



**Q2 2019 results**

31 July 2019

**aperam**

**The sustainable top yielding company in Euro Materials**

## Disclaimer



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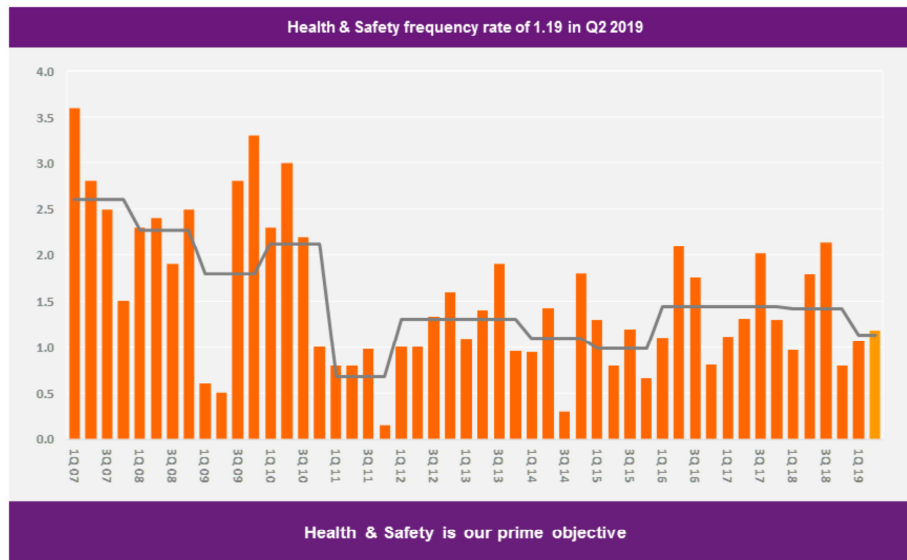
Tim

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 results of the second quarter 2019.

Please take note of our disclaimer regarding forward looking statements

## Health & Safety Performance



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Tim:

As usual we start with our top priority - health and safety.

Our LTI rate was 1.19 for the second quarter 2019. The first half average at 1.1 continues to compare favorably with the 1.4 average that we reported for 2018. We also clearly outperform the stainless steel industry average which is almost 3x as high. However, 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

## Q2 2019 Operational highlights

Earnings improvement despite persistent market headwind



### Q2 2019 key developments



Sequential EBITDA improvement driven by seasonality and a partial base price recovery



Leadership journey® gains on track with EUR22m additional annualized gains in Q2 (cum. total EUR89m)



2019 share buyback completed (3.7m shares / EUR92.6m) 79.8m shares outstanding\*



Slow economic growth in Europe and Brazil causes weak demand



Rising imports create a challenging pricing environment



The competitive environment remains very challenging

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Tim

Let's move to slide 4 with the key developments in the second quarter

I am happy to report that we achieved an EBITDA improvement in line with our guidance and despite an adverse market environment. The European market remains extremely challenging as the European Commission moves very slowly to resolve the issue of unfair trade. The demand side has now also substantially weakened both in Europe and Brazil and our total volumes contracted by 7% sequentially. Usually Q2 is a seasonally strong quarter but weak economic growth in Europe is clearly visible in several of our key customer industries and global trade frictions make buyers cautious.

In Europe automotive and white goods demand is weak. Capital goods have recently started to soften as well and only construction remains solid because of its longer order book. In Brazil we started the year with expectations for an accelerating recovery but it has not materialized. Demand from all sectors (capital goods, oil & gas, consumer) are weak except for automotive.

In Europe we are facing a contracting market this year while safeguard quotas have been increased by 5% from 1 July. The safeguard in its current form is not sufficient to restore a normal working environment.

The Leadership Journey - our cost cutting program remains a key driver of Aperam's solid performance despite a combined price and volume squeeze. I am therefore pleased that our team continues to find solid savings. We realized annualized gains of EUR22m in the second quarter bringing the cumulated total savings of phase three to EUR89m. This puts us on a good path to achieve the targeted 200 million gain by the end of 2020.

We keep our promises and completed our share buyback program in the second quarter. We bought back 3.7m shares thereby handing 92.6 million Euros back to investors.

