

# **Outokumpu OYJ (OUTFF) Q2 2024 Earnings Call Transcript**

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**Body**

Outokumpu OYJ (OUTFF)

Q2 2024 Results Conference Call

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Company Participants

Linda Hakkila - IR

Heikki Malinen - CEO

Marc-Simon Schaar - CFO

Conference Call Participants

Anssi Raussi - SEB

Tom Zhang - Barclays

Tristan Gresser - BNP Paribas Exane

Ioannis Masvoulas - Morgan Stanley

Igor Tubic - Carnegie

Maxime Kogge - ODDO BHF

Bastian Synagowitz - Deutsche Bank

Presentation

Linda Hakkila

Hello all, and welcome to Outokumpu's Q2 2024 Results Webcast. My name is Linda Hakkila. I'm the Head of Investor Relations here at Outokumpu.

Today, we have our CEO, Heikki Malinen; and our new CFO, Marc-Simon Schaar, as our main speakers. As per usual, we will first start with our presentation. And after that, we are happy to answer your questions.

Before we start with the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements. But now without any further comments, I would like to hand over to our CEO.

Heikki Malinen

Thank you, Linda. And a very good summer morning or afternoon or evening, wherever you may be. Thank you, and welcome to Outokumpu's Q2 results webcast.

Today, as you may know, is going to be in my 16th and final webcast representing Outokumpu, as the company's CEO. And as you know, in some months time, I will be transitioning them to a new job. The last 16 quarters have been quite eventful. And I can tell you, standing here 16 quarters ago, well, it was COVID times. But anyway, a long time ago, the company and the world looks very different. So it's been a real remarkable journey here over that past 4-year time period.

But anyway, let's now focus and take a look at the second quarter. And as it says here on the title, we actually feel that we had a good -- we had good progress in the second quarter, and I'm very happy that we were able to get our profitability back up after a fairly challenging Q1 and the first months of the quarter.

If we look at the results for the quarter overall, €56 million was our adjusted EBITDA. And if you look at some of the drivers of that, well, positive was that the current market recovery, which started, I would say, last summer, which has been a bit slow and modest. But anyway, the trajectory has been upward, helped us to continue our business development and we were able to get our volumes up and therefore, make fairly good improvements in the European business.

The U.S. market, however, I have to say after a multi-quarter multi-period of fairly robust and even stable time of development seemed to soften a bit as we headed into the latter part of the second quarter. So that is sort of the overall market backdrop against which we have been selling and producing our products.

A challenge we faced in the second quarter was clearly that we had operational challenges in the Americas and Calvert in particular. These were operational challenges. I can tell you that we have taken strong and decisive measures to rectify them. We made decisions specifically to find ways to adjust for some of the deficiencies. And I feel that our management in Calvert have all the -- are taking now the right steps to mitigate them, so we're moving forward rapidly to solve the issues.

In the beginning of the year, we were facing a political strike. Personally, I feel the strike was quite unnecessary. And as I quoted before, it's quite unfortunate that Outokumpu was hit so severely. The total negative impact financially for us was €60 million and €30 million of that, approximately, was divided over the first and second quarter.

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The scrap market continued to remain tight for a number, a variety of reasons. The good news here for us was that we were able to get all the scrap we needed. And I think given our large scale as a company, a buyer, we have been able to procure scrap at competitive prices and also take advantage, when necessary, of pricing anomalies in the market, if they have arisen.

A few words about our strategic journey, and I specifically want to comment on Europe. As you know, Europe accounts for about 2/3 of Outokumpu's business. It's really strategically extremely important for us. Tornio being almost like the heart of the company, with our two large melt shops and huge facility and operations. And also our Kemi mine, which is the only chromium mine within the European Union.

We are now taking decisions to start processes within the company, to find ways how we can further optimize our supply chain from Finland to Germany. We are going to start discussing with our employees in Germany, in the Krefeld facility, how we can further develop and flexibilize our operations. Objective here is also to take advantage of the fact that after the Ukraine war, the energy markets have changed quite dramatically in Europe. And if we look at electricity prices, for example, in Finland, vis-a-vis Central Europe and Germany in particular, electricity prices in Finland are almost half of what they are in Germany at the moment.

So with Tornio being a huge facility, where when we get Tornio full, we can benefit from our local cost sort of benefits. In other words, for example, scale and electricity, and we can make a lot of money again when Tornio is full. So related to that, we will start various discussions with our employees. And in the coming months, and as we head into next year, we are going to communicate more about possible investments related to improving our cost competitive. As I said, we are Europe's cost leader, and we are determined to maintain a strong cost competitive position also going forward.

A few words about pricing. Now as you know, I'm always a bit cautious to talk about pricing, but I do want to share this slide because I think it at least gives us some directional view about where things are going. These are transactional price data curves the source is from CRU. When we at Outokumpu report our pricing information, we always talk about BA Americas. And you need to remember that in BA Americas, we have Mexico and the pricing level and the dynamics of the Mexican market are somewhat different than they are in the United States. So this chart only looks at the U.S. Europe in aggregate and then China.

A couple of points. At the bottom, of course, what is somewhat worrisome is that the Chinese market remains fairly weak. You can see it from this price curve. There isn't any material improvement in pricing in China. In fact, the difference to other markets is again growing a bit. That would need to change. But of course, as we know, at the moment, the real estate, for example, market is very weak. And in China is very weak, the Chinese really need to stimulate local demand in significant ways to get things going again and for us to start seeing some more robust pricing improvements in China.

