, 23%, 24%. They were slightly down to 24.2% in Q1 over the Q before. Most of that, as you can see most of that reduction actually came from the Asian side, where we think that, especially Korea, was in its exports lower than before. Now these are cold rolled numbers. If you look at hot rolled, which I don't have a slide here, there, you can see that conversely, the imports were up mainly from China. Now first of all, hot rolled is only a small portion of the market. And secondly, although the hot rolled imports of China into Europe were up by almost 85% compared to the average of last year, it's still only 22% of the total hot rolled sales versus about 16% over the average of last year. So yes, there's an increase, but there has been an increase in the market size as well. And as a result, you see as well that, for instance, the domestic players went down from 70% to still 65%. So we shouldn't overplay the role of the hot rolled imports into Europe basically because much of the market is cold rolled and reroll capacity is not so large as to make a significant impact.

When we go to the U.S., then we see that the prices have been increasing during 2016, and a slight tick up as well in the first quarter, about \$170 I said earlier. And you see there that, again, imports are coming down. The Chinese imports for cold rolled have basically disappeared from the market and you see again that the rest of Asia as well as the rest of the world is coming down. And the 2 drivers there basically are, for Asia, Korea and for Europe -- and for the rest of the world, Europe, which shows -- is a clear sign of the very strong market that we are having currently in Europe. So with that, we go to the financials. Chris, if can I ask you to take care of that?

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**Christoph de la Camp - Outokumpu Oyj - CFO**

Okay. Thank you, Roeland. And good morning. Good afternoon, ladies and gentlemen. I'll start on Slide 8 to look at the summary of the key financials here that you can see. Let us start with our stainless steel deliveries in the first quarter. Here, you can see that deliveries were up against the same period last year by 29,000 tonnes. And this was driven, most particularly, by much stronger deliveries in the Americas versus the prior year period, but also by higher deliveries in Long Products. European deliveries were down a little bit due to the closure of our Benrath sites during the course of the year and, therefore, reduction of our overall capacity from that.



If we then move on to the sales. They were clearly higher and this was driven on the one hand by higher deliveries, but also by higher prices during -- that went up in the course of this year on a Q-by-Q comparative basis.

If we then move down the charts, clearly, Roeland has already outlined that the adjusted EBITDA multiplied by a factor of 10 on a comparable period, so, a significant improvement. A lot of that, due to our self-help program and the delivery of our must-win battles. But also, the market helped somewhat. And then, resulting from that, a much stronger net result. And you can see that in the first quarter already, we have delivered more net result than the whole of 2016.

Cash flow, operating cash flow, was negative for EUR 53 million, and therefore, somewhat worse than in the same period last year. And that was driven, as Roeland has already outlined, by a significant increase in net working capital. And I will come back to explain that a bit more fully as to what actually drove that. As a result of that, net debt increased to EUR 1.376 billion, but it is down significantly versus the same period last year.

And the capital expenditure number here of EUR 19 million was a little bit lower than last year. However, I would stress that this an accounting number, the cash number was higher at around EUR 45 million. And therefore, this sets us on track on the ballpark EUR 150 million to EUR 200 million capital expenditure that we're trying to target on an annual basis.

Our staff levels came down a little bit and this was also driven by the ongoing efficiency programs that we have, but we also sold a smaller business in the U.S. earlier in the quarter.

Let's now move on to Slide #9, which shows the European result in a little bit more detail. If you look at the left hand charts, you can see that deliveries at 415,000 tonnes were actually the strongest since the first quarter of last year. And if you look at why they were lower, this was, as I just said, due to the closure of the Benrath site in September of last year, which took out some capacity. So the capacity which sits behind these numbers is not exactly comparable. Therefore, we consider this to be an underlying, very substantial improvement as well.

And you can see on the right-hand side, the very, very significant improvement in EBITDA in Europe, it tripled -- more than tripled. Again, a large driver here were cost reductions, both variable and fixed cost reductions. Our SG&A program, of course, impacts [Europe] particularly because of its very large size within our company and these played major roles in the improvement. But also, of course, the market environment has improved and ferrochrome prices also supported that result.

What we're seeing in Europe at the moment is ongoing strength in the market. We saw strong customer demand in all segments, really, but especially in the consumer segments. We saw higher base prices. Q-on-Q in the comparable period of EUR 100 a tonne. But even if we look at the end of the last year during the course of this quarter, we saw EUR 40 price increase there as well. We've seen distributor inventories notch up a little bit so they have increased during the course of the last quarter. And we obviously continued to see strong performance in our operational costs.