I hand now over to Sandeep for the Financial highlights

## Q2 2019 Financial highlights

Earnings, cash flow and shareholder returns improve despite market headwind



Key financial metrics demonstrate resilience in an adverse environment						Q2 key comments
EURm	Q2 19	Q1 19	qoq	Q2 18	yoy	
Sales	1,090	1,178	-7%	1,218	-11%	• Noticeable sequential drop in shipments
EBITDA	95	81	17%	150	-37%	• EBITDA benefits from a partial recovery in base prices and lack of neg. inventory effects. Brazil faces higher input costs 2019
Basic EPS (EUR)	0.69	0.30	131%	0.94	-27%	• EPS increases qoq due to higher earnings, positive tax rate (tax benefit for prior period)**
Steel shipments (000t)	465	501	-7%	508	-8%	• EPS increases qoq due to higher earnings, positive tax rate (tax benefit for prior period)**
EBITDA/tonne (EUR)	204	162	26%	295	-31%	• Good operating cash flow with 102% cash conversion due to first release of working capital
EBITDA margin	8.7%	6.9%	27%	12.3%	-29%	• 2019 capex guidance lowered to EUR150m. Genk project is on track
Operating cash flow	97	71	37%	101	-4%	• Strong balance sheet. Net fin. debt increase due to share buyback (3.7m shares / EUR92.6m)
CAPEX	-26	-47	-45%	-41	-37%	
Free cash flow*	72	24	200%	62	16%	
Dividends paid	-39	-33	18%	-35	11%	
Share buyback	-93	0	NA	-55	69%	
Net financial debt	176	106	66%	20	NM	

Reinforced cost control and cash generation remain in focus

\*before dividend and share buyback

\*\*Q1-19 EPS included a negative EUR9c impact from the convertible tender offer

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Sandeep:

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

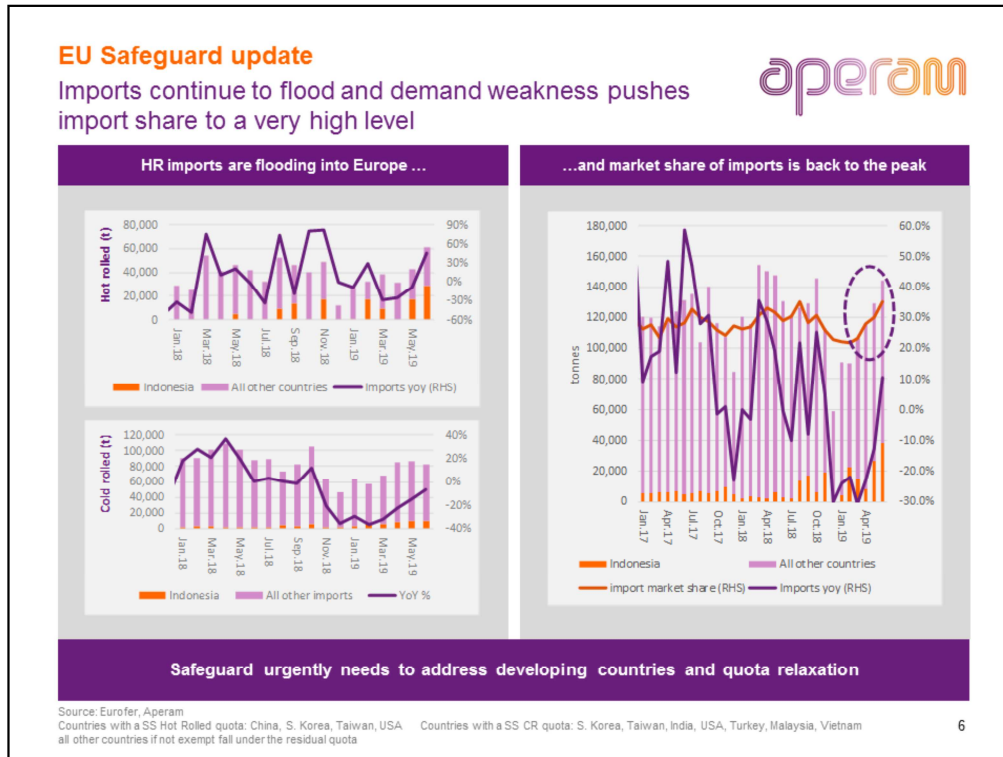
As already mentioned we recorded low volumes in Q2 down 7% versus Q1. Despite the lack of volume we reported an EBITDA of 95 million Euro up 17% quarter on quarter. We think this is a strong achievement that demonstrates the successful transformation through the Leadership Journey. Higher base prices and a lack of negative inventory valuation effects also contributed to this and compensated for temporarily higher input costs in Brazil due to the disruption in the iron ore market.

