

THOMSON REUTERS

# EDITED TRANSCRIPT

Q3 2018 Outokumpu Oyj Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2018 / 12:00PM GMT



## CORPORATE PARTICIPANTS

**Christoph de la Camp** *Outokumpu Oyj - CFO*  
**Roeland I. J. Baan** *Outokumpu Oyj - President & CEO*  
**Tommi Järvenpää**

## CONFERENCE CALL PARTICIPANTS

**Anssi Kiviniemi** *SEB, Research Division - Analyst*  
**Bastian Synagowitz** *Deutsche Bank AG, Research Division - Research Analyst*  
**Carsten Riek** *UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research and Equity Analyst, European Steel Research*  
**Luc Pez** *Exane BNP Paribas, Research Division - Stock Analyst*  
**Menno Gerard Cornelis Sanderse** *Morgan Stanley, Research Division - MD*  
**Ola Soedermark** *Kepler Cheuvreux, Research Division - Equity Research Analyst*  
**Seth R. Rosenfeld** *Jefferies LLC, Research Division - Equity Analyst*

## PRESENTATION

### Operator

Good day and welcome to the Outokumpu's Interim Report for 2018, Third Quarter Conference Call. Today's conference is being recorded and now at this time, I will turn the conference over to Tommi Järvenpää, Head of the Investor Relations. Please go ahead, sir.

### Tommi Järvenpää

Thank you. Good afternoon, and welcome to Outokumpu's Q3 2018 Earnings Webcast. My name is Tommi Järvenpää, I'm the Head of Outokumpu's Investor Relations. With me here today are also our CEO, Roeland Baan; and our CFO, Chris de la Camp. We will be referring to the presentation that can be found on our website. As always, please pay attention to the disclaimer in the presentation as we will be making forward-looking statements. With these remarks, I am pleased to hand over to our CEO, Roeland. Please go ahead.

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

Thanks, Tommi. So good afternoon, morning or evening, depending on which timings you're in. I would like to indeed comment on our results. As always, start with the vision to be the best value creator in stainless steel by 2020 through customer orientation and efficiency. And again, this is not just a cover page. This is what we will achieve and what we are achieving. And I already will bring to your attention that during the upcoming CMD in about 4 weeks, we will clarify it further and put meat on the bone, so we actually see that this is not just a vision- on paper, but the vision in reality.

So if you now turn to Q3. We had an extremely solid performance. If you look at how the market had been developing, and I'll get back to it what has been happening in terms of dropping alloy surcharges, increasing imports, dropping prices. We have turned very, very good quarters, actually, best Q3 we have had in over a decade. So we are very pleased with the result. If you look at the moving parts within it for the second quarter of the year, we had significantly lower deliveries, which is partially normal seasonality, but part as well was a result of the destocking, because of the dropping alloy surcharges that has been dropping and we can discuss it in detail later, but has been dropping 4 months in a row. So people have been clearly delaying the buy. On the pricing and the mix, we had lower prices in Europe, higher prices in the U.S. and then we had definitely richer mix both in U.S. and in Europe, that helps mitigate the majority of it. And then on the cost, we had good cost control on both sides of the ocean, partly offset by import prices for ferrosilicon and the famous graphite electrodes that we already discussed. But continuing strength as well in the prices of trucks in the U.S. So the freight costs were again higher in the third quarter than were in the second quarter. And ferrochrome, a slight plus and then for the first time, we have consolidated Fagersta in here and that added positively as well. And that, by the way, is proven to be an excellent acquisition of below 4x EBITDA the way it's shaping up without counting synergies, just on the asset itself.

Moving to the next page. As I said, we have historically low base prices in Europe. We, just to put it back in to memory, I think, the average in 2017 on base price was around EUR 1,100. We dropped in the second quarter to CRU price EUR 980, down to now EUR 800 in the third quarter. And again, to our business, I have to say, thanks to our contract business, of course, we don't get the full brunt of that, but secondly, what we have been able to achieve on our raw material import side has, to a large extent, taken away that erosion of the prices.



So we have been aggressively attacking our raw material supplies and virtually kept our margin stable. In the U.S., you see that there was still a small increase quarter-on-quarter. For us, as a company, that increase was bigger. If you remember, in the first half, we had realized pricing relatively low due to the contract positions we have out of 2017. So that has now kicked in positively in Q3, and nickel dime and ferrochrome dime as well and just on ferrochrome, \$0.04 -- \$0.01 is about EUR 1 million a quarter as a sensitivity on our results.