If we look at the ferrochrome operations. On the one hand, positive impact from the much increased ferrochrome price, which rose from Q4 by USD 0.55 per pound. They were also -- we also had a higher delivery volumes in the quarter versus the prior year period. But on production, we did see some issues, where we had a technical issue in one of our furnaces, which broke down. And while this did not lead to lower deliveries because we were able to draw on our inventory levels, this will have an impact on carryover into Q2.

Let us move onto Slide #10, and particularly, here on the chart on the left where we can see the delivery volumes over the last 5 quarters. Q1 has a strong result for the Americas, 182 kilo tonnes, that is a little lower than the third quarter result. I think if we had not sold our plates business in North America during the course of the quarter, the result would've been marginally ahead of the Q3 '16 results like-for-like. So just about a new delivery record and a lot of production records also reached during the course of the quarter. Again this was driven by a very solid demand in all customer segments and especially the end consumer segments.

And then the chart on the right, the EBITDA chart. You can now see here very clearly that the improvement trend in the Americas continues. It has been a huge change when we compare the first quarter of last year to the first quarter of this



year. But also, you can see an ongoing trend quarter-on-quarter, with a small blip in the fourth quarter, seasonal blip, where improvements continue to be made. This is the result of the higher volumes I've just outlined, improved productivity, base prices, a better product mix. But particularly, strong, clearly also, the reduction in variable cost per tonne and fixed costs in the operations and in the back-office operations of the business.

We did see the favorable market environment starting to attract some imports volumes into the regions. Inventory levels, we are beginning to see nudge up a little bit in the Americas as well, particularly in the U.S. And the result was also improved by a small positive net impact of metal derivatives. But I would like to stress and here, that this is small and even without taking that into account, the Americas would have been solidly positive at an EBITDA and at an EBIT level. So we are finally positive here on a like-for-like basis on EBIT, EBITDA, underlying or adjusted, whichever way you look at it, it is now a positive result at that level.

Let us move on to Slide #11, the Long Products business. Again, looking at the deliveries on the left, you can see that for some time, this was the best quarter. And here, we have really seen demand improve significantly from the automotive, aerospace and oil and gas sectors. But we've also benefited here from the strong demand in our European business area, which needed additional slabs due to strong demand and the material, which we could not produce in the other melt shops was made up in Sheffield in our melt shop in Sheffield, so that also contributed to the improvement in volumes to some extent there as well.

And after a difficult 2016, you can see here that the EBITDA in the first quarter was very solid, EUR 9 million. Again, higher deliveries, better prices, but also cost efficiencies contributed to that. Again, here I would make the point that while inventory adjustments and metal derivatives had a small net impact, again, this business would've been very solidly positive as well even without this.

Now moving on to Slide #12. We did see a significant cash outflow during the first quarter of this year. So our net cash from operating activities was minus EUR 53 million. And the biggest contributor to that was the increase of EUR 280 million in net working capital. It was caused by an increase in trade and other receivables. And this in turn was caused by higher base prices, higher raw material prices, higher delivery volumes. And some of those deliveries were very much skewed towards the end of the quarter, so that it ended up increasing our receivables as well. We also saw the higher ferrochrome prices that we saw during the first quarter work their way into our receivables and also into our inventory values. And that alone -- the increase in ferrochrome accounted for over half of the overall increase in net working capital.

There were further cash outflows of financing activities of EUR 91 million. You are all aware of the dividend paid in the first quarter. We re-bought some treasury shares, particularly -- only solely for the purpose of hedging future performance share plan, payouts that we expect, so these were the biggest contributors to that item. And the financing costs in the first quarter, with EUR 32 million of which EUR 24 million were interest costs and the balance was derivatives.

Overall, liquidity reserves were very, very high again at EUR 0.8 billion, somewhat lower than in the past, but still very, very adequate for our business. As a result of the cash flow, our net debt increased a little bit, and it stood at EUR 1.376 billion by the end of the first quarter. On the working capital side, I would just like to say that there were, apart from all the increases due to higher sales, higher prices, higher deliveries, we also did have the delayed sales towards the end of the quarter, which carried into the working capital. But also, we decided to reduce our factoring -- one of our factoring programs, higher cost factoring programs, to save interest costs there, so that also contributed approximately EUR 50 million to the increase in working capital. And as Roeland has said, while obviously in the first quarter in a very rapidly rising environment, this is always a lead -- does inevitably lead to an increase in net working capital. This should be viewed as an investment. A lot of this will reverse in the second quarter, and we will see cash flow much more positive -- a much more positive cash flow during the second quarter than we saw in the first quarter.

