PRESENTATION
Operator

Ladies and gentlemen, thank you for standing by. Welcome to today’s full year results 2019. (Operator Instructions) I must advise you that this conference is being recorded today, Wednesday, the 5th of February 2020.

I would now like to turn the conference over to your first speaker today, Reeta Kaukiainen. Please go ahead.

Reeta Kaukiainen - Outokumpu Oyj - EVP of Communications & IR

Thank you, Sharon, and good afternoon, ladies and gentlemen, and welcome to Outokumpu’s Fourth Quarter and Full Year 2019 Earnings Webcast. My name is Reeta Kaukiainen, and I’m the head of Outokumpu’s Communications and Investor Relations.

As usual, the results will be presented by our CEO, Roeland Baan; and CFO, Pia Aaltonen-Forsell. We will be referring to the presentation that can be found on our website. And at this point, I also want to remind you of the disclaimer in the presentation as we will be making forward-looking statements.

And now I hand over to Roeland. Please go ahead.

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Thank you, Reeta. Good afternoon. As said, I’ll -- we’ll take you through some of the headlines of our 2019 performance. But as always, we start with the vision to be the best value creator in stainless steel by 2020 through customer orientation and efficiency. And of course, this is 2020. So we’ll be at the end of this year, we will be judged by the extent to which we have been able to get to this vision. And just to put things into perspective, we have 3 different categories or groups that we look at and we talk about best value creator. One, of course, is financial community, whereby we set a number of numerical targets that given -- we talked about it, given the current market circumstances will not be realistic. However, what still stands is that in relative performance, we still see that we will get through. By the end of 2020, we will be clearly the best value creator in the industry.
The second is our customers. And the customer orientation is very clear. Our customer satisfaction survey that we held at the end of last year, again, shows that we have moved further up and further away from our competition. So we are well on our way there. And last, but absolutely not least, is our own employees and our internal culture where we measure through the organizational health index comparing ourselves to 1,300 other companies in the database. And again, last year, towards the end of the year, we have moved up further, and we are now knocking on the door of the first quartile. And as you might remember, our target is to become in the first quartile during 2020.

So moving on to results. The 2019 results were heavily influenced by a weak market, and that was clearly shown and seen by the low demand. So our results at EUR 263 million were down significantly from 2018. And if you look at the bridge, you see a few of the big movers there. Our deliveries were down about 9.5% year-on-year, which is reflecting this in the red bar. In the pricing and mix, I would say that the pricing of straightforward commodity 304 was down, but we have mitigated a lot of that by very strongly growing in the pro-grades of our mix and reaching a participation of the pro-grades in our mix from 8% in the past to now about 14%. Significant uplift and added to that, there was some raw material efficiency as well that had a positive impact on our pricing and mix.

The net of time and hedging was strongly negative because of the moves of nickel during the year, and I’ll come back to it later. And then on the cost, we had a fantastic year of over 4% productivity gains throughout the company. A fantastic -- really fantastic operational performance. And then a big negative was the ferrochrome price. The benchmark price for ferrochrome and the spot prices for ferrochrome were significantly lower in 2019 than they were in 2018, bringing us to the EUR 263 million.

Next page. So if you look at those low deliveries by business area, it’s very clear to be seen. In Europe, we were down 6% in volume and just over 10% in results. And that extra drop that you see in result is, again, caused by the price erosion that we have seen coming in. In the Americas, we had a volume drop of 20% year-on-year, which led to an underlying minus EUR 27 million. I’ll show you an adjusted minus EUR 27 million EBITDA. However, and I think this is important to note, if you look at the underlying results, so you strip out the net of timing and hedging in both 2018 and 2019, we have moved from a minus EUR 29 million result in 2018 to a plus EUR 12 million result in 2019.

So we have made a positive EUR 40 million swing in the results, underlying results, in the Americas as a result of the actions we undertook, and the actions were partially had to do with the mix. We dropped the low added-value products, which has led to a lot of the volume loss. But we have implemented a number of other things around supply chain, commercial excellence and cost that has brought this EUR 40 million swing year-on-year.

And business area Long Products had a very tough year. The volume is down 20% and going into just below breakeven. And last, but not least, ferrochrome, as already said, the price had a fantastically negative influence. But on the other hand, we were operationally very strong with record volumes throughout the year.