Next page. We talked about the import pressures, and here you see they're very clear. If you look at Europe, this graph, and go back to 2015, where we had an average of about 60,000 tonnes a month coming in, picking in the second quarter of this year to 100,000 tonnes coming in and going from about a 22%, 23% share of consumption to now 31%. And actually, in April -- sorry, in May, it went up to 33%. And unprecedented import numbers, clearly a result of volumes getting into Europe ahead of safeguards and then if you now go into the third quarter, we see that, although the volume has dropped significantly, the percentage of penetration stays the same about 31%, reflecting the seasonality -- seasonal low volumes. But still the high volumes, a direct result of the fact that these safeguards has exempted material still on the water, which came in outside of the quarter and then, of course, the quarter started filling out as well bit by bit. So the import pressure stayed the same and, as I said, in spite of that, in spite of lower volumes and in spite of lower pricing, we have been able to, very robustly, withstand that, which, I think, is a testimony to what the company is today and which, by the way, gives us extremely good insight in how we are able to compete going forward. So the U.S., the opposite happened. In 2017, you saw that imports were peaking and then since the introduction -- after 232, bit by bit, the monthly import volumes have been dropping to now about 18% of consumption, whereas it had been in the height of the Chinese imports, it had been up to about 27%, 28%. So for the U.S., 232 seems to be working.

We talked about pricing. Here you see the reflection of what I said earlier, the drop from EUR 1,100 in 2017 to -- and here its acceleration into EUR 750, and it's low. And I think what you can say though, is that although the safeguards have not returned the market, they have at least stabilized the market now on a low level but, again, a very workable level as far as we are concerned in terms of profitability given the activities and actions we have taken on the cost side. In the U.S., you see the peaking up of pricing. I think, that is more or less where we are today. I don't see necessarily that there's a lot more pricing outside from here. But it's a very solid and healthy market in that sense. And with that, I would like to hand over to Chris, to go through the more detailed financial results.

---

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

Thank you, Roeland. Good morning and good afternoon, ladies and gentlemen. Move on to the group key financials. I think taking a broad view of this, the key message here is that the third quarter of this year was very much improved against the third quarter of 2017, amongst all metrics, but somewhat similar to the second quarter of this year. The one number, of course, that stands out is being weakest, the deliveries. As you can see here, clearly impacted by seasonality, when compared to the second quarter, the summer months, especially in Europe, are always weak. But we also had somewhat weaker demand. The markets were slower this year than they were at the same time last year. Particularly towards the end of the quarter, where alloy surcharges were falling, we saw that some customers were pushing back on volumes, very much -- an effect we saw towards the end of the quarter that impacted our deliveries overall. The other point to maybe make is that the adjusted EBITDA was, only to a very minor extent, impacted by timing impacts, only EUR 3 million of that was positive timing effect. And that was, what I might call, a one-off effect from a release of the pension accrual in the long products business of EUR 4 million. So overall that's a pretty clean number without too many one-off impacts there.

Apart from that, I think, net income very much at the same level as Q2, much improved against last year. Net debt a little bit better, but probably the same as Q2. Gearing has come down a little bit as you will see shortly, leverage has also come down. Capital expenditure, in the third quarter, very much in line with what we've indicated and guided. We're aiming for EUR 220 million spent this year and we are right on track to achieve that.

We then move on to the next slide and take a bit of a closer look at the European business, and as Roeland has already said here, in an extremely difficult environment, a very solid performance. But a little bit down against Q2, but given all the import levels we've seen, that's not surprising. Prices have obviously fallen significantly in the third quarter versus the second quarter. So this was a real headwind we were facing. Deliveries also much lower when compared quarter-on-quarter. This is partly seasonality, but also little bit of a weaker market versus the previous year. But quarter-on-quarter, certainly, seasonality has a lot of fewer of shuts down for the month of August.

The pricing impacts here do not seem so big and this is really, because, as Roeland had said, we managed to move much more of our volume into specialty products and that meant that we had a higher contribution margin per tonne. So that really supported the result overall. The timing and hedging gains were slightly positive, not so big impact there. Costs were improved, and we had significant improvements from personnel costs during the summer. That's always a seasonal effect that supported the results a little bit. And generally, we are continuing, of course, on all areas to improve our productivity and cost base and it's showing through here this quarter, again, as well. The other impacts were of a smaller nature, various things to do with the small one offs.