Moving on to Slide #13 now. And the impact on this on some of the key balance sheet metrics here. On the left-hand side, you can see our normal charts. You can see that the net debt leverage has come down significantly yet again. So we are now at 2.4 on an LTM EBITDA basis. So very strong improvement there from 2016. But of course, the increase in net debt did lead to an uptick in gearing. So that was one of the negative consequences of that.



And on the right-hand side, we're showing our debt maturity profile. I think the most noteworthy thing here is that, in early 2016, we faced a massive maturity wall in 2017, in the first quarter of 2017, on a variety of different debt instruments. We've now moved through that wall to the end of Q1. We have essentially dealt with all of those maturities. The remaining debt here is normal commercial paper that revolves on an ongoing basis. We have no immediate maturities left to deal with in 2017. We have very little, as you can see here, in 2018. So now have a clear run in terms of the next maturity wall coming in 2019. And with that, I would like to hand back to Roeland to give you a brief summary of our outlook for Q2.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

All right. So looking forward to Q2. What we see already said that the underlying stainless steel demand remains robust. We see that in most markets, specifically those segments that are consumption led, both in Europe and the U.S. We do see further improvement in base prices, both in Europe and in the U.S. And we expect the deliveries to remain more or less at the same level as during the first quarter. Of course, we have, as you know, a lower ferrochrome price. It went from USD 1.65 to USD 1.54, and that combined with the issues we have had, which we can discuss further in the Q&A on our ferrochrome production -- will give a slightly negative result on the combined results. And as -- together, we expect the Q2 adjusted EBITDA to be somewhat lower than the Q1 EBITDA. And with that, I think we are open for questions.

#### QUESTION AND ANSWER

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**Operator**

(Operator Instructions) And we would take our first question from Michael Shillaker from Credit Suisse.

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**Michael Shillaker - Credit Suisse AG, Research Division - MD and Head of Global Steel and European Miners**

Three questions, if I may. Firstly, just on the guidance. We know that base prices are going to be higher in Q2 and you guided to relatively stable volumes in the second quarter. We know the ferrochrome price down is going to be about EUR 20 million or so, EUR 15 million to EUR 20 million or so of EBITDA on your sensitivity. So assuming that those price versus ferrochrome more or less balances out, is the delta to the downside in Q2 primarily from the ferrochrome outage? And are you seeing any other factors at play which we should be more worried about? Because in Q1, you gave an open-ended upside guidance of more than EUR 250 million. This is an open ended downside guidance. And does that -- should we be worried that actually you're seeing the earnings taper away as we go into the second quarter and that is why the guidance is open-ended, downside is question number one. Question number two, just on the ferrochrome outage. Obviously, we had another one in sort of Q3 -- I think late Q3, early Q4. Are you disappointed with the performance of the ferrochrome operations? Or is this something we should accept as relatively normal? Or if it's abnormal, what steps are you doing to assure the smoother running of the facilities? And just on the working capital. I understand completely on the EUR 50 million of factoring reduction. But still, sort of EUR 240 million of working capital build is pretty significantly higher than one of your peers. Acerinox just reported on their basis of sales this morning. So are you a little worried that working capital build got a little out of control? And we know it reverses out, but it's still better if you can generate free cash quicker? So are you worried that working capital build got a little out of control in the first quarter?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

All right. So I'll start with the first one. So yes, base price of ferrochrome price down. So is the difference when we say somewhat lower is it then because of the operational issues? And the answer is solemnly, yes. And by the way, when you say we have an unlimited upside and now we have an unlimited downside. If I'm somewhat cold; I'm still not freezing. So I wouldn't call that unlimited down. Then, are we disappointed with the ferrochrome performance? Yes, we are. If I take



you back to the discussion we had in Q4, when the startup led us to a delay in getting to normal production volumes into the second and the third week of October, before we were back on track. We did then very well. November, December and January actually were solid production months. And so during February, we started to experience some variability again, which we couldn't directly pinpoint what it was. And that led to in the first, second -- first to second of March, in an event that we had an overflow of this furnace, where the raw material flowed out. And while doing this, damaged the cooling pipes and the roof of the furnace.