In Europe, as I said, the trough in terms of pricing was last year in the summer, probably about July of last year. And now gradually, we have been moving upward -- now, no dramatic movement. But anyway, the trend is clearly upward up until the end of the second quarter. And in the Americas, after coming down somewhat, we've had fairly stable pricing in the U.S. during the second quarter.

On nickel on the right-hand side, this chart is sort of a rolling chart, which averages over a longer time period. The price of nickel on a day-to-day basis, of course, we can see significant volatility on the price of nickel on the LME. I just want to make one comment that if we look at prices today in nickel, about over $15,000, maybe $15,500. So even in this quite significant turmoil we've seen in financial markets and in the stock market and also some commodity prices have swung up and down, nickel has held above $15,000, $15,500. And I think it's a good sign that nickel is holding up. I think it gives an indication that underneath there is fundamental demand for the raw material. And for base metals in general, which, of course, are a major cost component and also give an indication on the health and direction of the sector.

Then looking at our deliveries on the upper left-hand side, looking at, of course, comparing to the COVID years, significantly lower levels, positive again that after a strike effect in Q1, we were up about 20,000, 20,000-plus tonnes in the second quarter, about 5%. And now of course, looking then for Q3, which is probably about the same levels and then let's see where next year takes us.

At the bottom left, you can see our results on a quarterly basis. I ask you to add the €30 million, which was the impact of the strike on the Q1 and Q2 numbers to get a better sense for where the profitability was. So obviously, far too low compared to where we want to be and Marc-Simon Schaarin his chart will talk a bit about how you see the longer term or midterm and are thinking about profitability, and he will explain a bit more where we are and what have been the drivers behind the change from where we want to be and where we are at the moment.

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And then on the right-hand side, you see the bridge, no major really topics other than what I said earlier, compared to Q1. Deliveries were up 5%. We had some realized pricing declines. And then of course, we made some improvements on the cost side, giving then us the €56 million.

I want to keep my opening comments here fairly short because as said, Marc-Simon Schaaris now going to start and he's begun -- he's a good start as a new CFO, and I want to give some more time forMarc-Simon Schaarto -- for you also to familiarize yourself with him, and he will talk a bit more today, and I will keep my remarks more brief.

But this last slide here in the opening section from my side really relates to sustainability. And I've really said many times, Outokumpu in our view is the clear sustainability leader. Just look at this, for example, the safety performance. Our safety level and the trend is really remarkable at 1.3 so far year-to&; it's a really strong number. We know at Outokumpu, we can do even better, much better, but the trend is very strong. And I challenge anyone to compare that to other companies. Outokumpu is a very strong performer comparatively to many other companies on safety.

On the recycled materials side, our recycled materials content has risen over the last year significantly. And even our LTM number this year, I mean, it's an impressive 95% all-time high. I'm very proud about that achievement. And then on the left-hand side, you have a couple of other points regarding the recognition we have seen been receiving from outside rating companies that look at sustainability leadership. We're on many lists nowadays. So I think the fact that we are now being recognized for our performance is also a positive.

And then finally, it's when I say that when the energy crisis started in Europe, we set some very ambitious targets on energy efficiency savings. We are about halfway through that project. It will take us a bit longer to achieve the targets we set. But by the end of probably next year, we will be where we want it to be. And again, we've saved significant amounts of energy and of course, improving our carbon footprint and doing good things for the planet.

So with those words, let me hand it over to Marc-Simon, and he will take you over to the next section. So please.

Marc-Simon Schaar

Thank you, Heikki. Good morning and good afternoon, dear ladies and gentlemen. And also from my side, welcome to our Q2 webcast. My name is Marc-Simon Schaar and since the beginning of June, I'm the new CFO of Outokumpu.

Before I start with the update on our financials, I would like to continue on Pia's words from her last webcast and to thank her for the great leadership she provided and the strong balance sheet she left behind.

Personally, the continuous and sustainable improvement of the total return for our shareholders through smart capital allocation, dividends according to our dividend policy, as well as maintaining a healthy balance sheet aligned with our strategy is at the top of my CFO agenda.

As such, I'm happy to report that we maintained our strong liquidity position during the second quarter. Despite the dividend payment of €110 million to our shareholders and new leasing liabilities for 2 new Langh vessels, our net debt level remained low and our balance sheet continued to be the strongest in the industry.

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Our cash and overall strong liquidity position, together with our capital discipline provide us with a solid foundation to successfully navigate through times of uncertainties, prepare for potential economic upturns and invest for growth as part of our Phase III strategy. And all of this with a clear focus on continuously improving total shareholder returns with a clear commitment to our dividend policy.

Before going into the financial performance of our business areas, let me remind you about the way we are ensuring our profit generation, namely our Phase 2 EBITDA run rate improvement targets, where the improvements are coming from, how the program developed during the second quarter and the overall importance of the program, given the weak market environment we are currently operating in. When we launched Phase 2 of our strategy, our goal was to achieve an EBITDA run rate improvement target of €200 million by the end of Phase 2. Thanks to the dedication and hard work of our team, we have met this target more than 1.5 years ahead of schedule in quarter 1 this year.

When entering Phase 2, we initially focused on commercializing our new portfolio additions in the high-margin advanced materials business with grades such as alloy 825 and Circle Green. In addition, we geographically expanded our established advanced material products as well as the new high-margin portfolio additions to the U.S. and APAC by further strengthening our sales organization in their respective regions.

On the cost savings side, one of the key achievements related to the improvement in our raw material and alloy efficiency in the commodity business. This includes an all-time high recycled content of 95%, the improvement in alloying efficiency, as well as alternative raw material sourcing.