We then move to the Americas. Here, again, an improvement versus the second quarter from EUR 10 million to EUR 13 million. It has been 2 quarters now of profitable results after period of losses. So that's encouraging. But of course, in the Americas, again, perhaps not as much as some people may have expected, partly, because deliveries were down.

The reason for that is that lots of our distributors there pushed back on volumes at the end of the quarter. So we saw significant drop in deliveries versus growth expectations, but also as previous quarters, as we clearly saw that alloy surcharges were going to come down on the back of falling nickel and chrome prices and good intake volumes, as the quarter drew to a close. And I'll come back to that, because that's also one of the reasons that our working capital was somewhat higher than what we might have expected. However, we have seen the impact in Americas of higher price levels as a result of Section 232. We did say that in the second half, they would start coming through and they have and we've also, obviously, managed to improve our mix, which is in line with our commercial strategy that we have outlined in the past.

Fairly a little impact quarter-on-quarter on heavy hedging and timing impacts, but here again, in the Americas, trucking rates continued to go up versus the previous quarter and electrodes -- graphite electrode charges were also higher than in the past. And then there were a number of smaller tax impacts. We had a great refund in Mexico and smaller one-offs that have supported the results to get to EUR 13 million.

We then move on to the Long Products business. You can see here on Page 12 that the Fagersta acquisition comes into the numbers now. It is about EUR 3 million of the results that is shown here. So as Roeland already said, it's making positive contribution and that is certainly also supporting the business and offsetting to significant mix in some of the difficulties of this business facing as the direct results of Section 232. Of course, we're getting a lot of our raw materials from Europe, coming into the U.S., so that's subject to 25% tariff and not all of those tariffs can be passed on to some customers, so that's putting pressure on our U.S. business. Having the Fagersta business there is a very good offset against that. The other point to make here is that there is a very big other charge. This is as a result of an accrual for medical benefits, where we offered some of our employees a lump sum cash payment in lieu of releasing us from the obligations for the future and that had a EUR 4 million impact. That will not repeat in the future, it's a one-off, but it supported the business, nonetheless. Then the other key items deliveries were a bit lower, also because some of this business was running into summer seasonality. Prices and mix, in particular, are little higher, mainly mix actually, and then some positive mix and timing impacts slightly higher costs. So overall, though, a good result, and you can see on the left-hand side here that the profitability of this business is now improved for the fifth quarter in a row. So it's a very solid track record here, but I'd want the EUR 4 million from the pension release was a one-off will not repeat in the next quarters.

And then moving on to our fourth business, which, in profitability terms, is actually our second-biggest business. The ferrochrome business. Again, very solid operations. We have had 4 quarters that have been reasonably stable here. So some of the volatility that we would see in the past has been taken out to some extent. EUR 7 million improvement from Q2 to Q3. We produced and delivered more material as we didn't have a maintenance shutdown in the third quarter. Prices, of course, were down a little bit. As you know, they came down \$0.04 per pound from Q2 into Q3. We had an improvement in the cost space here and through some energy prices just eased off a little bit, which supported the business and there were other things that is mainly related to FX, which supported the business, which, you know, a few million euros as well. So overall, an improved performance that is pretty stable and, in the underlying performance metrics, actually positive when you consider that the price actually moved the wrong way.

Then move on to the next slide. We're showing the cash flow here. Cash flow at an operating level was positive again. Solid EBITDA we generated was partly offset by an increasing working capital. And you recall that I said, we saw a lot of pushback on volumes in the -- at the end of the quarter that did lead to an increase in inventory levels. So that has partly reflected in this working capital number. That's