As I said, I will come back to the price volatility. If you look at this chart, if you look at the bars, especially for nickel price between ‘18 and ‘19, it looks as if not a lot has happened. But in the year, nickel has touched a low of $12,000 and a high of $18,000 and everything in between a few times. That volatility is what has caused quite a bit of the net of hedging and timing that you saw in the adjusted EBITDA results. So that explains as well the swings you see on the left-hand graph, which is the transaction price for 304 with wild swings throughout the year of $500, $600 between peak and trough.

Ferrochrome, as we said, 16% down in the pricing, $1.31 down to $1.10, a very significant negative impact.

We said it has been a difficult 2019, a pretty tough year, and the reason is, of course, the import penetration in Europe. You can say that the Article 232, as you see on the right-hand side of the slide, the implementation of Article 232 has been very successful for the U.S. The import pressure has come down in 2018 from an average of almost 20% to now below 14%. This stuff, however, unfortunately found its way into Europe, you can see on the left hand, where the import pressure now -- import penetration is 1/3 of the market. And, for instance, if you look at Q4 ‘19, it was 31%; that is correct mathematically, but if you take December on it’s own, it was already 35%. So we are hovering there between 30% and 35%, depending on the month. Very, very negative development but we have shown that we can handle it.

However, we can’t do it on our own. There is still a need for strong measures to secure a level playing field in Europe. The safeguards that were introduced first, as preliminary and then a final safeguards, have not done the job. And they have not done the job to a large extent because of
the fact that the world economy has been slowing down, and especially, manufacturing has been slowing down. So overall, markets have shrunk, and you can see that in our volumes or in the volumes of our competitors. However, the safeguards have a built-in system, whereby it is being relaxed by 3% originally and later by 5%. So the amount of potential imports has gone up, whereas the market has shrunk. You see as well that the import quota, that’s the utilization of the quota has been very strong and very big, especially in hot roll but in cold roll as well, which has, of course, a plus and a minus. The minus is that it has come into the market. The plus is that there is not a lot of residual quota coming into the market or, call it, falling free to the market now in the rest of the first quarter or in the second quarter either. So it will -- it seems that there is a little bit of let out.

Then secondly, we have, as an industry, through the EU, asked for an anti-dumping investigation into hot rolled from Indonesia, China and Taiwan, which has started in this year. And what is very important, as from January, these products are now being registered. And the importance there is that if the -- when the EU puts anti-dumping or countervailing duties on these imports, then it can be retroactive to the registered imports as well. So that in itself is a deterrent for importers to keep on importing material to other countries and just to make another -- to not put a final point, these 3 countries represent 90% of the imports into Europe.

A few other things. We -- the safeguards are up for review. We had a meeting, as industry, with the Commissioner, Mr. Hogan, of trade, who has committed to bring forward the review of the safeguards. Instead of June, they will now be done in February, so as well, the results will come out earlier than anticipated. So we have good hopes for that. And then, of course, what we are talking to the Commissioner about is carbon border adjustment. The stuff that’s coming into Europe has a far larger carbon footprint than what we use in Europe ourselves, up to 5x when you talk about Indonesia and some of the Chinese producers. So in order to protect, not only our market but the environment as well, there is a need for carbon border adjustment. And the commission agrees with that, and we are working with them on that.

With that, I hand over to Pia for some of the more detailed financials.

**Pia Alexandra Aaltonen-Forsell - Outokumpu Oyj - CFO**

Thank you, Roeland. Good afternoon, everybody, and let me start by talking to the key figures table. So first, an obvious consequence of the challenging market situation and the import penetration in Europe is the stainless steel deliveries. Here, we really see low figure, almost unheard of in the fourth quarter. So the 458 kilo tonnes that’s 14% down versus the previous quarter and by accident or by the figures also almost the same versus a year ago. Also, when you look at the full year figures, it’s clear that the decline in volume is quite dramatic.

Obviously, as a consequence, we can also see this in our EBITDA figure, and Roeland has already talked to the bridge highlighting the main impacts between the years, not only being then the lower volumes but also the prices, including the ferrochrome price, however, with some positive impact, for example, on raw material efficiency.

If I then look at the net result of the period, there was one item relating to the restructuring in Germany that we have booked in the fourth quarter, and it was actually a negative booking that we have adjusted for, but you can see that in the net result. And it was the magnitude of about EUR 55 million. So now it was a provision booking in the fourth quarter and the cash impact then of this will be visible during 2020.