Building on this success and to combat the current weak market environment, we raised our EBITDA improvement target by an additional €150 million to €350 million in May this year. This new target will be reached through further improvements in operational performance and efficiency, along with further strengthening the commercial aspects of our business.

On the commercial side, we look into further geographical expansion of our advanced material product portfolio into the growth markets, Asia Pacific and the Americas, exploring new applications for established grades and commercializing our new products in any markets, such as Sanicro 35 and alloy 800.

Given the expansion of our web shop and customer portals, we aim to capture additional multichannel sales opportunities and we'll continue to release new features quarterly. On the cost savings, we are planning to achieve similar raw material improvements in our specialty grade production as we did in our commodity business. Furthermore, our restructuring plans in Germany, which we have announced in autumn last year, play another pivotal role.

And finally, as part of our energy efficiency program, we have made great progress in the area of waste heat recovery, and we aim to further expand in this area.

Overall, we have made really good progress and are well on track to achieve our increased target. Around 850 projects have been completed, and over 250 projects are currently in implementation. I would like to emphasize that the program also enables us to improve our processes and build capabilities as a foundation for our Phase 3 strategy.

In the second quarter, our run rate improvements increased by €8 million. The somewhat slower pace is seasonally driven and also impacted by the strike and other temporary operational challenges we faced during the second quarter and mentioned by Heikki.

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Here on this slide, we give you some examples of our successfully implemented projects during the second quarter, mainly related to the introduction of new advanced material products as well as yield, quality and logistics improvements. Now given the total run rate improvement of €500 million from Phase 1 and the current status of Phase 2, the question is, where are those savings visible in our profitability? The answer is that the successful EBITDA run rate improvements enabled us to partially offset the significant market headwinds resulting from the weak market environment and the significant inflation we are faced with compared to the year 2019, meaning prior to the pandemic, the war in the Ukraine and other geopolitical tensions.

And despite the exceptional weak market environment and the significant headwinds, we in Outokumpu remain fully committed to our early communicated normalized adjusted EBITDA run rate of €500 million to €600 million based and supported by our own profit improvement actions. As you can see on the slide, without our improvement measures compared to the EBITDA baseline of 2019 and prior to the pandemic, Outokumpu would have been clearly EBITDA negative, today, instead of the €217 million adjusted EBITDA generated in the last 12 months. Also bear in mind that the market had been exceptionally weak during the past year, especially in Europe. Therefore, the additional €150 million increase in our EBITDA run rate improvements is of fundamental importance as we are currently EBIT breakeven, and we must further improve from here.

The gross impact from inflation and other headwinds, mostly one-off in nature, such as the political strike in Finland are, among others, driven by salary inflation, fuels, electricity, maintenance services, just to mention a few.

As you can see, the stainless steel deliveries in the last 12 months are well below the level of 2019, which in itself was already a challenging year from a volume and a pricing perspective. However, through our improved margin and metal risk management, we were able to offset these negative impacts.

Our own profit improvement actions from strategy Phase 1 and 2 are crucial to navigate through these exceptional times, paving the platform for our Phase 3 strategy, and let's be clear, the concept of continuous improvement measures, given the nature of our industry will remain a constant theme going forward.

So to summarize, the analysis confirms our normalized EBITDA run rate of €500 million to €600 million despite the exceptional weak market environment and the significant inflationary price pressure in the global market, of which part is more permanent and the other part is expected to ease somewhat over time.

But now let's have a look at the results of our business areas, starting with Business Area Europe. We started off this year quite nicely in our Business Area Europe with a strong order inflow in the first couple of weeks. But with the long political strike in Finland, the situation changed significantly with a very unfortunate negative €40 million EBITDA impact during the first 6 month in Europe alone. After the strike ended on April 7, Business Area Europe's financial performance improved by higher volumes and cost efficiency. However, the political strike still had a €20 million negative impact on our Q2 results in Business Area Europe. Overall, the market environment in Europe remained challenging with only a gradual market recovery, as said by Heikki already despite the low distributor inventory levels and low supply availability due to industry strikes.

Asian imports into Europe increased during the second quarter after the relatively low levels we saw in quarter 4 of last year and quarter 1 of this year. However, the significant increase in shipping costs from Asia to Europe is expected to put some cap on this trend.

From a sector perspective, a subdued real demand continued for construction, automotive and white goods. The positive trend in energy and renewables, especially in hydrogen, continued. So overall, in order to see an inflection in real demand, macroeconomic stimulus such as interest rate cuts are required. While the scrap market remains tight, we were able to offset the negative impact by our efficient raw material procurement initiatives during the second quarter.

As the operating environment in Europe remains challenging, accelerated efforts to strengthen our cost competitiveness are required, as mentioned by Heikki before.

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I will now move on to Business Area Americas, where we are able to increase our deliveries by 7% from the previous quarter. Although our volumes increased, the market environment softened in the U.S. towards the end of the second quarter somewhat and imports into Mexico still disrupting the regional demand supply balance. The somewhat weaker profitability in Business Area Americas quarter-on-quarter was driven by lower overall realized prices despite a stable base price environment, the tightness in the scrap market, the downstream impact of the political strike in Finland and some temporary operational challenges in Calvert, which resulted in a higher cost base, temporarily.

While the new hot rolling agreement with AM/NS carries higher tolling fees from the beginning of this year onwards, I have to say that the cooperation with our partner on site was running well in the first half of this year. Despite the current softening in the market environment, I would like to emphasize that our long-term view on the U.S. market remains highly positive.

Moving on to Business Area Ferrochrome, where we had again a solid result in the second quarter, given the negative impact from the strike and lower production volumes in relation to the temporary closure of one of our smaller furnaces and hence a lower fixed cost absorption. The market has somewhat improved in the second quarter with higher deliveries as well as higher ferrochrome sales prices.