The root cause analysis in the end showed that there was most likely an issue with one of the scales for our -- the way we put coke into the furnace. As a result, we had been -- we changed from scale -- from one scale to another. This is how this happened. And the analysis is that we were under putting coke into the furnace. And we thought it was a chemical issue. So when it was -- from the chemical analysis came out that we needed more coke, we just charged more coke. Until the point where we actually over-coked the furnace. And it started foaming and that is what caused the outburst of material and the damage. We had to stop it for 3 days. We didn't let it cool down completely, so that was a good thing. We still had liquid metal in there, which allowed us to then, after the repairs, slowly ramp up again. Why we're still not where we want to be, is because we have to replace the refractory of the roof and that means that we have to order the refractory, which will be in the month of May when we, again, put the furnace down for approximately 3 days to repair the roof. In the meantime, until we get to that installation of the new roof refractory, we will probably be running at about 60% to 70% of the capacity of that furnace to avoid any risk of further damage to the roof. And then, on the working capital. Chris, if you could take that?

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**Christoph de la Camp - Outokumpu Oyj - CFO**

Yes. So Michael, to answer your question on the working capital, I'd say, did it get out of control? Only to a very limited extent that we could do anything about. As I said, I'll break it down into broad buckets of numbers for you. Roughly EUR 50 million reduction factor, that was a very conscious and deliberate choice. It didn't get out of control. It was deliberately done to save on the high cost of one of our factoring programs. A second piece, about EUR 150 million was due to the increase in ferrochrome that worked its way into our inventories, but also into our receivables through the alloy surcharge. Again, out of control? No, it's one of the results of just higher prices and in due course, if and when ferrochrome prices fall, that will come back. The balance of that leaves about EUR 75 million roughly in terms of delayed deliveries. So what happened here was that, we had some logistics issues, which meant that at the end of February, material did not get shipped and moved into March and, therefore, collections that should have happened in March did not happen and will be delayed into April. So this is the element where I'd say, that could have been gone better. It didn't. It's a timing issue. It will come back in the second quarter. The balance then we also saw an increase in receivables, but that was effectively offset by an increase in payables, as well, just simply due to higher base prices, higher delivery volumes versus Q4. We sold 56,000 tonnes more and I would say that's a side effect of a much stronger business environment in Q2 than Q4. So again, not out of control, but a result of stronger underlying business.

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**Michael Shillaker - Credit Suisse AG, Research Division - MD and Head of Global Steel and European Miners**

Can I ask a very quick follow up? Can we get the volume of ferrochrome shipments that are likely to be lost in Q2? I hear you in terms of the smelter offering at 60% to 70% utilization, but so we can try to run the maths on the actual volume lost?

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**Christoph de la Camp - Outokumpu Oyj - CFO**

We will be producing about 105,000 tonnes.

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**Operator**



We would take our next question from Johannes Grasberger.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

It's Johannes from Nordea. First question is on the delivery mix. So, I'm just checking. It looks like the mix wasn't as good as last year, Q1. There seems to be a little bit of more semi-finished steel going out. Just wondering if that has not been a dilutive factor into Americas? Or where has the mix been weaker compared to last year? That's the first question.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Can I just for my own education, how do you deduct this higher portion of semi-finished?

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

It's just checking from Page #11, where it's 42,000 tonnes. And then, 24,000 tonnes a year ago. So more semi-finished products going out.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Okay. Got you. As you can see, there's a 40,000 increase in the overall and a 20,000 increase in the semi-finished. So the -- in percentage-wise, the mix actually is richer, although there's more semi-finished going out.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

All right, exactly. Because the overall volumes are higher, so that's part of it. This is coming through the semi-finished products because it's part of the overall mix in the demand.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

If you take 610,000 tonnes against 640,000 tonnes with the stainless, and then you see the 18,000 tonnes difference. Then you see that the overall mix has become stronger.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

Right, right, makes sense. Then, in terms of the quite massive surge in the coke prices. Just thinking, is that something that is also additional cost headwind going into second quarter? Of course, not something that is extremely consumed in ferrochrome, but I suppose it's still some small headwind assuming that you were still able to consume a lower priced coke in the first quarter.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**



It's -- no it's not really a factor. It's too limited. Although as I said, we have been -- spending too much coke in Q1 unfortunately. But it will not be a determining factor.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

Right. Okay. And then I've got a question on the working capital swing as well. So, if we now run the numbers and we go into the second quarter, so assuming this EUR 80 million of delayed deliveries, that will come back. And we already see that, okay, chrome prices are a little bit lower. So I suppose we are talking something about, easily, EUR 100 million working capital reverse, which will be roughly 1/3 of the first quarter tie up?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Right. I don't want to comment on the exact numbers. But it's going to be a very substantial improvement in working capital, Johannes, yes.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