Then to some of the highlights, in my opinion, on the report. If we look at the full year operating cash flow, it stands at EUR 371 million. And I will talk to some of the details here, including the working capital performance, including the CapEx. I will actually focus a bit more on the sort of cash flow based CapEx on one of the later pages. And also just reiterating and repeating that one of our key targets for the year was reducing the net debt. And now we can see that the year-end figure stands at EUR 1,155 million, and that’s actually more than EUR 200 million reduction compared with a year ago. And now I say this acknowledging that during this year, during 2019, we had to bring in the about EUR 130 million based on the new accounting rules. So I mean, those were not in the balance at the end of 2018. So for me, that is one, also, of the good achievements of the year.

Moving on, focusing a bit more on the fourth quarter and just looking into some of the details here. I think it’s clear that now we gradually start to see the impacts of a number of actions that we have put in through the year. So we have discussed the raw material efficiency quite a lot, the scrap ratios have improved, but productivity equally important and really being able to fight back a big part of the negative consequences of the tough market conditions, obviously, not all.
The volumes still are, say, 14% lower. And if you then look at the bridge, you can see it here, starting from the Q3 results, then we have a big negative impact on the deliveries. On the other hand, a really positive green bar, which is really a lot about the raw material mix and efficiency, some positive mix impacts on the sales as well.

And then you see that on the group level, we have a positive impact from net of timing and hedging. And obviously, here, if you recall, our Q3 report, we talked about the pretty significant hedging loss at that point in the Q3 figures, and we didn’t expect that really to repeat in the fourth quarter. And I mean, that’s what we have seen, the hedging result has actually been somewhat positive, but we’ve had some inventory valuation topics that have still been negative as well in the fourth quarter. So those are more or less balanced. But you can see that compared with the third quarter, we have a positive bridge impact. And then ferrochrome was slightly down. So that’s really then how we come to the EUR 73 million adjusted EBITDA of the fourth quarter.

So I suggest we have a quick look also for BA. Obviously, then starting with business area, Europe. And here, we have seen a dramatic drop in the deliveries as well in the fourth quarter. The import pressure continued very high. The import share was at the 31% as Roeland has shown to us earlier. This was really mitigated by the positive impact of pricing and mix, where the improved raw material efficiency, the scrap ratio is on a really good level, played a really big role. And we also had a positive net of timing and hedging. It was actually minus EUR 17 million in the third quarter and up to plus EUR 6 million in the fourth quarter. So there, we had quite a big positive swing.

We also had planned maintenance in Tornio, so that explains the small cost additions that we’ve had here. So all in all, a fair result of EUR 68 million adjusted EBITDA despite a very high import level and fierce price pressure as well.

Then moving on to BA Americas. And I want to repeat the message to say that we are on the right track. So if we were to look at the underlying results of taking away the timing and hedging impact, it’s clear that we have now been on an improvement path for several quarters. Of course, you can put that in relation to the Q4 results that ended up at EUR 10 million. When we look at the development in the adjusted EBITDA that we’ve seen since the third quarter, we still had a little bit lower volumes in the fourth quarter, then there were some positive impacts on pricing mix and net of timing and hedging. The net of timing and hedging was minus EUR 15 million in the third quarter, and it was still somewhat negative. It was minus EUR 8 million in the fourth, but the bridge impact, obviously, is positive. And then you see quite a positive bar here on the cost side. So obviously, in Americas, as in Europe, we have seen the positive raw material efficiency coming through, and that was visible already in the earlier pricing and mix part of this bridge.

On the other cost side, there’s a number of items where we have been able to improve. But I also want to say that we have a few million here that are, what I would call, catch-up kind of items. So maybe some of that positive could have been visible in an earlier quarter already. Just to really make it clear that there were good improvements in the fourth quarter. And some of them, we will continue to see impact as well in the upcoming quarters, but for a few million, it was really more onetime kind of things.

Then we have the business area Long Products results. In the end, the adjusted EBITDA for the fourth quarter was at minus EUR 2 million. The really -- the only sort of change versus the third quarter was a positive bridge impact of the net of timing and hedging. But the overall gloomy result is really very much based on a very weak demand situation. So there’s still been discussing there’s been decrease in end-user demand as well; automotive is one example of that. And there’s even been a bit lower base prices through the year ’19 vis-à-vis the previous year. So all in all, a disappointing and challenging quarter. Obviously, then we have also today described a strategic review. So I mean, the work on improving and on reviewing Long Products obviously continues.