In this context, let me please repeat our early announcement that one of our smaller furnaces, ferrochrome furnaces, will remain closed until fall this year or remain closed until fall this year.

Taking now a longer-term perspective, I would like to show you an interesting graph from an external source, indicating how Outokumpu's position within the ferrochrome market is expected to strengthen in the long run. As you can see from the graph, the high carbon ferrochrome imports from South Africa into the European Union are expected to decrease. On the one hand side, this is due to the expected reduced capacity of ferrochrome production in South Africa, given the energy supply and other infrastructure challenges in the country. And on the other side, due to higher sustainability requirements in relation to the cross-border adjustment mechanism introduced by the European Union.

Here, I would like to remind us that our ferrochrome is globally the most sustainable ferrochrome with the lowest carbon footprint, 67% lower compared to the industry average. And as communicated earlier, we have plans to further reduce our ferrochrome emissions, for example, by using biocoke instead of fossil coke in our production.

Looking at the current market environment, we also see that ferrochrome market seems to become more and more aware of sustainable topics. More and more customers are interested in low CO2 ferrochrome and are prepared to pay a premium, a green premium. Some customers even asked to confirm supplies for the year 2026. All of this supports the importance of our ferrochrome business and how our position within the ferrochrome market is expected to strengthen in the long run.

Now my final comments relate to our cash flow in the second quarter and our CapEx frame until the end of 2025. The challenging market conditions make active working capital management even more important, and I'm happy to report that we were successful here during the second quarter. Despite the weak market environment, we were able to report a positive cash flow before financing activities. However, and equally important, given our strong balance sheet, we have the flexibility to prepare for the next market upturn in line with any market needs.

When it comes to CapEx, we repeat our target frame of €600 million for our strategy Phase 2 until the end of 2025. And given our expected cash out of €390 million from 2023 and 2024, this provide us with a remaining CapEx frame of a bit north of €200 million for the year 2025.

And now I will hand over back to you, Heikki to give us an update on the outlook.

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Heikki Malinen

Thank you. Let me grab that piece of technology here. So thank you, Marc-Simon, and it's great to have you here in your new role, excited about having you work here as the CFO of the company. So it's -- we're happy to have you.

Okay. So a few words from my side before we go into the Q&A. And as I said, we've been ready here pretty much to rock and roll and get our mills up and running ready for the next upturn. It has been, I would say, a bit of a waiting game here. When are we going to see the triggers that the markets really, really start going up. As Marc-Simon Schaarsaid, we have a number of issues starting from the situation on the interest rate markets.

But there are a number of opportunities ahead of us. If I first talk about them, the U.S. market, as we've said, has been -- overall, it's been robust. Our view about the long-term situation in the U.S. is very positive, and we're very excited to be 1 of only 2 suppliers in the United States with our additional Mexican position. The European market recovery when it comes, could be quite significant. We've had significant destocking now for over 2 years, and we know that there is going to be a significant amount of underlying demand when liftoff eventually starts. We don't know the exact amount of distributor inventories, but as I said, they must be already fairly low after such a long period.

The green transition is an important secular trend in the world and in particular, in Europe. We're waiting to see what the new European Commission is going to do. But as I said, in the long term, Outokumpu was extremely well positioned to take advantage of the green transition. The ferrochrome example that Marc-Simon Schaarjust gave, I think, is really sort of a further strength for Outokumpu as we go forward. There are, of course, a number of uncertainties. The U.S. elections can bring all kinds of volatility. But I think still, fundamentally, the U.S. has always come out even stronger after areas or times of turbulence.

The timing of the rate cuts still remains uncertain. But as I said earlier, many of our end-use markets are very macro driven. They're very sensitive rates, so we will need to see quite material rate cuts in both the United States and in Europe. The war in Ukraine and peace, hopefully, there soon is an important uncertainty. However, I want to say that just imagine, once the war is over and the rebuilding starts, how big and sort of a demand push that could give to stainless when most of Ukraine needs to be rebuilt. So waiting for that moment to happen. And then, of course, we have the recovery in China, huge market, a lot of potential waiting for the trigger.

Against that backdrop, so the very short-term outlook for the third quarter is that the group's stainless steel deliveries in the third quarter are expected to remain stable compared to the second quarter. The slow market recovery in Europe is expected to continue while the market environment in Business Area America is expected to remain soft. The scrap market is expected to remain tight. With the current raw material prices, some raw material-related inventory and metal derivative gains are forecasted to be realized in the third quarter. And our guidance for Q3 2024 is that our adjusted EBITDA in the third quarter is expected to be a similar or higher level compared to the second quarter.

Now I'm going to finish off my part of the presentation or our joint presentation with this slide and just going to summarize 5 key points about how Outokumpu will continue to develop and create shareholder value.

We have the most efficient global asset base in our industry. We have a strong position in Americas. And with Tornio, we have a leading cost competitive position in Europe. Also, I want to say that when we look at our current volumes vis-a-vis how much we delivered in COVID, we actually have capacity to easily scale up an additional 30% more volume when the demand comes. We're the leader in sustainable stainless steel, our emissions per tonne are clearly by far the lowest in the industry, and we have introduced Circle Green, which is by far the absolute lowest in emissions globally.

We have committed to very smart capital allocation. We have a commitment of €600 million for Phase #2, and we intend to stick with that. We now have the strongest balance sheet in the industry. We have good liquidity. And overall, as I said, we are committed also to making sure that we stay on this journey.

