

**Q1 2019 results**  
8 May 2019

aperam

**A sustainable top yielding stock in Euro Materials**

## Disclaimer



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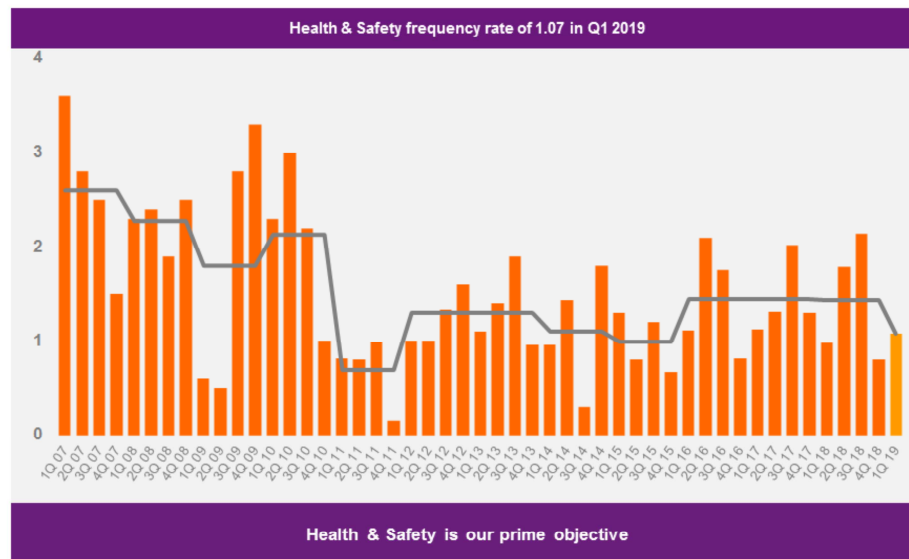
Tim

Good afternoon and thank you very much for attending Aperam's earnings conference call.

Next to me is Sandeep Jalan, Aperam's CFO, and together we will present the Company's first quarter 2019 results.

Please take note of our statement regarding forward looking statements

## Health & Safety Performance



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Tim:

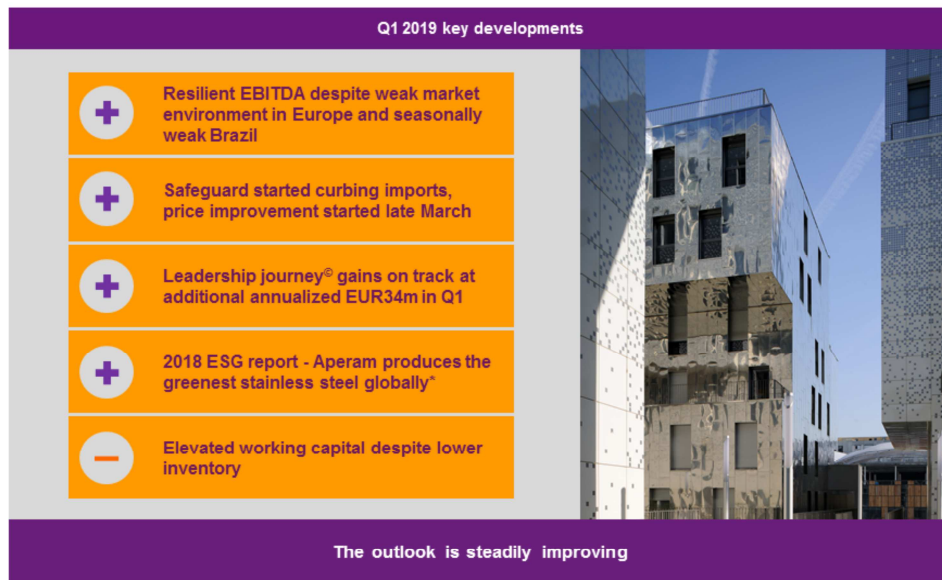
Let's start with our top priority - health and safety.