something we're going to work on in the fourth quarter to get it down and improve the working capital position and, therefore, also the cash flow. But it then also have ramifications for the Americas business in the fourth quarter. Then we had a number of cash outs, the usual interest payments, smallish tax payments, of course, we don't pay a lot to, we do have to pay some minimum taxes that came out here and a few other charges related to U.K. pensions, that was the minus EUR 20 million in aggregate. And then of course, from the operating cash flow, we had EUR 52 million of cash CapEx out with a small amount of money coming in as well from activities related to investing so that the cash that was left before any financing activities, came in at EUR 9 million positive. And our net debt level was a little bit reduced as a result of that. You'd see that on the next page, it's behind the decimal points, if you like, the net debt slightly smaller, but rounded, sort of, about the same level. Meant that the gearing stayed very much at the same level of 45% as well. And on the right-hand side, you can see that the net debt, LTM leverage has improved again, and obviously saw bit of a spike in the second quarter there. But now with that very weak third quarter of '17, out of the LTM numbers, we've seen an improvement in the leverage there through the third quarter. Clearly, as we get to the end of the year, we're expecting to further improve our working capital position. It's helped somewhat also by falling prices, so that we would expect a positive trend, as we get to the end of the year here on that number as well.

And with that, I am going to hand back to Roeland, to talk a little bit about what we're seeing for the fourth quarter.

---

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

Thank you, Chris. So for the fourth quarter, we see, basically, the typical fourth quarter pattern. Seasonal market slowdown on the one hand, extra maintenance work in Europe and if you dig a bit deeper, we expect the deliveries in Europe to remain, sort of, flat Q-on-Q, whereas in the U.S., we see them decline. You have seen that the contract price for ferrochrome is \$0.14 lower than that was in the third quarter. And again, if you take the \$0.01 per pound is million per quarter and you know what the impact is there. And then with the drop in both ferrochrome and nickel prices, we see substantial raw material-related inventory and metal-derivative losses in Q4. Altogether, we expect the adjusted EBITDA to be at the similar level of Q4 2017.

---

**Tommi Järvenpää**

Thank you, Roeland. Operator, we're now ready for the questions.

---

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) We will hear first from Seth Rosenfeld with Jefferies.

---

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

I have 3 questions focused on the European business, please. I think you mentioned earlier on the call that you are able to retain roughly stable margins in Q3 in Europe, despite the big fall in base prices by attacking raw material supplies. Can you give us a bit more color on that, perhaps due to the timing of alloys and procurement or specifically with pushing down stainless scrap prices? Secondly, with regards to the European product mix improvement, obviously, a big step change supplying more specialty products. How sustainable is that going into Q4 in 2019? And then lastly, giving your heavily-weighted exposure to annual contracts, can you give a bit of sense on your expectations to those base prices in the 2019? And how's the recent volatility in the spot market impacted negotiating power going into '19?

---

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

Seth. So on raw material prices, it's a mix of several things. Indeed, of course, the biggest lever is scrap prices and we have been able to work significant progress on that, but on other procurement issues as well. So all in all, as I said, we have been able to offset most of the price pressure by improved input costs. And we do think, by the way, that it is completely sustainable. There is not just a one-off, there's not just separate deals to try to polish the results. This is a sustainable thing where we are still working into getting more advantages that we see. On the specialty products, that's a great story. We actually not only do we see it is sustainable, we see still that the trend is continuing into higher-end products. There are -- for instance, just one market to mention, you know about the oceangoing vessels. You have to go back from the 3.5% sulfur 0.5%. Generally speaking, you can't do that other than either have total refits of the engines or new engines. There's one other way, which is you put scrubbers in and that it is the solution that most people choose. Scrubbers for sulfur are,

of course, in very corrosive environment and need extremely high demanding stainless steel products. And that's one market that we see booming. There are many other. So that's something that is a trend and not just something that has happened. And then on annual contracts, it's too early to say. The contract negotiations normally start a bit later. I fully expect the normal dance around it. But ultimately, again, I don't expect that this will be a negative pressure on 2019 results.

---

**Operator**

We will now move to the next question and that will come from Carsten Riek with UBS.

---

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

Three questions pretty much from my side. The first one, again, on the base price levels in Europe. See that you state EUR 799, as you mentioned, but how serious do we have to take that price? I am long enough in covering stainless steel to say at EUR 799 the whole industry would be EBIT negative. You should see the real base prices. What do you see in your operations or did you actually move over to a transaction price? That's the first one. The second one is on the low water levels in the River Rhine and do you have any issues here with your Krefeld operations, because your ship, the auto material over from Tornio. Is it hampering you? Is it pushing up the cost? And if so, by how much? Third question on the ferrochrome bridge you show in the presentation. I don't really know, which -- recall, which page it was. I think that it is Page 13. Could you just guide me through the bridge? Because what I noticed is a very strong increase in deliveries in ferrochrome of more than 10% quarter-on-quarter, but that doesn't seem to show really in the deliveries impact. How do you calculate the deliveries impact? That are the 3 questions I have for now.