And then finally, long-term shareholder returns are important to us. Over the last 4 years, we have returned nearly €480 million to our shareholders. And from a management standpoint, we are very committed to our current dividend policy.

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So with those words, I want to stop here and give it back to Linda and the operator, and let's begin the Q&A. Thank you very much.

Question-and-Answer Session

Operator

[Operator Instructions] The next question comes from Anssi Raussi from SEB.

Anssi Raussi

I have a couple of questions. I start with the ferrochrome supply-demand situation. So first of all, like, are you planning to ramp up your third furnace during September this year? And do you think that there's enough demand for your full capacity in the latter half of this year? Or will you be somewhat underutilized.

Heikki Malinen

If I maybe start and comment on that. I think overall, when you look at the demand situation, what I can only say is, first of all, what Marc-Simon Schaarsaid, we have customers who are already asking for 2026 delivery. So I think the overall trend in our position on ferrochrome and low-carbon products is very, very solid. However -- and this comment will then apply also to the stainless steel side as well is, we're now in the midst of August, a lot of customers are on vacation, and we really need to get into the first weeks of September when folks return back from holiday to really see what are they going to do regarding the second half of the year. So I think there's a bit of an uncertainty as far as what the stance going to be. And I think within 4 weeks, we'll know how this second half of the year will really start going. So unfortunately, this is how much I can tell you, Anssi, at the moment. I think we'll be wiser in about 4 weeks time. Sorry for not able to share more just today.

Anssi Raussi

And actually to continue on ferrochrome, can you remind us what was burdening ferrochrome profitability in Q2? Like you mentioned fixed costs, but the margin was clearly lower than in Q1. So is this something which we should expect to continue in coming quarters?

Marc-Simon Schaar

Maybe I take that question. We have faced some temporary operational challenges in our ferrochrome setup with the 2 furnaces we were running here. And of course, we also had the impact, the strike-related impact in ferrochrome. But again, both of them, as I mentioned, temporary in nature and not expected here to continue in the third quarter.

Anssi Raussi

And the last one is about your BA Americas. What was the impact of this maintenance break related to operational challenges? And will this have an impact on Q3 numbers as well.

Marc-Simon Schaar

Well, maybe I also take that. The impact in the second quarter is around, I would say, €10 million in that area, Anssi.

Anssi Raussi

And it didn't continue until Q3.

Marc-Simon Schaar

As Heikki mentioned, we have some temporary topics here, which will then also go into the second quarter, but we are working on this very, very hard together with the team over there to get the things back under control.

Operator

The next question comes from Tom Zhang from Barclays.

Tom Zhang

Two for me, please. The first one just on the guidance. I know you kind of talked around it a little bit, but when I look at -- there should be quite a lot of levers spread for Q3 to be better than Q2. You're going to have €30 million roll off from the strike impact. You're not going to have as much of this Americas maintenance, that €10 million, you're not going to have these temporary challenges with running the 2 furnaces at ferrochrome. You've guided to raw material gains instead of losses, and you mentioned Europe is still continuing to improve. Volumes are stable, which is sort of better than normal seasonality. Where is the sort of negative lever that we're sort of missing that means you could still be stable on EBITDA next quarter?

Marc-Simon Schaar

Maybe if I can start you can continue. Thank you, Tom. I think it's important here to add on what you were saying. You mentioned the quarter-on-quarter improvement of €30 million due to the strike impact in Q2, not being there in Q3. Here, I think it's important to understand that half of that €30 million in the second quarter was driven by sales and the other half was driven or impacted by costs. So as we are guiding a stable volume forward, I think that should give you a bit of an indication how to think about the bridge of quarter-on-quarter impact into the third quarter.

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And then probably on the other side, as Heikki and I were already mentioning that we saw somewhat softening market environment in the U.S., in the Americas, and that is also something to take into consideration.

Heikki Malinen

I agree with you. I mean there was some hesitation as we headed into the July period in North America and in the U.S. particular, I mean, what is sort of behind that could be just the general volatility and uncertainty about the macro in the U.S. But that sort of uncertainty and softness leads us to be conservative and we want to get more assurance that the trajectory after the vacation period will be as robust as we hope it to be. So of course, we will do our utmost to generate maximum profits for Q3, but we erred on the side of being conservative here for the time being.

Marc-Simon Schaar

Yes, still we get more data.

Tom Zhang

Well, that actually leads me quite nicely to the second question, which was really just about Americas. So to clarify, it's U.S., that sort of negatively surprised you because you mentioned some comments earlier in the preprepared statements, it sounded like U.S. was still okay. I would have guessed that maybe Mexico was facing a bit more in the way of import pressure, maybe that was bringing down prices. So could you just give a little bit more color basically on the Mexico versus U.S. split and whether there's any potential that you could send material from Mexico into the U.S., if needed.

Heikki Malinen

Yes, the split is roughly, I would say, given the production volumes where we have 600 kilotons production capacity in the U.S., 250 kilotons production capacity in Mexinox, that should give you, Tom, I think, a bit of a fair understanding of the split here.

Tom Zhang

And just in terms of -- in Q1, you were already mentioning Mexico was quite weak. Has that gotten any better, worse, stable? Or is it really just the U.S. that's sort of softened a little bit into July?

Heikki Malinen

Yes. I would say Mexico more stable. I mean, the bottom line here is like some of these other emerging markets where Asian volume is flowing in, they don't have the same tariff protection regimes as we have in the United States and in Europe. And of course, now with a very, very weak Asia and China product is, of course, flowing and trying to find a home anywhere on the planet where there might be demand. And in Mexico, I think probably Brazil, Mexico is one of the areas where that overflow seems to be coming in.