Yes, right. And then just curious, still on the working capital tie up in this quarter. Was that a surprise after kind of closing the books? Or was that something that you were already seeing and expecting once you saw that the ferrochrome prices jumped into Q1 with the exception of these delayed deliveries, which was kind of exceptional?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

No, I don't think it was a surprise. I think the -- we -- when we had discussions with various investors and analysts in the first quarter, I think we were always very clear that working capital was going to go up significantly. And this is going to have a negative impact on Q1 cash flow. So it wasn't a big surprise.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

Right, right. Agreed on that one, that it's been quite clearly communicated. The final question what I have is overall on the steel market. So I know that the guidance is, in general, for the second quarter. But if we just kind of -- if you could just talk little bit about the market dynamics when we head for the second half. So it seems there's been a little bit of restock happening in the first half of this year and now metal prices going down a bit, and then we also have the Chinese inventories rising, for which we've heard some comments lately. So thinking whether there could be some slower demand patterns in the second half versus first half of this year or perhaps there are some other elements that we should be aware about that this shouldn't be the case?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Look, it's seasonally -- Q3 is always weaker than Q1 and Q2 or Q4. And I don't see any reason why that will change. Of course, there's a lot of speculation going on with what happens with now the alloy surcharge for this is coming down because of lower nickel and lower ferrochrome. The only thing I can say is, while we have extremely good order books going into Q2 and for Europe now starting into Q3, very difficult to say whether that will -- these price movements will have an effect. If they would persist or go down further, of course, they will have an effect, where especially distribution sector will postpone purchasing for as long as they can sit it out with their inventories. Now, if you talk about inventories, in Europe, the inventories are up a bit. But you talk about 3 or 4 days. And so we are not talking about a vast



overstocking. So for now I would say, yes, Q3 will show its normal seasonal pattern, but it's too early to say anything into Q4.

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**Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials**

Okay. And just a small follow-up. So I suppose for the entire industry and the entire stainless steel value chain, the most, best outcome would be a situation where the metal prices, if they were to edge lower, they would basically edge lower as quickly as possible because that would make the de-stocking phase as short as possible. Would you agree on that?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Yes. I think the best scenario always is everything's stable. So that's what we're going for.

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**Operator**

We'll take our next question from Alexander Berglund of Bank of America Merrill Lynch.

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**Alexander Berglund - BofA Merrill Lynch, Research Division - Research Analyst**

It's 2 questions from me. First of all, on Europe, I wonder what your view is on the risk for imports into Europe. Now, especially, it seems like Brussels has not been so supportive and there wasn't any revision on the anti-dumping against Taiwan. And then, secondly, on the U.S., a bit more longer-term. What potential do you think you have to further increase the mix in the U.S. now that you're gaining market share and utilization is going up?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Okay. So let's start with Europe. And I'll try to explain a little bit the Taiwan case. Because it's not that Europe is changing its stance. So as an industry, we thought there would be a case, a case that can be proven on so-called absorption of duties. Given the numbers in the European market, that looked reasonable, so the EU investigated. The problem that occurred was the Taiwanese market participants did not participate in the answering of the questions, to a large extent. So the full distribution sector did not cooperate, and it was only the 2 producers that cooperated in this investigation. And as a result, on those numbers, there was no proof that, for these players, there was an absorption of duty. And as a result, the commission said, we will just keep the existing duties intact. It's not that they are lower -- they just keep it intact, the current 6.7%. So it's not a case of a change of heart. They just followed the procedure and the procedure didn't give them the tool to actually do anything about increasing it. As far as the U.S. is concerned, yes, of course, we are looking to improve our mix. We -- and I think you'll see that from those numbers, as Johannes pointed out, the mix has improved and the main volume growth has been in the U.S. So you can already see that there is a shift in the mix to richer mixes. And we are -- this is a stated objective as well that we will continue that path and this is one of the main commercial drivers between now and 2018 for our returns in the U.S.

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**Operator**

We would take our next question from Luc Pez of Exane.

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**Luc Pez - Exane BNP Paribas, Research Division - Analyst**



A couple of questions as a follow-up. First of all, with regards to the windfall gain, would it be possible to at least actively break it down as far as the contribution to the U.S. turnaround is concerned in particular in the Long Products as well? So that would be my first question. And secondly -- sorry.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Before you go on, can you explain what windfall gain is? And how that (inaudible)

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**Luc Pez - Exane BNP Paribas, Research Division - Analyst**

Inventory -- relative inventory revaluation item you were talking, the EUR 33 million boost to the quarter, which was reported as inter-related inventory gains so far?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Yes, specifically for U.S. and [Europe]?