Our EPS more than doubled quarter on quarter to 69 cents due to the higher EBITDA together with a positive tax rate on the back of cumulated tax benefits that mostly relate to earlier periods. We now expect the effective tax rate for 2019 between 10 - 15%

I am happy to report a solid operating cash flow and a cash conversion rate of 102% as we managed to reduce working capital by 32 million Euro this quarter. I can assure you that cash generation remains a top priority in the second half of the year and we expect to release more working capital. We have also revised our capex spend for the year down to 150 million. Net financial debt increased from EUR106 million to 176 million Euros at end of Q2 mainly due to the 93m share buyback in exchange for 3.7m shares. Free cash flow of 72 million Euros in Q2 is pleasing and more than twice covers our quarterly dividend.

Let me add a clarification about the dividend. Our Financial Policy (slide 19 in the full presentation) stipulates a progressive dividend. This Progressive Dividend has 1.75 as the base and we expect to maintain it. According to the policy, the dividend will be reviewed by the Board, if net financial debt to EBITDA is above 1. The intention to payout 50-100% is a mid-to-long term consideration that the board uses to assess what base dividend is sustainable.

I hand now back to Tim for a closer look at the market environment



Tim

Thank you Sandeep. Let's start with imports – which remains the most pressing issue.

In the Q1 call we told you that the safeguard had not been tested and looking at the most recent data it might be fair to conclude that it is failing again. While total imports are down 9% yoy in Q2 both the trend and the share of the market supply give cause for concern. In June imported tonnage of cold rolled declined by only 6% yoy versus a high base while hot rolled increased by staggering 46% yoy. What also really matters is the share of market supply. Imports continue to keep an outsized share of the market. In June this was back to last years' peak level at 35% . A failure compared to the promise of the safeguard to keep it in line with the historic share in the low 20s.

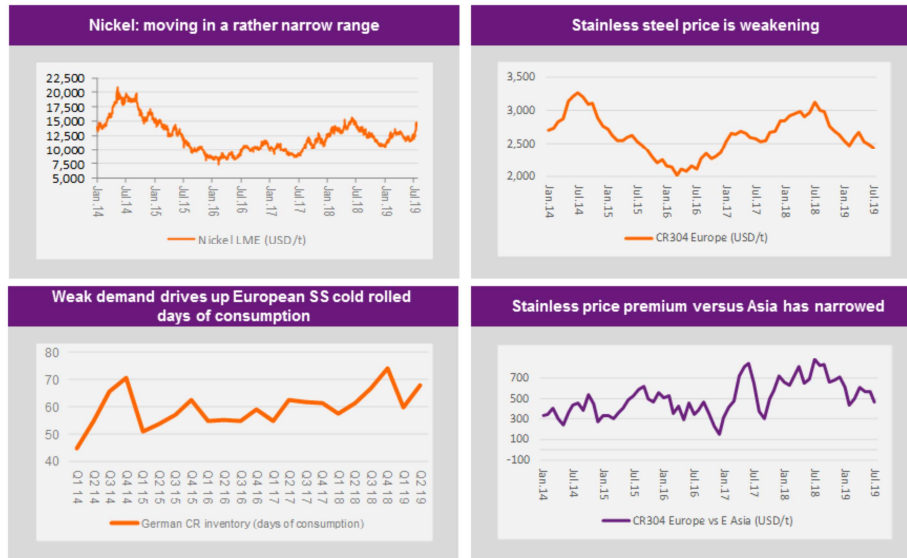
There is very obviously an urgent need for the European Commission to sharpen the safeguard. Imports from Indonesia have increased by almost 480% year to date versus 2018 and the exemption of Indonesia must be removed. Looking at a contracting market this year the quota relaxation also needs to be taken back. Furthermore the possibility to transfer unused quota elements to subsequent periods needs to end. We should learn about the Commissions proposals in the next few weeks but expect the revised Safeguard will only become effective in October. This is 1 and a half year delay after the US shut the market overnight. I want to add that Eurofer works on restoring a fair trade environment in Europe.

In Brazil the stainless steel anti-dumping duty review continues and I am happy to report that anti-dumping duties were raised to 166 USD/t and confirmed for non grain oriented electrical steel against China, South Korea, Taiwan and Germany for 5 years from mid July 19 onwards.