---

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

All right. So on the base price, look, EUR 799 CIU has went down to EUR 749 somewhere in one of the months. It's a derived number and it's taking the quartered transactional price from Asia minus the current alloy surcharge. That, of course, as you say correctly, is not what happens in the market. So our realized price is different and you can see this as well if you just take our European revenues and divide it by the tonnes, you'd see that we are not that close to EUR 799. So we don't do transaction prices. We still have the normal stuff. Middle East, our distributors, who say, look, we get stuff from Asia transaction prices, are you interested? And the answer is no, we're not interested. We still stick to the normal pricing. River Rhine, no impact. So -- and we don't see any impact going forward either. And in the ferrochrome bridge, Chris, I don't know whether you want to...

---

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

Yes, I mean, on the ferrochrome, you always have to remember, Carsten, we'll have internal and external deliveries of ferrochrome. And of course, with the much weaker European stainless deliveries that we outlined earlier, you've also got less ferrochrome going into that business. So maybe the impact from that just is obviously negative and had to be made up to some extent from external deliveries.

---

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

Yes, although, Chris, the larger impact on the internal deliveries was actually the second -- we have cranked up our scrap usage in the U.S by close to 20% more, 20% is points, not percent. And in Europe, probably about 7 or 8 percentage points. So that is -- that certainly requires lot less ferrochrome and that is the biggest impact. But on the other hand, on the profitability, that has a very large positive lever as well.

---

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

So you just clap together several positions in deliveries in order to come up with this number?

---

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

Yes, okay, we'll -- the deliveries -- no, no, no, the deliveries in our report are the external deliveries.

---

**Operator**

And now we'll hear from Luc Pez with Exane.

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

Two questions, if I may. So first of all, we have just closed Acerinox conference call and the guys there were very negative about your prospects talking October -- are there vacancies on the back of destocking, et cetera. You look a lot more relaxed on these issues. So may be if you could give us a bit more color and maybe talk a bit more by end-markets. That's my first question.

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

I don't know, maybe, we have reason to be more relaxed. We -- so -- of course, what we have seen is decreasing volume. As I said earlier, there was an onslaught 3 safeguards and then there was still stuff on the water coming in. So inventories were getting pretty high and then if you just -- if you look at the way the alloy surcharge has been developing, July to August, minus EUR 60 million, August to September minus EUR 60 million, September to October minus EUR 80 million. So there has been a continuous drop in alloy surcharge. And as always, you can see that coming. You can see what the nickel market does, the contract price for ferrochrome was announced, so people have clearly suspended the buying and driven down their inventory for 2 reasons: one, because they can buy cheaper tomorrow, but as well, they can get rid of the inventories now, because tomorrow the inventories will be less. So that has an impact. That impact is fully taken into our guidance for the fourth quarter. So yes, in that sense, we're relaxed in the sense that we know that the volumes are not as great as they could have been. As we say, it's flat quarter-on-quarter, so they're not as bad either as far as we are concerned. And on the margin and pricing side, we remain very competitive.

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

Okay. So maybe a follow-up. Could you maybe elaborate on the maintenance -- the cost of the maintenance you're planning for Q4? I'm assuming it's steady under relative to last year, which is -- I remember correctly, is EUR 30 million quarter-on-quarter negative impact.

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

It's a bit less this year. Last year, as we said, there was extraordinary maintenance in there, because of the reliability issues that we wanted to address, specifically on the hot mill. Our normal steady rate is about EUR 20 million over Q3. So for this quarter as well, it's about EUR 20 million that you have to count as a negative impact for Q3.

**Operator**

Now we'll hear from Bastian Synagowitz with Deutsche Bank.

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

I have got 2 questions. What you just said on ferrochrome means that there is simply not as much benefit in using own ferrochrome versus scrap, I guess, if understood this correctly. Have you been selling all of the ferrochrome in to the market? Or have you been effectively stockpiling? And if so, is there enough market to sell down the inventory? That would be my first question. And then my second question is just to follow up on contract prices. Did I understand your comments correctly in the sense that you don't see a risk of a price decline here?