We report a LTI rate of 1.07 for the first quarter 2019. While this compares favourably with the 1.4 average that we reported for 2018 and also by far outperforms a stainless steel industry average which is almost 3x as high it is obvious that there remains much room for further improvement

We will continue the major health & safety initiatives that we intensified in 2018 with additional work shops and training courses as we firmly work towards becoming a zero accident company

## Q1 2019 Operational highlights

Cost saving progress and first market improvement



\*see our 2018 ESG report at: [https://www.aperam.com/documentation#1\\_sustainability\\_report](https://www.aperam.com/documentation#1_sustainability_report)

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### Tim

On the operational side we achieved resilient results with an EBITDA of 81 million euro during Q1 19. This quarter continued to be heavily impacted by effects still originating from the import flood that hit Europe in second half of 2018.

Heavy destocking kept pressure on base prices for most of the quarter. We also recorded negative inventory valuation effects linked to alloy prices. Both together turned Q1 into a trough quarter. However, I am happy to report that the base prices have been continuously improved since March as destocking was completed and safeguards will start to have some effect.

Working capital remained elevated partly due to higher alloys prices, and partly due to destocking inventory for receivables that will be collected now.

The Leadership Journey - our efficiency program with total gains of 200 million euro till the end of 2020 remains our key lever to enhance our competitiveness and profitability. We made very good progress and added annualized savings of 34 million euro during the first quarter. This brings the cumulated annualized improvement to 67 million euro strengthening our competitiveness. We will look at the Leadership Journey in more detail later again.

I would also like to highlight that we published our 2018 ESG report and have included a summary in our investor presentation. We can talk in more details, but most importantly Aperam produces the greenest stainless steel globally. We have a benchmark CO2 footprint of less than half a tonne of CO2 per tonne of steel. One factor is our sustainably cultivated

forest in Brazil. We now also include our proven track record and our ambitious targets in the investor presentation on our website

Other items to note are the increased dividend @1.75/share and we started our share buyback in April for up to 100 million euros. To date we have bought back 1.6m shares for EUR45m

I now hand over to Sandeep for the Financial review

## Q1 2019 Financial highlights

Aperam successfully navigated the market trough



Solid financials despite trough market conditions						Key comments	
EURm	Q1 19	Q4 18	qoq	Q1 2018	yoy		
Sales	1,178	1,120	5%	1,216	-3%		• Seasonal increase in shipments but softer economic environment and weaker automotive yoy
EBITDA	81	90	-10%	141	-43%		• Q1 EBITDA impacted by low base prices & alloy-price induced negative inventory valuation effect
Basic EPS (EUR)	0.30	0.59	-50%	0.99	-70%		• EPS: convertible Bonds effects Q1-EUR0.09 vs Q4 +EUR0.17
Steel shipments (000t)	501	480	4%	517	-3%		• Good operating cash flow with 88% cash conversion but still elevated working capital
EBITDA/tonne (EUR)	162	188	-14%	273	-41%		• Net debt remains on a low level despite accounting effects from IFRS 16 (EUR29m) & convertible bond repurchase (EUR 16m)
EBITDA margin	6.9%	8.0%	-14%	11.6%	-41%		• Convertible repurchase impact P&L: Q1 -EUR11m Debt: Q1 +EUR16m Q2 +EUR9m
Operating cash flow	71	88	-19%	42	69%		
CAPEX	-47	-55	-15%	-47	0%		
Free cash flow*	24	35	-31%	-4	NA		
Dividends paid	-33	-34	-3%	-28	18%		
Net debt	106	48	121%	-32	NA		

Q1 2019 marked the low point

\*before dividend and share buyback

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Sandeep

Thank you Tim. Good afternoon and a warm welcome from my side as well.

Our shipments in Q1 recorded the usual seasonal increase versus Q4 on the back of Europe. However, volumes remained below Q1 2018 in context of destocking. The economic environment in Europe made customers cautious and especially automotive was notably weak.