Tom Zhang

So I'm reading that as sort of Mexico has had input pressure, has continued. U.S. has been a little bit more demand issues heading into July, uncertainty and softness.

Heikki Malinen

That is correct.

Operator

The next question comes from Tristan Gresser from BNP Paribas Exane.

Tristan Gresser

The first one is just a little bit on Q2 results. A month ago, you kept your guidance stable to higher. But in the end, Q2 EBITDA ended up 50% higher quarter-on-quarter. And it seems inventory losses, shipments, strike impact, all that were guided -- they came as guided. So I really wonder what positively surprised there? That's my first question.

Marc-Simon Schaar

I think, Tristan, if I can take that first, then we, I think, initially forecasted a negative impact from net of timing and hedging. And as the market has further developed so did our purchasing pattern, so did our sales pattern, the impact was more positive than originally being forecasted.

Tristan Gresser

And then the second question, a bit long question. So bear with me, but it's with the EBITDA target slide you put out. So 2 years ago, when you talked about the €500 million, €600 million target, you said it included Phase 1 and Phase 2 uplift. But Phase 2 was hiked by €150 million earlier this year, and the normalized target was not increased. So that would imply that the normal market that you expect to return to -- and that's kind of the last bar chart -- is not the same as the one you expected 2 years ago. And at the time, I think it was based on full utilization, historical base price. So my interest here is where do you think you're going to fall short? And where is the market different on a structural basis that on the volume side, on the pricing side, is that Europe that you see lower on a normal basis? Is that Americas? Just trying to get a little bit color there.

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Marc-Simon Schaar

A very good question, Tristan. And let me try to answer as follows. You're absolutely right and spot on. Compared to the prior years, I think we have further been impacted by very high inflation, global inflation, which we have seen over here. And hence, also looking at our current operational -- not operational, but financial performance, we clearly have to increase here our cost savings, continuous cost savings improvements in order to get there. If the market would fully return and also back to the level of where we made the statements back -- the reference period you're referring to, then I would say there is further upside potential. But I would rather to be on the conservative side as well because, as I mentioned, inflation, part of it is permanent. The other part is then also may be easing over time. But there is no imminent other negative impact as you might interpret into it.

Operator

The next question comes from Ioannis Masvoulas from Morgan Stanley.

Ioannis Masvoulas

First question from my side is on the U.S. market. What do you see on the base price development in the near term? Are prices holding up? Or are you expecting some weakness in the coming months based on your order book? And within that, if we look at the broader Americas business, is there any way to separate Mexinox and give us an idea whether this asset is EBITDA positive given the current import pressure?

Heikki Malinen

Maybe if I comment on the base price first and then you comment on Mexinox. So I said we don't make any forward-looking statements regarding pricing. But as I can scan in on base prices overall, it would seem that they have been holding up fairly stably. So that is the situation. Of course, customer by customer, there may be some change. But overall, I would say, reasonably stable as far as base price is concerned.

Marc-Simon Schaar

And when we think about EBITDA in here, the way how we're running the business, not only in the Americas, but also in Europe, this is fully integrated, Ioannis. We are looking end-to-end through the margin over here. And this is why we are reporting it from a global perspective. And then with a centralized sales team also then really here looking at Mexinox more from a cost center perspective.

Ioannis Masvoulas

And then second question, if we look at Slide 14 with the normalized EBITDA bridge, you maintained a range of €500 million to €600 million despite the costlier tolling agreement in the U.S. And a big part of how you get to that number is strategy, Phase 2 gains that have not been realized yet. But if we were to look at the first part or the left side of the bridge between 2019 to 2024. There is a lot of inflation that eats into those gains. Is that also been captured when we look at the €500 million to €600 million range? Or is there a risk that if financiary and competitive pressures continue to take hold, you might undershoot your expectation?

Marc-Simon Schaar

Thank you, Ioannis, if I answer that one as well. As I mentioned in my presentation, Ioannis, we are fully committed to that range. And what you also see in that bucket is, for example, as I mentioned, a couple of one-off items such as the political strike, which I have not adjusted for then going forward. So to clearly answer your question, no, I don't see a risk.

Operator

The next question comes from Igor Tubic from Carnegie.

Igor Tubic

I just wanted to ask a question about in Q1, you said that you maintained your guidance for -- or have a guidance for Americas of USD 170 million as a normalized adjusted EBITDA level. Is it fair to assume that you will reach those numbers going forward as well? Or have you changed your view on that?

Marc-Simon Schaar

I think I mentioned in my part of the presentation that our view on the Americas despite the current softness in the market remains extremely positive. And as such, also our target here, normalized run rate of USD 170 million remain.

Igor Tubic

And just another question also. Can you say anything about how the mix looks like in Americas and Europe.

Marc-Simon Schaar

Well, maybe I take that. If you think about in Europe about the commodity business, where is the advanced materials business, the mix is fairly stable. We don't see any changes in here. That is what I can report. When I look into the Americas over here, here we have more on the commodity side, our commodity business, maybe from a market environment perspective, we don't see any change in our market share here from the data which we have seen so far. Of course, when looking into different sectors, then I think it's clear, and I mentioned this as well, that there is a subdued real demand in appliances, white goods and also in construction, right? And we also see that now as we speak and probably also going forward based on what we hear also from the press and the OEMs that the automotive sector might be struggling at the moment a bit

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Yes, please, go ahead.