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

So on ferrochrome, it's more complex than that, Bastian. When you are talking about austenitic material, then it is more beneficial to use as much scrap as possible, and we always have. We have in -- I think, in -- if you look in our sustainability report, we have been -- always have been over 80% recycled material rate. If you can drive this up further for the austenitic materials, that is great. So we have done that. We have done that, specifically, in the Americas, where we have been running at a pretty low rate. But you're absolutely right, in austenitics, it is more beneficial to use scrap than use chrome, especially if you have been able, like we have been, have been able to drive down the cost of the scrap significantly. However, in your ferritic business, you have to use chrome. So that is the biggest use of our own chrome, not just now, has always been. So most of our own chrome use goes into ferritics, and it doesn't change, because you can't put nickel in ferritics. Does it explain well?

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

Yes, it's -- basically, I have 2 more follow-ups on this one. Does that mean that you also have been selling more austenitics versus ferritics in terms of product mix, which you were referring to earlier?

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

The mix is anyway about 70-30. Ferritics is a smaller profit in the overall market. So austenitics is clearly the different product.

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

Okay. And what have you done differently on the scrap market, because of the -- it is a market that's used to be fairly efficient. So basically, what have you done to bring down the price?

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

I assume that there is someone from up around -- someone from Acerinox's listening as well. So I'd rather not answer.

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

Okay. Don't disclose off the secrets recipe then. Okay then on my last question just on the contract prices, could you just clarify that?

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

Yes, the -- two things there: first is, we know that we are competitive with the import prices that are being quoted. So that's one element. The second element is more important, is that there is a big difference between imported spot pricing versus guaranteeing the delivery and on-time delivery, specifically in sectors like automotive and appliances, where you need to have the service, you need not just so sure as in terms of delivering within a 4 hours' time window every time that you deliver. But as well for how you prepare the material, the quality of the material, et cetera. So these customers do understand that there are 2 different markets. So that's why we do not see too much of an impact on the contract pricing.

**Operator**

And now we will hear from Ola Soedermark with Kepler.

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

A question on Americas on the price mix, sort of, product mix that earlier you were talking about improving the products mix over the year. How's it going?

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

Yes, that's going very well. One of the drivers in the last few quarters actually, not just in the third quarter, in second quarter as well, has been the fact that we have virtually seized all sales of black hot band, which is the lowest added value product in the portfolio. And that we have significantly increased our sales of cold rolled in the portfolio. So that is -- that -- and it's still not at where it can be, but it's getting better and better and making a distinct difference in the contribution to our profitability.

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

And a follow-up on the maintenance cost. When we are looking forward into Q1 and Q2 next year, when do have your next major maintenance quarter?

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

Maintenance always runs the same pattern. So we -- in Europe, you have the market slowdown around Christmas, people basically stop working in the second week of December and do not come back until the first-week in January. So that's the ideal moment, because our customers do not produce as much. That's the ideal moment for us to shut down and do maintenance. So that's the highest maintenance season. And then we do in the summertime, for the same reason, we do lighter maintenance, but that as well that you are a bit more maintenance heavy. But you can -- I can guarantee you that going forward, the pattern will always be the same. Lighter extra maintenance in the summer and then the big annual maintenance sessions in the fourth quarter.

**Operator**

And Menno Sanderse with Morgan Stanley will have the next question.



**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

And just on the bridge on Page 12 for the North Americas. Could you just remind us where you are on the self-help program, because if I look at that bridge ex to medical and ex to acquisition, profits have been backward a little bit. But you do mention that you've made some progress on certain elements such as the mix. So I just want to understand where do self-help programs are in terms of completion and what we can still expect?

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

So most of the self-help has been in the cost side. And unfortunately, you don't see that because of the increased freight cost. And I'm not -- I don't have a figure here, but it's, by now over \$30 million extra for year-to-date that we have spent on transport. So this -- actually, we have not even been talking about the extra cost to ferrosilicon and electrodes, which, especially on the electrodes side, is hitting the Americas more than Europe, because of the different contracts that we have there. So there it has been very significant to our -- if you look at our operational KPIs, you can see that things like our yields are improving steadily. We measure something, which we call the RRR, which is rejects, reworks and reallocations. We want that as low as possible, because every time you do something extra on your material, that cost money, that has been dropping significantly. If you look at what we have done in Mexico, the restructuring program, where we are taking out close to 400 heads, we're about halfway there, realized already in our cash conversion cost. So there is the self-help part on the cost side and then the self-help part on the market side we just discussed, where we have now reached the position where we can basically allocate the majority of our capacity into the cold rolled market domestically rather than in slabs and hot bands that we export to the outside.