Considering the circumstances with record low base prices during this quarter and important negative inventory valuation effects, we view EBITDA at 81 million euro as resilient. The weak fundamentals mainly impacted the Stainless & Electrical segment in Europe while Brazil declined seasonally. Services & Solutions recovered due to higher volumes and recovering prices at the end of the quarter while Alloys & Specialties recorded a pretty normal quarter at EUR 12m up 71% qoq. With EBITDA/t at 162 euro it is the weakest quarter since 2013, and because of unusually low base prices and negative inventory valuation effects it does not fully reflect the underlying earnings power of the company.

During January, we have redeemed the Convertible Bonds 2021 at par amounting to \$72m, pursuant to Bondholder put exercise in December.

In addition in March we had a successful outcome for the fixed price tender for the remaining bonds. Another \$137m were tendered at a price of 107.02%. We have also announced our intention to call the remaining CB 2021 bonds totalling \$28m at par by exercising our issuer clean up call. We have no more risk of equity dilution from these bonds.

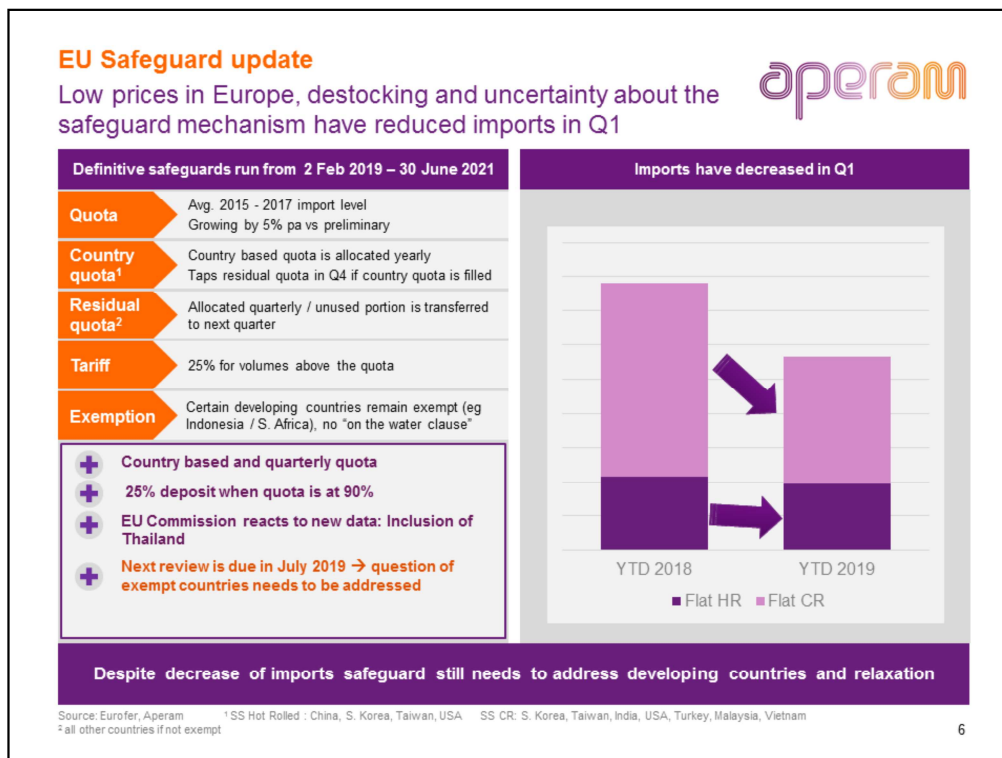
Stated EPS almost halved quarter on quarter, mainly due to non recurring effects relating to the convertible bond. You might recall that during Q4'18 we recorded a positive impact of Euro 18m in the P&L linked to the option premium amortization. This added 17 cents to EPS in Q4. Contrary in Q1'19, our tender offer for the convertible reversed this amortization of the option premium and together with impact of embedded derivatives, had a

negative effect of Euro 11m in the P&L. This reduced EPS by 9 cents. Excluding these non recurring effects, our underlying EPS declined slightly by 3 cents quarter on quarter.