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**Christoph de la Camp - Outokumpu Oyj - CFO**

Okay. Shall I take that?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Okay. So the number overall was small and in the interim statement, we talk about the number of a EUR 33 million which also includes some derivative gains, so if you take that out, then the number was overall about EUR 25 million, in round numbers, about EUR 8 million of that can be attributed to the U.S. About EUR 2 million or EUR 3 million to Long Products and the rest to Europe so, therefore, in context it is a very small gain.

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**Luc Pez - Exane BNP Paribas, Research Division - Analyst**

And then, sticking to the overall market comments. As we had the Acerinox call a couple of hours ago, I seeing that your competitor may be a bit more concerned about the rising spreads with the Chinese market and ongoing weakness, maybe in Chinese markets and excess inventories, that can be seen here. Is this something which is a source of concern to you as well or you feeling pretty relaxed with regards to that?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

It's always a bad idea to be relaxed in this market. But if I break it down to pure numbers, we have seen since the high end of pricing in China, we have seen the prices come down with about \$120 to \$140. And if you look at cold rolled between EU and China for local markets, we are now at approximately a \$500 a tonne differential. On a base of, let's call it, \$2,100, \$2,200 in China. So if you take the 25% duty that is already more than the current gap, and then on top of that, you have, of course, the freight plus the supply line, plus the fact that you still get a premium for European material or Chinese material. So I'm not concerned at this stage. The gap is just not big enough for Chinese cold rolled material to



find a way into Europe. But you have to monitor it you have to look at it and in that sense, I don't know what my colleagues have said. But in that sense of course, we all keep an eye on it. You do not want to shoot yourselves in the leg.

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**Luc Pez - Exane BNP Paribas, Research Division - Analyst**

Okay. So the way I should understand it, is that it's small to be seen as a gap for you to raise prices rather than in the actual downside risk emerging as of today, I mean?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

That's not quite what I said. I said the gap currently is about \$500. And if you take the 25% import duty plus the freight plus the premium of Europe, there is still some way to go before you actually open the floodgates.

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**Operator**

We'll take our next question from Seth Rosenfeld of Jefferies.

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**Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst**

I have a couple of questions on the outlook for Q2 guidance, and then a few fundamental issues with regard to trade policy is well. I guess, just going back to the very first question on the outlook for Q2. I'm going to try to push you here to give us a bit more color. Net-net of the various factors you discussed earlier, can you put the guidance in any quantitative context of what scale of downside we can see? You were generous to provide Q1 guidance north of EUR 250 million. Do you think that, that cold, but not freezing, would be north or south of EUR 250 million? Second question, with regards to outlook for volumes in Q2 being flat quarter-over-quarter, that seems to be somewhat counter normal seasonality. Have you seen a shift in buyer appetite in the last couple of months given the volatility in the raw material prices, perhaps, that led to less buying appetite for this period? It seems like normally, you would expect to tick up in the course of Q2. So if you can talk on buyer appetite and how your lead times have also moved over that time period?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Okay. So on the first one, we were very clear in Q1's outlook, where I said, we give a one-off numerical guidance. And that is a one-off numerical guidance. So we have had many questions on somewhat, we just referred to the Oxford dictionary, where there is a reasonable explanation of how to take that. Definitely not a lot. That's one of the things that's clear. So, then on the volumes, no, we have not seen a change of buying appetite. In fact, if you look, we didn't say it. But actually the sales are slightly up going into Q2. But as this is not material enough for us to say it's up, we said it's in line. And it's -- so we have not seen a difference in buying appetite. It's still underlying strong and our order books are pretty full.

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**Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst**

Can you give us a sense on the lead time for new orders today versus where that would have been, say, 2 months ago?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**



Yes. So we are currently, for Europe, we're booking into July. And in the U.S., we're booking into June. So we are about - no we are actually towards the end. So we have about 6 -- 6, 7 weeks in the U.S, which is what we were before as well. And we are 10 weeks in Europe, which is exactly where we were before.

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**Operator**

We would take our next question from Bastian Synagowitz from Deutsche Bank.

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

I just got a few questions left. I'm just going to take them one by one, as well. So firstly, following up on the ferrochrome issue in Q1. You mentioned that shipments were stable, I believe that production was down. Has there been just any financial impact in Q1 already? And if so, could you help us to quantify it, i.e., what would have been Q1 EBITDA without the volume loss on the production side? Or hasn't there been any kind of effect from fixed costs capitalization?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

So there has been, although I think we did deliver out of inventory, mitigating some of the production losses, there has been a small effect on volume as well in Q1. We don't quantify that specifically.