## Environment and markets

Q2 brought higher base prices and low inventory for this time of year but demand has been very soft



Source: Bloomberg, Metal Bulletin, Edeltahlhandelsvereinigung

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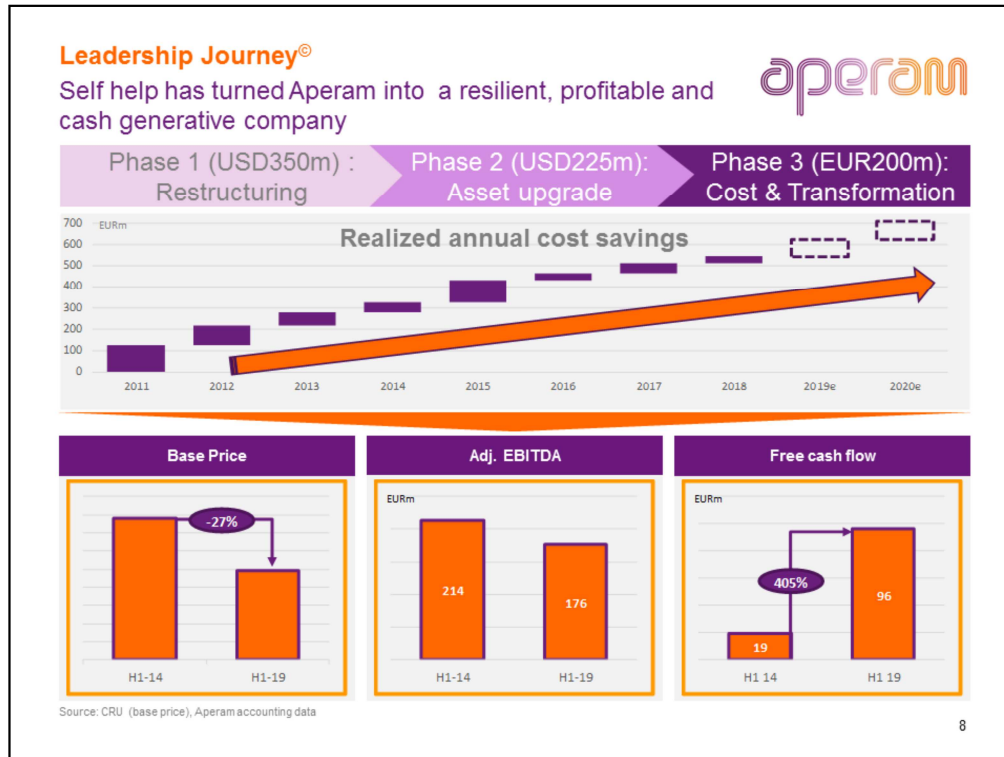
### Tim – let's move to slide 7

For most of the quarter nickel traded in a comparatively narrow range apart from the recent spike. We will need to wait if this persists. The chrome benchmark settled at just 1 dollar 4 cents for Q3 2019 - down 25% yoy. The latter most likely implies a low double digit negative inventory valuation effect for Aperam in the third quarter

The stainless steel transaction price has started to decline in the second quarter again. On one hand this is due to the sliding alloy prices, on the other hand due to the strong pressure coming from imports in a weak market. This also explains the narrowing of the price premium versus Asia.

The inventory chart shows that days of consumption have increased again in Q2 and are on an elevated level. However, I can tell you that inventory in tonnes of material remains clearly below the level seen in previous years. This demonstrates that discipline prevails in the European system. However, because of the current demand weakness this below normal level of inventories translates into slightly elevated days of consumption.