And finally, ferrochrome. Well, when we look at the fourth quarter, there’s only some minor changes versus the third quarter. You really see the difference in the earlier slides that Roeland showed or if you look at the bars to the left that really show the deviation from earlier years. And the dramatic drop in the ferrochrome price has really happened already before Q3. So obviously, there are not big deviations in price from Q3 to Q4 or even into Q1. There’s nothing special really to mention about that at this very point. But compared with a year ago, obviously, we are at significantly lower levels. And if we look at the group’s overall result for the year, that has also been one of those big negative impacts of 2019.

So overall, from a production perspective, 2019 has been a very good year. It’s been historically high. So operationally, a good year; in price terms, a bad year.
Okay. And then a few words on the balance sheet and on the working capital. Obviously, this year, we set ourselves a target to get a clear reduction in the working capital. And as an end result, we can present a reduction of EUR 218 million. I want to give credit through the organization for achieving this. It’s clear that we have seen ups and downs through the year when it comes to value in euros per tonne, pending the raw material, price deviations that they have been. However, what we have really focused on being the more practical impacts, the things that we can really, really have an influence on, so for example, inventories in tonnes. As well, in Americas, we have focused a lot on improving and implementing a series of recommendations that we have considered since the more unfortunate high level of inventories that we experienced late in 2018 and early in 2019. So BA Americas has really made a big positive contribution to this group improvement as well. And that’s clearly worth to say a positive remark at this point.

For the other areas of the working capital, obviously, we have been addressing overdue management and the typical areas that you would look into in terms of improvement, but the really big area has had been the inventories.

We have a few other relevant items here when it comes to the cash flow. And I really want to say that when it comes to the cash from CapEx, so really that figure, not sort of the additions in the balance sheet, but really the cash. The final figure for the year was below EUR 200 million; it was at EUR 194 million. And then compared with how -- what our view was early in the year and then that reduction of more than EUR 30 million, I think I can only, here, as well, share some credit with the full team for really making the considerations what is it really necessary to do, what can we postpone. And I think that we have shown quite good CapEx control in a year where our target was to reduce the net debt.

On the right-hand side, you can see a little bit of the split. You see that this annual maintenance is still an amount that is closer to EUR 100 million. The Kemi deep mine continues to be the biggest strategic project that we have, and then we also have a few other development type of items, including digitalization.

And then here, as an end result, we can see the net debt reduction of EUR 240 million. You see the IFRS impact here on the bar with a little bit of different color, but it’s clear that now from an accounting perspective, we have included the EUR 130 million and that means the net debt level now stands in at the EUR 1,155 million at the end of the year. That does take our gearing to 45% and our leverage to 4.4x.

Through the year, we have also focused on our debt maturity profile. And I think that’s something I’ve been talking about already in the earlier quarters. It was already in the summer of 2019 that we signed the EUR 400 million term loan, obviously, making quite a difference in our maturity profile. There have also been some other smaller changes. And I think when you now look at the maturity profile, you can see that it’s clearly more balanced, it’s prolonged. We have one big maturity coming up, actually in February of this year, that’s the convertible bond of EUR 250 million. And if you look at all the details of our accounts, you will find that our cash balance at the end of the year is already more than sufficient to cover that.

So with that said, I would hand back to you. Roeland, please.
QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Seth Rosenfeld, Exane.

Seth R. Rosenfeld - Exane BNP Paribas, Research Division - Research Analyst

First with regards to the Q1 guidance, I don't know if you can help provide a little bit more color or perhaps a framework around the scale of upside that you forecast for Q1, given that your results out this morning were well above the initial guidance from a few months ago. Just wondering what scale of upside or volatility we could expect going into the first quarter? Secondly, when it comes to working capital, please, obviously, your 2019 working capital races well above your initial guidance for EUR 150 million in inflows. Where do you think your inventory is set going into 2020? Is there opportunity for further structural release? Or from here, due to your volumes inventory is relatively stable and we're rather looking at the pricing outlook as the key moving part for the year ahead?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

All right. So as you know, we refrain from giving qualified guidance on -- as we used to do in the past. It's -- when you say higher, it's higher. I can give a little bit of color. I said already that our order books are really developing very well. We -- our lead times, both in Europe and in the U.S., are out to 6 weeks or even 7 for some products. We see extremely good utilization rates in the first quarter, especially in Europe, but in the Americas as well. So it's a big change from what we saw in Q4 with the historically low -- record low volumes that we had there. As far as the working capital release, I would like to have Pia say a few words on that.