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

Okay, okay. Well, then just onto my next question, which is on the Americas and I've been quite impressed by your performance here. Obviously, prices are picking up further volumes, maybe up or flat. And so I was wondering basically, if we ex out the EUR 8 million inventory gain, which you mentioned, is there just any reason why Q2 should be getting any weaker than, say, lower 20s, which will be implied by that?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

I assume you are referring to Americas?

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

EBITDA. Yes, exactly that's Americas, yes.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

So we clearly guided that we see an improvement in the stainless for Q2. And we will stick to that.

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**Operator**

We'll take our next question from Carsten Riek of UBS.



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**Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research**

Most of my questions have been answered. One, just on the more global stainless environment. What we have seen over the past few months, I would say or last 6 months is quite a bit of supply response. At least globally, we are about 14% up over that 6 months. Each and every month, 14%, which is -- I haven't really seen that much of an increase for a while. I think the last time I remember was somewhere in the range of 2003, 2004, 2005, 2006. Do we enter actually a new period where we see a similar growth in the stainless as we have seen back that time? And hence, the steel price differences or the stainless price differences, which we see and which actually in March are \$700 and April, even higher after nickel came down -- might be sustainable? Or do we hit a wall here? What's your kind of demand forecast for the current fiscal year?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

So a lot of the growth that you mentioned is the melt rates in China that have gone up significantly, because literally, the stainless programs there have led to a boom in housing and infrastructure building. If you look at the data globally, we are looking at 4% to 5% year-on-year growth for the next few years. I would say '17, '18, '19 of which again a large part is China. But altogether, it is -- these are very decent numbers, very strong numbers. And as you know, it is normal that over the cycles, stainless is growing at a faster clip than the global GDP. And so that seems to be continuing, if you believe the forecast from the pundits.

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**Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research**

So you think it's still sustainable and the price differences right now are manageable? (inaudible).

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Which price difference?

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**Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research**

Well, I have -- currently, more than \$700 and that's the March number. April is not yet out, but I would guess that at least \$750 to \$800 after China's stainless steel prices already reacted quite heavily.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

It's higher than what we have. As I said and we track 304 cold rolled. And we are tracking this currently March at \$532 exactly.

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**Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research**

Okay. It's different from CRU then. Okay. No, that's fine.



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**Operator**

We we'll take our next question from [Shyam Kumar] of [Cavalli Partners].

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**Unidentified Analyst**

I guess, my first point on that somewhat lower thing. I mean, you've responded twice. Once, we're talking about the temperature from cold to hot. Second time referring to the English dictionary. Can we not get a slightly more informed response? I mean somewhat lower means many different things. Can you not give us a sense of how much is the loss of volume on ferrochrome? How much will be the cost to repair? And what kind of margin you'd be making on that kind of lost volume at 1.55 so we can figure out the range, please?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

I gave you a production number. And we gave you, as well, what \$0.10 does on EBITDA per quarter. So I think with those 2, you can work your math.

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**Unidentified Analyst**

Okay, fair enough. And in terms of I guess working capital for the full year. Have you got any expectations as to how that will move on an annual basis. Is it going to be flat or do you expect to build or release over the course of the year, please?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Yes. If I knew exactly what the -- how the prices for the nickel and ferrochrome develop for the rest of the year, I could give you a number. I mean, if the prices stay exactly where they are today for the rest of the year, then I would expect the further development of working capital to decline. Because as some of those increases in the first quarter come back for the rest of the year. But it is very dependent on what raw material prices do for the rest of the year.

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**Unidentified Analyst**

Okay. Sorry, Roeland, carry on.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

No, just at stable pricing, looking forward, there will be a small impact still there.

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**Operator**

We we'll take our next question from Johannes Grunselius of Handelsbanken.

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**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**



Yes, most of my questions have been answered now. But just a question on the outlook here also from my side. I mean, in the adjusted EBITDA definition, you booked inventory gains and so forth, metal derivative gains, which happened in Q1 here. Have you included any -- are you expecting any of those to come, as well, in the second quarter?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

At this stage, actually, we're expecting the impact of those to be very small in the second quarter.

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**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

Very small, yes, okay. Just to be a bit clear here, but I think figure it out and understand your communication. But when you're taking about a somewhat lower adjusted EBITDA, you make the reference to the EUR 294 million figure, right? So that's how we should be thinking.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Right.