Heikki Malinen

I just wanted to say maybe you noticed today, we have announced that Rolf Schencking will start here at Outokumpu on October 1 as the new Head of Advanced Materials, Member of the Executive or leadership team. When we made the decision to separate Europe into the standard products or commodity side and the advanced materials, so the objective really was also to get the advanced materials to become a global powerhouse in more value-added products that go into more complex industrial applications. And so with the recruitment of Rolf. And we also have a new Head of Commercial, who has started in spring of this year.

So those 2 individuals plus our technical people are going to accelerate our efforts to grow the advanced materials business. And of course, therefore, hopefully, the share of the mix as far as that business is concerned, from a value creation standpoint, will increase in the years to come. So important that the Rolf and the guys get up to speed and deliver now in the new roles.

Operator

The next question comes from Maxime Kogge from ODDO BHF.

Maxime Kogge

So first on -- sorry to insist on Mexico, but you provided some useful information about the respective share of U.S. and Mexican capacity. But is it possible to know approximately which part of the Mexican output is sold domestically? And what of the part is sold to the U.S.? And given the -- I mean, the very high competition we see in Mexico, are you hopeful that the government will step in and take some measures to, I mean, to hike tariffs? What can we expect in that respect?

Marc-Simon Schaar

Maybe if I start with the material flow Maxime, this is -- if we think about -- of course, we deliver from Calvert to Mexinox, San Luis Potosi, we have cold rolling facility over there. There is only little or insignificant material moving back from Mexico into the U.S. market. This is as far as I can see. Then further on, we understand that there is pressure from the U.S. government on the Mexican government on working against this import circumvention basically from Asia via Mexico into the U.S. market, and there are talks about certain tax or duties to be put in place.

Heikki Malinen

That's exactly. I mean the -- we will see after the election, whether it's Trump or Harris, which way U.S. trade policy goes, but I would assume both candidates will push for a tougher trade.

Maxime Kogge

And yes, in that respect, my understanding is that the plan to possibly expand your cold rolling mill in the U.S. is not at all jeopardized or challenged by the current situation we're seeing both in the U.S. and Mexico, right?

Heikki Malinen

I don't see that the Mexican situation has any material impact at the moment on the U.S. business. I think they're somewhat separated. But of course, if a significant number of our customers in the U.S. were to decide to go into Mexico and produce there and then situation would change. Of course, that is -- that will be a risk, but I don't see any signs of that at the moment.

Marc-Simon Schaar

But at the same time, we are the only stainless steel producer in Mexico with a cold rolling facility in place, right?

Maxime Kogge

And lastly, on imports, so they have picked up quite significantly in Europe and the U.S. So given the increasing pricing differential between Europe and Asia should we fear a further rise in import pressure in the coming quarters, according to you? And conversely, in the U.S., given the new mould and port concept that seeks to yet to prevent some imports from being smuggled to Mexico? Can we hope for lower import pressure conversely in that region going forward?

Heikki Malinen

Sure. Of course, trade flows initially are very dependent on what happens in China and Asia, as I mentioned earlier. So very much depends now on does the Chinese government start to stimulate domestic demand or not. So if the stimulus comes here, and I at least saw on Bloomberg, some indication that the Chinese were noticing that the measures so far they've taken haven't really had any material impact. So if this changes, I think it will take away some of the import pressure also. Freight rates have been fairly high. That's a positive for us. Any logistics issues on the Suez Canal, a positive for us because it's a heck of a long journey through South of Africa. So honestly, we can only talk about scenarios. It's impossible to say which direction this is going. But of course, we hope that the tariffs and the CBAM, all of these things plus our own decarbonization journey will help to maintain a robust position for us, but also European suppliers vis-a-vis Asian imports. It isn't only an issue for us it's for all of the European companies that are trying to manage in this global trade imbalance, if I call it that, with Asia having so much capacity.

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Operator

The next question comes from Bastian Synagowitz from Deutsche Bank.

Bastian Synagowitz

My first question is a quick follow-up on Americas and actually Calvert specifically. Could you please explain exactly what is the issue there? And then also, I think you said, obviously, you had this €10 million maintenance charges. Can you just briefly confirm that this is the entire group number for the second quarter. And I think as you seem to expect this level to drag on into the third quarter as well. Can you maybe share with us whether there is any maintenance due in the fourth quarter as well? And if so, how much?

Heikki Malinen

If I first comment on the operational point. So first of all, what I made clear, what Marc-Simon Schaar said earlier, that the collaboration and cooperation we have with AM/NS, which are our partner who do the hot rolling on the other side adjacent to us that, that collaboration, cooperation is going very well actually, and we've been happy with their performance and things are going fine. And I'm very pleased with the agreement we made with AM/NS a bit of a -- about a year ago. So that's been a positive decision for us. But the specific operational issues, I can say, they are not technology really, so that we do not have a technology problem.

They are more specifically rated to our internal processes within the, let's say, the upstream part of the facility. Things we can control, things we can change will require some capital, not a lot of money, but some money and it will take some time here to organize ourselves to get those solutions in place. But as I said, we know what we need to do. Our management team has made proposals in Calvert on what they need. Those investments have been approved. And now it's fine to execute. So I think that, hopefully, we will start making good improvements in short order.

Marc-Simon Schaar

Maybe if Bastian if I can -- no, if I can probably add to that one as well, if that's okay with you, then I would like also to remind us that we do have maintenance work, maintenance break scheduled in our Swedish facilities in the third quarter. And as such, if we think about maintenance costs quarter-on-quarter, then you should think about middle single-digit numbers in additional maintenance costs over here.

Heikki Malinen

Bastian, you wanted to ask, please continue. Sorry.

Bastian Synagowitz

Yes. Sorry to not let you go with that. Like on Calvert again, you say upstream, is this related to the hot rolling mill or is that related to the melt shop. And I guess what has changed versus before? Because it was a very -- obviously, a very smooth running operation. So I'm really wondering what has changed?