Pia Alexandra Aaltonen-Forsell - Outokumpu Oyj - CFO

Thanks very much, Roeland. And I think, really, the momentum that we have built in and the diligence in the work around working capital still gives us some opportunities as well in 2020. So originally, as you will remember, we said we are targeting EUR 150 million release for 2019, and we managed to do EUR 220 million. And now at the start of the year, we are again looking into more detailed plans for the release of more than EUR 100 million. Obviously, we all understand that this gets more challenging kind of the deeper we go. So we are still working on that topic right now. And clearly, we have a high ambition level. But this is then probably something we need to come back to once we have sort of more detailed plans available.

Seth R. Rosenfeld - Exane BNP Paribas, Research Division - Research Analyst

If I can just ask one follow-up question with regard to working capital. EUR 220 million in 2019, EUR 100 million in 2020. Is there any way you can help give us some confidence that you're not cutting too deep? I think many people on the call, remember, in the past, when aggressive working capital management led to some disruption in raw materials' flow and substrate availability in the Americas. Is there a risk this will happen again in the future or have some strategic steps been taken to ensure that won't recur?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Yes. So thanks for that question because it gets to the core of what we have been doing over the last few years, which is, one, we have improved and stabilized the availability of our equipment. So for instance, our failure rates are down to basically 0. Secondly, the whole drive around manufacturing excellence, where we have been talking about a lot, has led to a significantly increased OEEs across the company, and our focus on supply chain excellence has brought a far better flow through our plans, better planning. And as a result, you can do the same or more with much
less inventory. So to your question, no, we don’t see an operational risk on the country. We see that the way we’re doing this, we will still have more to go in the future.

Operator

And your next question comes from the line of Alan Gabriel from Morgan Stanley.

Alain Gabriel - Morgan Stanley, Research Division - Equity Analyst

Two questions from my side. Firstly, if you go back to Slide 11, if I can push you a bit on the guidance for Q1. Thinking about the building blocks for the profit bridge, how should we think about the pricing and mix given that you already had a big step-up in Q4 versus Q3? Would you be able to retain that step-up? And within that bridge as well, you have had a lot of cost improvements in the U.S. Will you also be retaining those cost improvements? That’s one. And the second question is on your dividend and the dividend policy. You have decided to maintain a dividend in spite of your elevated net debt level and your negative net income. How should we think about your priorities for capital allocation going forward, i.e. balance sheet versus dividends or cash returns?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Yes. So let’s start with the guidance. In Q1, I think you will see stable price development compared to Q4. There is, of course, something if you see volumes go up, and as I said earlier, we have been able to produce a more significant amount of progress for the high end. A lot of the volume increase that we see in Q1 will come from the, let’s say, more standard rates. So relative on a Q-on-Q, you will see weakening of the overall price because of the mix change. However, that is purely a relative issue on the proportion of the different types of stainless steel. In absolute, of course, it is still very positive.

The cost improvements not only can we hold them, we have a clear target every single year where we are targeting at least a 3% improvement in our productivity. We have, generally speaking, been beating that for the last 4 years. So there’s no reason to start thinking that we cannot do that anymore in 2020. And to be more precise, we have already identified about 800 to 900 products across the company in all BAs that we have defined savings connected to them, which we are following out — up throughout the whole year. So we will see further cost improvement in the year.

Then on dividends, given the fact — just one remark. You can agree or disagree about whether we have a weak balance sheet. We clearly disagree given the size of our company and the profit generation capability. We do not see this as a weak balance sheet. That doesn’t take away that we are still committed to further driving down the net debt, and that will be for 2020 a clear target. The reason to still go and have an issue a dividend is simple: we have sufficient cash to do that, and we have sufficient cash generation opportunities in 2020 as well to support both objectives.

Operator

And your next question comes from the line of Tom Zhang from Crédit Suisse.