We think that free cash flow of EUR24m is good under the conditions of this tough quarter, especially as we did not defer capex. Tim already mentioned that our working capital remained slightly elevated during the quarter – beyond the normal seasonal effect and hence we expect some reduction in working capital during next quarters.

Net debt remains at a low level but increased slightly over the quarter. Please note that the increase of 58m is mainly due to two one-off effects. IFRS 16 accounting added debt of 29 million euro while buying back the convertible bond added another 16 million euro. Despite this, we generated almost enough cash to cover one of the highest dividends in the euro materials space.

I hand back to Tim for a review of the market environment



Tim

Thank you Sandeep

Let's talk about safeguards for a moment. Actual Q1 data shows that import volumes declined especially in the cold rolled segment which is the most important for us. Imports catered for 20% of European consumption during Q1 almost 7 percentage points down from last year. In all fairness while safeguards might help going forward they are not the main reason for the decrease. Domestic prices in Q1 were so low and material was readily available in context of destocking so there was no incentive to turn to import markets. Also the uncertainty what kind of safeguard mechanism might be established made importers reluctant.

Although safeguard help capping import volumes and volatility, the question of exempting certain developing countries still remains to be addressed in particular in hot rolled. Please bear in mind that apart from unfair subsidies and tax breaks, such nickel pig iron base material is also highly CO2 polluting with a footprint up to four times that of Aperam. This is something we want to discuss with the European authorities for one of the upcoming revisions.



## Environment and markets

Stainless steel prices are recovering driven by rising alloy prices and improving base prices



Nickel: moving sideways post the early Q1 bounce



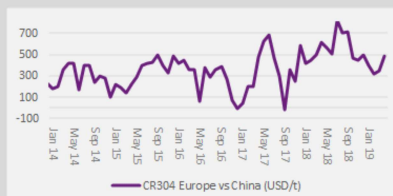
Stainless steel price is recovering



European SS cold rolled stocks have normalized



Stainless price premium versus China has widened



Source: Bloomberg, Metal Bulletin

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Tim

Looking at other market factors

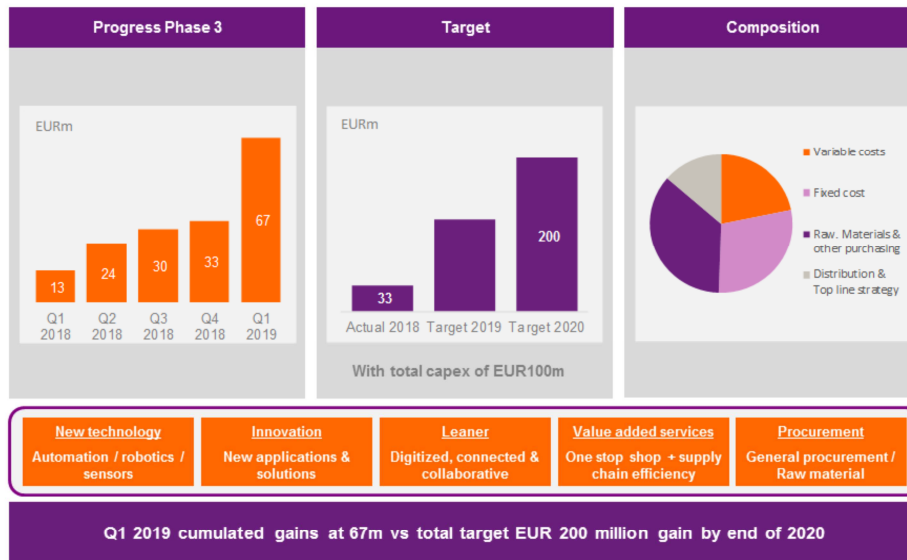
Nickel has bounced early in Q1 and that has opened the distribution segment which facilitated destocking and also pushed stainless steel prices higher as you can see in the top right hand chart.