Heikki Malinen

There is no -- as I said, the hot rolling is going fine. And that's, of course, the main thing because, of course, that is the process, which is -- it's a big process. And of course, if that wasn't working, we would have all kinds of issues. So that is fine. There's no reason to be concerned. It really relates to -- partially to the melt shop also partly to our raw material in feed. Materials, we can completely fix ourselves. It will take a bit of time. It is not technology related, so can be completely fixed. And as said, Tamara and her team know what they need to do, and we look forward to seeing the improvements soon.

Bastian Synagowitz

Then just on the maintenance break. So it's got to be like a mid-single-digit incremental spend on maintenance versus Q2. In the fourth quarter, is there going to be a similar level of maintenance or it's going to be higher? Or is it going to be lower in the fourth quarter?

Heikki Malinen

Well, first of all, we don't give yet guidance on quarter 4, but I think what we can say is that we are going to have maintenance work in our Tornio facility. This is as much as I can say at the moment.

Bastian Synagowitz

And then secondly, on cash flow, I guess, metal prices have moved quite a bit. What is your latest view on working capital and how it develops in the second half or for the full year? I guess your second quarter performance was clearly a little bit better versus what you indicated earlier. So has your view for the full year changed? And what is the current status quo?

Marc-Simon Schaar

Yes. Thank you. What we expect in the third quarter is that we see a somewhat increase in our working capital. In order to prepare for the maintenance breakup was just referring to in the fourth quarter in our Tornio operations. And as such, I would say, maybe a bit higher double-digit increase in our working capital, and as such, also probably on the net debt level side. But as Heikki was saying as well, we need to see how the market is going to develop after we are coming back from summer breaks basically. And we will observe and adjust accordingly to the -- to any market needs over here. But at any time, we will keep our efficient and active working capital management.

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Bastian Synagowitz

And for the full year, what is the increase you're expecting? Like is it an increase at all?

Marc-Simon Schaar

Well, as I said, we need to see how we're working out at the -- after the summer break and so forth. But I would see that for the fourth quarter, based on what I just mentioned somewhat a relief towards the end of the year. But this is against the market situation, what is it right now, Bastian.

Bastian Synagowitz

And then just last question, please. I think in your statements, I saw this comment that you obviously aim to leverage the structural cost advantage of like having access to clean and I think cheap energy in the Nordics. What do you mean with this? Because I guess if one -- cynical one could read this has the intention to run a very aggressive volume and cost leadership strategy, I'm pretty sure that's not the case, but maybe you can just elaborate a little.

Heikki Malinen

It basically means that we have an integrated supply chain from the Kemi mine, the ferrochrome operations, the stainless facility and then into Germany Krefeld. And the 2 things, of course, if you look at the cost competitiveness, you have your fixed cost and the variable costs -- and we are now telling you that we are going to accelerate our plans to try to improve our cost competitiveness further. There are structural cost questions relating to our Krefeld downstream facility. I mentioned we are discarding the discussion with the unions about what options we have to more flexibilize our work there.

And then secondly, I mentioned the fact that after the war, the electricity price difference between Finland and Germany, in particular, has really spread. I mean, we're basically was talking about double difference here. So it is our intention to look for ways how we can even more leverage the local cost electricity advantage we have up here in the north. And that will require some investments at some stage. My successor, Kati and Marc-Simon Schaarwill then report back to you when we have -- when we're ready to make decisions. Just wanted to give you a heads up that we are going to start to prepone that, the plan initially was a bit -- thought we would do it later. We're now going to bring it a bit forward in time.

Bastian Synagowitz

And I mean it seems like this is coming on top of the €150 million additional earnings improvement. Is there already a number you could put to this?

Marc-Simon Schaar

No number yet, Bastian, as said by Heikki, this is only an early announcement. And as I said, together with our new CEO, Kati, we will then report more when we have solid information available for you. That's it.

But to be clear, it is on top -- has nothing to do with the EBITDA run rate savings here. This is -- needs to be detached from each other.

Linda Hakkila

We will be taking no more further questions. Thank you for your interest.

Heikki Malinen

So ladies and gentlemen, this is -- as I said, it's my last quarterly talking with you about Outokumpu topics. I want to finish off with a couple of thoughts from my side. As I said, I think there are 2 things I'm especially proud about. Today, Outokumpu is really number one in sustainability in CO2 levels in the industry and globally. I think that's a massive achievement we've made. And also the fact that we basically now have the strongest balance sheet. When I started, we were sitting on a massive amount of debt. Today, we basically are de facto debt-free. So a big thanks to all the people within the Outokumpu team who have contributed to this massive effort.

I also want to thank our customers, our suppliers and of course, all of you in the financial community and our investors who have placed their trust on us during my tenure. Over the coming weeks, Kati Horst, who is going to be -- who has been appointed my successor, Kati and I will work very closely to ensure a very smooth transition from me to her, to make sure that all the plans we put in place can be then in a very systematic way implemented when she comes. Obviously, as new CEO. She will have to make her own choices. But I think as she's been on the Board, and she's committed to the current journey of the company. I think we have a -- we know roughly where we're going here. So I think we're going to have a great CEO, and I look forward to seeing her in the new job.

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And then finally, I want to just say that if we look at Outokumpu, I mentioned that in Europe, for example, we have potential to increase our volumes from current levels even after lift-off. We just need to get the markets going and we can move forward and make a lot of money.

So with those words, I wish all of you a great continuation this summer. And thank you once again. Goodbye.

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