Tom Zhang - Crédit Suisse AG, Research Division - Research Analyst

I just got 2 quick ones. First, in your guidance, just with respect to global stainless trends, you pointed to Q1 ’20 global demand to be up 3.1% year-on-year, driven mostly by APAC. And do you see any risks, especially in China, given the coronavirus outbreak and real demand outlook there, whether that could lead to a pickup in import pressure? And then secondly, just with any domestic operations, whether there have been any impact from strike actions and whether you see anything like that going forward?
Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Okay. So the coronavirus is -- I mean, you can speculate to the (inaudible). It will undoubtedly have a short-term effect on -- especially Asia. You can read the -- what is being published in The Economist and the Financial Times, et cetera, and all types of estimates of what it could do in -- to the growth rate in China. At this moment and I think that is where we have to concentrate, we do not see an impact on our business. We do see, as I said, our order book is strong, we look at our annual contracts, we see none of our customers in either automotive or white goods change their offtakes or their plans. So at this moment, I would say, the effect is 0. There might be a minimal effect going forward with the speculation.

Strike actions, we had -- throughout the December and in January, we had electricians on strike here in Finland. In spite of that, we have been able to run our operations. And especially, you can imagine the ferrochrome business is very much dependent on what if the electricians wouldn’t work, and we have had a record production. So it has not affected us. There are still a few union discussions going on, but none of them are expected to have an impact on us.

Tom Zhang - Crédit Suisse AG, Research Division - Research Analyst

Could I just very quickly follow-up on the order book. So you said customers are not changing their offtakes. So I understand that relative to coronavirus, but maybe going back just to the registration impact, have you started seeing any effects on customer behavior with respect to taking your orders versus, say, imported orders?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Well, we have seen -- interesting enough, we have seen customers who ordered Asian material, let’s say, 3 months ago that is now hitting Europe, unfortunately, for them, a time that when nickel prices are down significantly. So you see quite an amount of high-priced stainless steel getting into the European market. As to the registration, you could see from the chart I showed earlier that the quota for -- the residual quota for hot rolled especially are already full. So there is no room for either China or Taiwan to actually import a lot at this moment until new residual quota are opened.

Operator

Your next question comes from Anssi Kiviniemi from SEB.

Anssi Kiviniemi - SEB, Research Division - Analyst

Yes. It’s Anssi from SEB. I have one question left. You have talked about a lot on mix, and especially in Q4, it was supportive. But I want to -- can I get a grasp on the raw material benefits that you have attained? I mean, you highlight the scrap ratio, but you gave potentially nickel or scrap discounts. How do you see the situation there? And do you see this raw material tailwinds continuing also in Q1?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

Yes. So I wouldn’t call them tailwinds because they are basically the result of very hard work. So it’s the way we procure, how we approach the market, et cetera, et cetera. The biggest driver, of course, is how we have increased again our scrap ratios. We are -- in Europe, we are now at about 88%, 89%. In the U.S., we have gone over 90%. In the U.S., we came from 60%. In Europe, we came from an average 75%. And that is an extremely big driver.

Operator

And your next question comes from Alan Spence from Jefferies.
I've got 2 ones, firstly. First, as I add up the raw material-related inventory impacts in Q4, I come to negative EUR 2 million at a group level and then thinking about the EUR 15 million maintenance impact. So first of all, is kind of that net negative EUR 17 million the right number to think about for Q4? And do you expect any of those -- or are any of those impacts spilling into your Q1 guidance?

Yes. So the -- it's Pia here. So the net of timing and hedging in total in Q4 definitely also had some of those, what I would call, in accounting terms, NRV impact. So you know that you take a hit on your inventory valuation as well when raw material prices go down. And obviously, again, I go back to a little bit this kind of bridge technique only. I mean, I don't see, at the moment, sort of huge deviations in terms of hedging results per se, and that's just based on where prices are today. And if prices change, I mean, obviously, that will change as well. However, as kind of a bridge impact, when you take a negative of something in one quarter, if it doesn't repeat, we will have a positive bridge impact of that in the next quarter. I mean, these deviations are not so big at the moment, that's clear. And I understand that the question is there because we had such a negative figure in the third quarter. So you see that we were a little bit improving into the fourth quarter, and I don't really see a main impact when it comes to Q1.

So is that alleviation of the EUR 17 million a fair assumption in Q1?

Yes, alleviation is -- I don't know how strongly you interpret that word, but directionally, yes.

Okay. If we turn to...

Yes, it's perfect. Yes, I think that's a fair comment. We are talking here more about wage effects than anything else.

Yes, if we think about Long Products, do you think the challenges faced in that division are structural or cyclical?