**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

Okay. So on the line, the business is better, but, yes, to wait until transport reports come down for us to see it basically?

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

It's all -- or...

**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

Is that fair?

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

It's that we can -- that's fair or we can find other ways to offset those costs.

**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

Yes. Is that possible, I assume you were going to work on your transport network? Is that still something that gives you gains?

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

It's one of the biggest levers into 2019, actually.

**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

Okay. You're going to talk about it at Capital Markets Day or you're willing to give us an insight already now?

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

We will. No, no -- we will -- we need something for the Capital Markets Day.

**Menno Gerard Cornelis Sanderse *Morgan Stanley, Research Division - MD***

Yes. Okay, fair. And then the last question on destocking, clearly, it happened at the end of the quarter. Can you point us to, sort of, history to help us think about how long this takes, 2 months, 3 months, assuming obviously, that raw material prices dropped further from now? What is the normal destocking cycle, 2 months, 3 months?



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

It's very depending. It's -- first of all, what stock level do you come from? If you look at the U.S. now, for instance, you see that in the U.S., we are now at stock levels, inventory levels in distribution, at normal levels, may be a little bit below. So there is not that much room anymore to do further destocking in the U.S. In Europe, we are still on the high side. So we still have potential for further destocking. And again, you see that in our guidance for the fourth quarter, where we say, we are flat quarter-on-quarter in Europe on the volumes. Normally, you would expect with strong October and November to higher volumes than in Q3, but, because of this destocking, we don't see that.

**Operator**

(Operator Instructions) We will now hear from Anssi Kiviniemi with SEB.

**Anssi Kiviniemi *SEB, Research Division - Analyst***

It's Anssi Kiviniemi from SEB. A couple of questions left on my side. First of all, apparently, there has been a radioactive material in your Tornio furnace. So could you talk a little bit about the background? So what happened then the, kind of, has this had any impacts to your operations? Or how you approach to this kind of situations?

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

I'd start with the end. It had no impact on the operations. Just to put it in perspective, this happens all the time at any steel mill that melts scrap. And these are not nuclear bombs that are certainly found in the mills. This is literally -- if -- for instance, old factories have their control wells and control instruments, very often based on radioactive metals inside. Don't ask me why, but, typically, in the '50s, that was the, sort of, material that was used. So we're talking about a piece of metal that -- an instrument basically, that is not bigger than a 0.3-liter water bottle. And so the amount of radioactivity is extremely small. However, we have a very sensitive and sophisticated systems to actually detect radiation. So as soon as you actually have this measurement device going into your melt and the protective lathe cover melts away then the radiation comes free. It's absolutely insufficient to be harmful, and we probably have instances like that 4, 5 times a year.

**Anssi Kiviniemi *SEB, Research Division - Analyst***

Okay, that was pretty clear. Second question is related to automotive sector. Could you remind us what is your exposure and currently how are you seeing that market development?

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

I think, we shared in our pie charts that we have about 20% of our business going into automotive in -- at various levels from OEM to Tier 2, Tier 3. We have seen some slowdown in demand. We have been digging into it, of course, deeply by talking to the OEMs and to the Tier 1s. And the answers we are getting back is, guys, this is -- has to do in Europe with the switch over of the environmental norms and, specifically in Germany, a tremendous backlog at the TÜV in getting the certificates out for the vehicles. And in the U.S., the slowdown, if at all, has more to do with people waiting for the new model years, which is now coming out, so -- or has come up. So we don't think at this stage that there is a structural fundamental slowdown taking place. Of course, there has been a slowdown in China, which affects some of the exporting manufacturers and, I think, the German manufacturers have gone public on it as well. But at this moment, we don't see a real big impact.

**Operator**

And at this time, there is no additional questions in the queue. I will turn the call back to your host for any additional or closing remarks.

**Tommi Järvenpää**

Thank you. And thank you very much, everyone, for attending our earnings call. Please also note, as mentioned earlier, that we will hold our Capital Markets Day on November 20 in London and more details are available on our website. See you in the CMD.

**Operator**

And with that, ladies and gentlemen, this will conclude your conference for today. We do thank you for your participation and you may now disconnect.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018 Thomson Reuters. All Rights Reserved.