Sandeep will give an update on the Leadership Journey

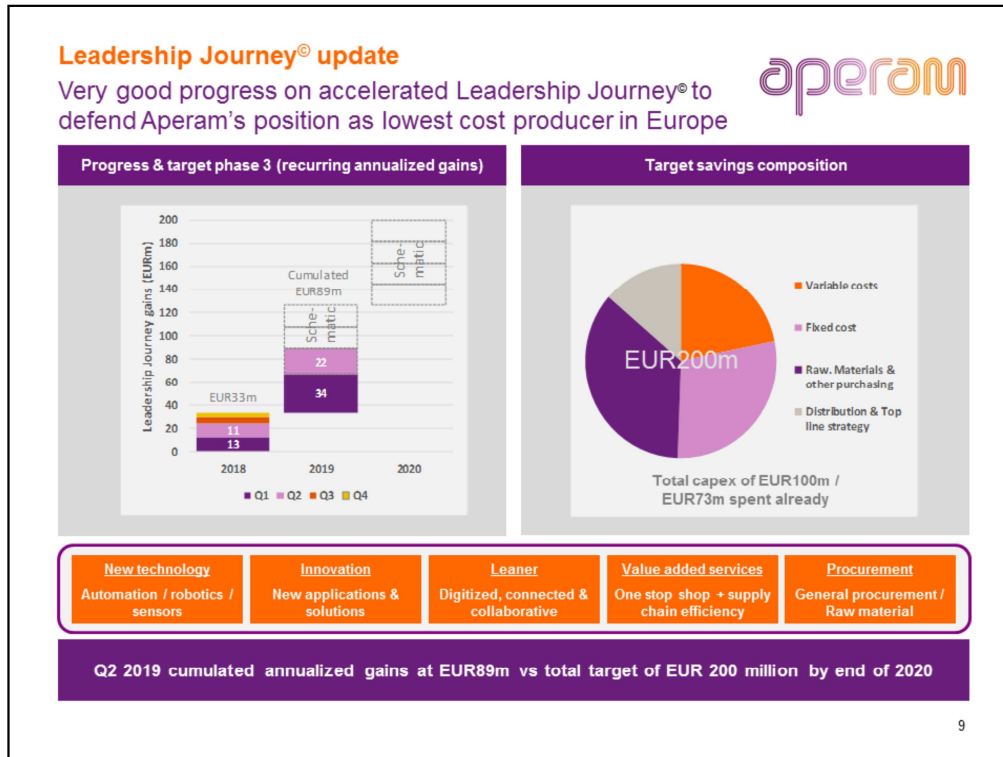


## Sandeep

Let's move to slide 8 to talk about the Leadership Journey starting with a longer term view. Aperam has come a long way over the years and we think the first half this year proves our success in improving the company. We generated a similar EBITDA/t in the first half than we did in the first half of 2014 – another period where unfair imports had disrupted the market

However, this time earnings have been generated on a further 27% drop in base prices. I can assure you if similar base prices prevailed back in 2014 there would have been a deeply red EPS and probably not even a positive EBITDA. We generate 4 times as much free cash flow now. Bear in mind that free cash flow back then was achieved on minimal capex of just 30 million Euros in H1 14 while we adequately invest in the sustainability and improvement of Aperam today with 73m in H1 19. This demonstrates that Leadership Journey actions do make a difference. Aperam is now a different company than it was back then. Today Aperam is a much more resilient company, that is highly cash generative even in adverse conditions and solidly based on a strong balance sheet





Now moving to slide 9 and phase three of the leadership journey

We were able to maintain the high pace seen in Q1 and added annualized gains of 22 million during Q2. Distribution and the top line strategy as well as purchasing – external services and transport - were major contributors to savings this time. Our new German distribution center in Haan continues to ramp-up at the moment and we expect additional savings therefrom.

Half of the time allocated to Phase 3 has now passed and with roughly half of the gains realized and very good momentum 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

### Q3 2019 guidance & other forward looking items



#### Financial outlook Q3 2019:

- EBITDA is expected to decrease versus Q2 2019
  - Seasonally weaker quarter in Europe
  - Weak demand, high imports and low international prices
  - Negative valuation effects induced by sliding FeCr price
- Net financial debt to remain stable at a low level

#### Other items:

- 2019 capex has been revised to ~EUR150m from EUR175m
  - ✓ Includes Leadership Journey® capex
  - ✓ Genk downstream capex (project on track)
- Leadership Journey® Phase 3: EUR200m savings target by end of 2020

We continue to take all necessary measures to withstand a very challenging 2019

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Tim: Thank you Sandeep.

Lets move to the outlook. For the third quarter we expect a normal seasonality by historic standards and guide for a decrease in EBITDA. Additionally there are a number of challenges and headwinds this year. Mainly weak demand and a lack of volume, record high imports from the unresolved Indonesia case and relaxed quotas, low base prices, higher raw material costs on Brazil. Finally, at the current chrome benchmark we likely face low double digit negative inventory effects in the third quarter while we need to see if the nickel price rally lasts.

On the positive side we believe that Indonesia will fall under the safeguard from October onwards and Eurofer continues to work with the European Commission on resolving the quota relaxation and restoring a fair trade environment

Sandeep also mentioned the capex budget revision to 150 million Euros but we confirm the Leadership journey gains target remains unchanged at 200 million Euros till the end of 2020.

## Corporate access



### August / September 2019 schedule

• 01.08	Paris	Roundtable	Oddo
• 03.09	Zurich	Roadshow	Baader/ Alphavalue
• 05.09	Frankfurt ESG	Roadshow	HSBC
• 09.09	London	Conference	Credit Suisse
• 10.09	London	Conference	JP Morgan
• 12.09	Paris	Conference	Kepler Cheuvreux
• 23.09	Brussels	Roadshow	Degroof Petercam
• 26./27.09	Munich	Conference	Baader/ Alphavalue
• 30.09	Netherlands	Roadshow	ING

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 looking forward to meet you at one of these events and provide plenty of opportunity to address your questions in person. We are now ready to take your questions.

## Q&A