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**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

Yes, good, just want to clarify that. And then, on the ferrochrome smelters. You gave us the numbers here, lost production, so we can work with those numbers. But how should we then see the third and the fourth quarter? Is that back to 100% capacity utilization again in your expectations? In other words, about 130,000 tonnes in quarterly ferrochrome production?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

We have always said that the ferrochrome production, because it's never a straight line, is between a yearly production between 480,000 tonnes and 520,000 tonnes.

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**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

Okay, 480,000 tonnes. Okay, good.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

So the 130,000 tonnes is assuming that you crank it out at full tilt.

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**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

So over time you'll have more -- sorry.



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**Roeland I. J. Baan** - *Outokumpu Oyj - CEO, President and President of Europe Business Area*

Over time, it's more like between 120,000 tonnes and 125,000 tonnes. So -- but to your question, if the ramp up after repairs is as expected, we should be able to be at a sufficient clip to be at normal volumes for Q3.

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**Johannes Grunselius** - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

When do you think you will be up and running again at 100%? Will that be here in the middle of May? Or later on? Or how should we be thinking about that?

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**Roeland I. J. Baan** - *Outokumpu Oyj - CEO, President and President of Europe Business Area*

Currently, the shutdown is planned for the second week of May, and it's all depending, of course, on whether we have the refractory in-house in time. If we get the refractory earlier, we will shut down earlier. So we are putting as much pressure behind it as possible.

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**Operator**

We will take a follow-on question of from Luc Pez of Exane.

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**Luc Pez** - *Exane BNP Paribas, Research Division - Analyst*

Yes. Sorry. One last question left. I did not see any reference to the guidance you made when you reported your Q4 about net debt coming down below EUR 1.1 billion by year-end? It is something that is still firm? Or because of the jump in working capital requirement over Q1, you are not committing anymore on this?

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**Roeland I. J. Baan** - *Outokumpu Oyj - CEO, President and President of Europe Business Area*

Oh, no, no, no. The EUR 1.1 billion is absolutely firm for the rest of the year -- for the end of the year, yes.

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**Operator**

We will take our next question, Alessandro Abate from Berenberg.

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**Alessandro Abate** - *Berenberg, Research Division - Head of Metals and Mining*

Most of my questions have been already answered. Just have one left. I mean, you spoke about price differential, my colleagues and yourself. But the decline of cold rolled exports from China towards Europe has been completely replaced by hot rolled. How does it play into the game of sustainable price? Because most of the rolls I think is going to be clearly very, very cheap quality and it's rerolled -- mostly also by distributors and processors. Do you see any kind of risk that, even though the cold rolled is not really appealing in terms of price differential, as you are saying, Roeland, the potential threat and pressure from China can actually come from the significant increase in hot rolled export?



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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Yes. I understand the concern. If you -- the imports of -- the total hot rolled market is about 20% of the complete market. So -- and of the 20%, as I said, currently, about 22% is Chinese imports. So you get to extremely small numbers of real impact onto the cold rolled market. And as a result, there will -- it will not put a cap on pricing. And secondly, it's interesting to see that, although the Chinese imports have increased, the local mills, the European mills, as I said, still provide 65% of the hot rolled into the market. So it is clearly less compelling on the hot rolled than it is in cold rolled in terms of price differential.

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**Alessandro Abate - Berenberg, Research Division - Head of Metals and Mining**

And do you have any kind of visibility in the price? I mean, if you think that the risk of dumping material related to hot rolled even though it is small in terms of volume?

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

As with all imports, we are monitoring continuously. And if we think it gets to a point where it is unfair competition, we will immediately ring the bell. But at this moment, we don't see any reason for that.

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**Operator**

As we appear to have no further questions in the queue, I would like to turn the call back over to the speakers for any additional or closing remarks.

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**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

All right. Thanks very much. So if I can just recap. We have had a very strong first quarter and a clear evidence of the improvements we have started last year and this is continuing quarter-over-quarter, for every quarter in the last 5. A big driver behind this is our operational progress. The manufacturing excellence initiatives are really paying off. Of course, we have as well in Q1, we have a robust market, but we see this market environment to continue into Q2 as well, which means that there is still positive momentum in base price appreciation in all regions. On the flip side, we have been talking extensively on ferrochrome and indeed, this is a disappointment and it will affect our Q2 and will offset the positive side of stainless. But all together, Q2, again, will be a strong performance with strong cash flow resuming as well in Q2.

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**Tommi Järvenpää**

Thank you, Roeland, and thank you for all the listeners for your attention and active participation. Until the second quarter results will be published on July 25. Until then, thank you, and goodbye.

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**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.



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