Well, at least just looking from the number of phases and what we have experienced during 2019, it's clear that the very low demand and the low volumes have been a clear obstacle to a better financial performance.
Roeland I. J. Baan - Outokumpu Oyj - President & CEO

I think if you look at it through the year, Alan, then, generally speaking, we have been able to get a reasonable result, and it has been as well 3 years always cash positive, as it was actually in 2019 as well. So when markets improve and especially automotive because there’s a big impact on Long Products from automotive, then you will see that results will improve as well.

Alan Henri Spence - Jefferies LLC, Research Division - Equity Analyst

Okay. And just lastly for me, could you give us a sense of what you’re expecting, CapEx-wise, for 2020? Could you remind us when the Kemi mine expansion completes?

Pia Alexandra Aaltonen-Forsell - Outokumpu Oyj - CFO

Yes. So we expect, at this point, around EUR 220 million as part of our planning. And I would just repeat that, similarly to 2019, this is one of those areas that we control very tightly. So it means that we will keep on reviewing it through the year, and obviously, come back if there’s any significant change. But EUR 220 million is the planning figure right now that we have. And the Kemi deep mine project continues through 2020 and also still during 2021.

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

But in ‘21, at a lower level.

Operator

Your next question comes from the line of Luke Nelson from JPMorgan.


Two questions from me. Just firstly, on the carbon border adjustment, which you mentioned a bit earlier. I know given the potential for anti-dumping, the relevance may be diminished, but if you have any sense on the potential timing around that? Is it possible that it could be brought in with the next phase of the ETF from the start of next year? And then just on the specific commentary around emissions intensity from Asian product being up to 5x higher than European product. In your internal modeling, assuming it can still enter the European market, is there still a cost arbitrage for that with that differential between emissions intensity? And then secondly, the second question is on ferrochrome, just given Merafe’s recent announcements around curtailing Rustenburg, how material do you expect that? And is that having any impact on your discussions with customers and suppliers?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO

So on carbon border adjustment, the timing next year unlikely. This is a very complex issue. It has a lot of legal implications and a number of trade implications. So it will not be fast. The – I think the big question here is how you’re going to treat it. If this is going to be part of product specifications, then products with a carbon footprint that go beyond a certain level would be considered to be not compliant, and as a result, would not even be allowed into the union. And then you basically then, on the other products that have come in, you would have a normal carbon charge for the carbon print that they bring in and equal to what the cost is to the European industry.

So -- and that comes straight to your cost arbitrage question. Of course, in a world where there is no curtailment of carbon for import or there would be no carbon adjustment or there would not be an ETFs system in these specific countries, there is a carbon arbitrage because the investments that you need to bring a carbon footprint down costs money. And these guys do not have that. So yes, they have an advantage. Hence, the pressure
we are putting on to the commission and their willingness because they fully understand this to change it. Now don’t get me wrong; it is not the #1 objective to look at the trade defense side of the carbon. The #1 objective of the commission and of the industry is to reduce the carbon footprint of the industry. And so getting a carbon border adjustment for a maximum carbon specification, it is not so much a trade defense, it is to make sure that we, as a world, are making work of getting the overall carbon emissions done.

Then the last one, on ferrochrome. Yes, the South African announcements, both from Glencore and from Suncor, of course, are very significant. Potentially, you’re talking about 1.5 million tonnes that’s being taken out of the market, and that would have clearly an effect on overall ferrochrome availability and pricing. We are not discussing this with customers because there’s no reason to do it yet. There has only been announcements. We will see how pricing will develop over the next few months.

Okay. So just a follow-up question on the carbon question. Your comment around products above a certain CO2 level would just be prohibited full stop. Do you have any indication on the circa 30% of imports? How much of that is potentially products that would be above a threshold? Or is it just still too early to tell?

Roeland I. J. Baan - Outokumpu Oyj - President & CEO
Yes, you first would have to define what the threshold is, which is not defined currently. And then secondly, although this is a possibility to force the issue through, of course, this can only happen with discussions over time. So the only thing I can say is that about 90% of there -- of the imports into Europe come out of Asia. And the majority of that is production through the NPI route with open rotary furnaces that carry indeed these footprints of 3 to 5x of what we do here in Europe.

Operator
And your next question comes from Bastian Synagowitz from Deutsche Bank.

Bastian Synagowitz - Deutsche Bank AG, Research Division - Research Analyst
I’ve got 3 questions left, and my first one is on Americas. Roeland, the underlying run rate seems to be close to EUR 18 million if we strip out the hedges, which basically puts you very close to your target. Is there anything which could derail this positive trend near term, given that the pricing seems to be pretty stable and also your commentary around volumes is very positive? That is my first question. I’ll take them one-by-one.