Base prices have started to recover since March and although Aperam made good progress, the market is just working its way back from the all time low. More work needs to be done to reach historically normal levels. At the same time we are accelerating our Leadership Journey and Top Line Strategy actions to fully restore profitability.

Sandeep will give an update on the Leadership Journey

## Leadership Journey update

Good progress on accelerated Leadership Journey® to defend Aperam's position as lowest cost producer in Europe



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## Sandeep

Let's move to slide 9 to talk about the Leadership Journey, that has always been and now again is the pillar of our profitability.

As already mentioned we made very good progress with an annualized 34 million gains during Q1. Gains came mainly from procurements, operational variable and fixed cost savings and Top line strategy actions, mostly in line with the target split that you see in the pie chart on the right hand side.

A very important action during the quarter has been to renegotiate all procurement as one main factor to counter the competitive threat posed by stainless imports from Indonesia. We have recorded good progress here.

Our new German distribution center in Haan is ramping up at the moment and we expect additional savings therefrom. We remain on track for realizing the targeted 200 million euro gains by the end of 2020.

I hand back to Tim for the outlook

**Outlook**  
Q2 2019 guidance & other forward looking items



**Financial outlook Q2 2019:**

- EBITDA is expected to increase versus Q1 2019
  - Safeguard started curbing imports and base prices recovering
  - Seasonally stronger quarter in Brazil
- Net financial debt to remain at a low level

**Other items:**

- 2019 group capex guidance confirmed at EUR175m
  - ✓ Includes Leadership Journey® capex
  - ✓ Genk downstream capex
- Leadership Journey® Phase 3: EUR200m savings target by end of 2020
- 2019 IFRS 16: net debt: +EUR29m, EBITDA: +EUR8m/y, Depreciation: -EUR7m/y

We expect the recovery that started late in Q1 2019 to continue

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Tim

Lets turn to the outlook for quarter 2. We expect earnings to increase quarter on quarter. There are several factors contributing to this:

First: Base prices are recovering from their lows which is supporting margins. Also safeguards are starting to help normalize imports and distribution inventory is back to normal.

Second: we will continue to accelerate Leadership Journey gains which should strengthen profitability. Also assuming that there are no surprising alloy prices movements, the negative inventory valuation effects that burdened us in the last 2 quarters should disappear.

The third factor is seasonality as Q2 is a seasonally stronger quarter in Brazil. You might think this is also true for Europe, however, due to slow economic growth in the region paired with weakness in the automotive segment and also white goods this year is different. We expect lower volumes in Q2 and work intensively on reducing fixed costs to minimize the impact on our results

We expect net financial debt to remain at a low level supported also by working capital release but please bear in mind that we are now executing the share-buyback which leads to some additional cash out.

All other items remain unchanged. Our capex budget is 175 million euro including leadership journey related spending and a share for Genk

IFRS 16 recurring effects are negligible at about 8m/year increase in EBITDA.

As discussed we confirm the 200 million euro gains from the Leadership Journey till the end of 2020.

## Corporate Access



### May / June 2019 schedule

• 09.05	London	Conference	Goldman Sachs
• 09.05	Paris	Roadshow	JP Morgan
• 13.05	Madrid	Roadshow	Degroof Petercam
• 14/15.05	Barcelona	Conference	Bank of America
• 20.05	New York	Roadshow	ING
• 21.05	Boston	Roadshow	Citi
• 22.05	Chicago	Roadshow	Citi
• 29.05	Nice	Conference	Societe Generale
• 04.06	Scandinavia	Roadshow	Morgan Stanley
• 05.06	Berlin	Conference	Deutsche Bank
• 11.06	Milan	Roadshow	Citi
• 18.06	Dublin	Roadshow	Baader/ Alphavalue

We are looking forward to meet you there

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Tim

Let me conclude our presentation with our corporate access schedule.

We are stepping up our corporate access effort and are looking forward to meet you at one of these events to discuss the Aperam investment case and value strategy in person.

We are now ready to take your questions.

## Q&A