Roeland I. J. Baan - Outokumpu Oyj - President & CEO
Yes, that’s appreciated. Look, I don’t want to speculate on individual business areas, but we have done an enormous amount of heavy lifting over the last 4 or 5 quarters. And we see into Q1 and potentially Q2 that it will still continue to be positive. So we feel good about the Americas, as we always have. I think we are really hitting the right levers now. And I can only say, wait for our next earnings call to get confirmation.

Bastian Synagowitz - Deutsche Bank AG, Research Division - Research Analyst
Okay. Okay. That seems pretty confident. Then my next question is on trade regulation. You said the safeguard review will be brought forward into February. Can you please let us know when the review is expected to conclude, I guess, February is only the starting date?
The experience is that from the moment that we deliver all the data, which -- let's assume that is by the second of -- probably the third week of February, then it will take at least 2 months, maybe 3 to go through it. And then, of course, the whole thing has to go to a vote for the full commission. So I would say, a result by June.

Got it. Okay. Clear. Then I have 2 last questions, actually, for Pia. Pia, could you please update us on the book value of the longs business? And also maybe let us know whether you have any major portion of net debt sitting in that entity? And then also on CapEx, how much CapEx did you bake into the EUR 220 million budget, a, for the ferritic investment in Americas, and b, for Kemi?

Yes. Thanks, Bastian. I'll start with the CapEx, because I have those figures at the top of my head. So out of the EUR 220 million, I mean, the Kemi mine has been about EUR 80 million per year. So even though that's a round figure, I would say that's kind of the approximative amount you can think about. So it's a significant part of what we do. As to the ferritics investment here, the magnitude is somewhere more if we talk in euro terms, probably EUR 20 million, EUR 25 million for the year. So both are, of course, important strategic steps for us. And then you realize, when you think about that we have a certain maintenance CapEx need that there really is not -- that's kind of -- it's not the end of the list, but it's a very big part of the list, for sure.

I'm afraid, Bastian, that on the book value of Long Products, we have to come back to you separately.

Yes, yes.

We don't have that handy here, but we'll happily share it with you once we have done our digging. As we say in the announcement, we are weighing in all options. So it is not -- of course, divestment would be a possibility. But it's -- as you can see from the fact that we don't have those figures at the tip of my fingers. It is not a foregone conclusion that we would go there.

And your next question comes from Ola Soedermark from Kepler Cheuvreux.

I have to come back to the Q1 guidance and the volumes, you are saying that you are running at good utilization rates and the order books are good. Can we expect volumes to be in the range of last year's Q1, kind of, normalized volume? So that's my first question.
**Roeland I. J. Baan - Outokumpu Oyj - President & CEO**

I think you wouldn't be far off.

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**Ola Soedermark - Kepler Cheuvreux, Research Division - Equity Research Analyst**

Okay. That's good. It's very helpful. And you're also talking about the scrap ratio is very high or it's very good. And I just wonder how sustainability is if the market is getting better. Have you secured scrap on future contracts? Or how does it work?

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**Roeland I. J. Baan - Outokumpu Oyj - President & CEO**

Yes. So we see, at this moment, no issues in the scrap market. Don't forget both Europe and the U.S. are scrap long markets. So you would need to see an enormous pull from somewhere else in order to -- those markets to drive away. So no worries at this stage.

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**Ola Soedermark - Kepler Cheuvreux, Research Division - Equity Research Analyst**

Okay. And a very good cost development in the U.S. quarter-over-quarter. If I understood it right, they are pretty clear that you expect it to continue?

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**Pia Alexandra Aaltonen-Forsell - Outokumpu Oyj - CFO**

Yes. Ola, I think -- it's Pia here. I did mention that out of that clear improvement in the fourth quarter, there were a few millions that were more sort of catch-up kind of items. So maybe if you take that into account, then I think it's a fair assessment. It's long-term work that is gradually really now showing and paying off.

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**Operator**

There are no further questions at this time. Please continue.

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**Reeta Kaukiainen - Outokumpu Oyj - EVP of Communications & IR**

All right. Thank you. And since there are no further questions, I think it's time to wrap up this call. Just as a reminder, we will arrange our Capital Markets Day in London on March 18, and the first quarter results will be published on May 6. But now thank you all, and have a good rest of the day. Goodbye.

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**Operator**

Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.
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