

Aperam S.A.



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## Aperam S.A.: Third quarter 2019 results: Solid free cash flow despite a seasonal trough and challenging market conditions

Aperam S.A. / Key word(s): 9 Month figures

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### Third quarter 2019 results<sup>1</sup>

### *"Solid free cash flow despite a seasonal trough and challenging market conditions"*

**Luxembourg, November 6, 2019 (07:00 CET)** - Aperam (referred to as "Aperam" or the "Company") (Amsterdam, Brussels, Luxembourg, Paris: APAM and NYRS: APEMY), announced today results for the three month period ending September 30, 2019

#### Highlights

Health and Safety: LTI frequency rate of 2.2x in Q3 2019 compared to 1.2x in Q2 2019.

Steel shipments of 418kt in Q3 2019, a 10% decrease compared to steel shipments of 465kt in Q2 2019.

EBITDA of EUR 79 million in Q3 2019 versus EUR 95 million in Q2 2019 and down from EUR 123 million in Q3 2018.

Net income of EUR 37 million in Q3 2019, compared to EUR 57 million in Q2 2019.

Basic earnings per share of EUR 0.47 in Q3 2019, compared to EUR 0.69 in Q2 2019.

Cash flow from operations amounted to EUR 70 million in Q3 2019, compared to EUR 97 million in Q2 2019.

Free cash flow before dividend and share buy-back of EUR 45 million in Q3 2019, compared to EUR 72 million in Q2 2019.

Cash returns to shareholders amounted to EUR 35 million in Q3 2019, consisting of dividend.

Net financial debt of EUR 172 million as of September 30, 2019, compared to EUR 176 million as of June 30, 2019.

#### Strategic initiatives

**Transforming our footprint with state of the art equipment:** CAPEX Guidance 2019 at EUR 150 million. Genk cold rolling and annealing & pickling line with a total investment of ~EUR 130 million between 2018 and 2020 on track.

**Leadership Journey(R)<sup>2</sup> (Phase 3 - Transformation Program Target EUR 200 million annualized gains by 2020):** Gains reached EUR 105 million cumulated at end Q3 2019 with good progress on all pillars.

#### Prospects

EBITDA in Q4 2019 is expected to increase slightly compared to EUR 79 million in Q3 2019.

Net financial debt is expected to decrease in Q4 2019.

#### Timoteo Di Maulo, CEO of Aperam, commented:

"Despite the normal Q3 seasonal downturn, intensified import pressure and market softness we delivered solid results and managed to maintain net debt at a low level. This underlines the resilience of our business model.

Looking ahead, we expect demand conditions to remain challenging. Further actions against unfair trade have been initiated this quarter with aim to restore a level playing field. Meanwhile we continue to strengthen our operations through ramping up EUR 200 million gains through Phase 3 of the Leadership Journey(R)."

#### Financial Highlights (on the basis of financial information prepared under IFRS)

(in millions of Euros, unless otherwise stated)	Q3 19	Q2 19	Q3 18	9M 19	9M 18
Sales	972	1,090	1,123	3,240	3,557
Operating income	43	59	88	148	309
Net income attributable to equity holders of the parent	37	57	72	119	237
Basic earnings per share (EUR)	0.47	0.69	0.87	1.46	2.80
Diluted earnings per share (EUR)	0.47	0.69	0.87	1.46	2.46
Free cash flow before dividend and share buy-back	45	72	15	141	73
Net Financial Debt (at the end of the period)	172	176	64	172	64
EBITDA	79	95	123	255	414
EBITDA/tonne (EUR)	189	204	263	184	277
Steel shipments (000t)	418	465	467	1,384	1,492

#### Health & Safety results

Health and Safety performance based on Aperam personnel figures and contractors' lost time injury frequency rate was 2.2x in the third quarter of 2019 compared to 1.2x in the second quarter of 2019.

#### Financial results analysis for the three-month period ending September 30, 2019

Sales for the third quarter of 2019 were EUR 972 million, down from EUR 1,090 million for the second quarter of 2019. Steel shipments decreased from 465 thousand tonnes in the second quarter of 2019 to 418 thousand tonnes in the third quarter of 2019.

EBITDA was EUR 79 million for the third quarter of 2019 compared to EUR 95 million for the second quarter of 2019. The sequential EBITDA decrease was mainly due to seasonally lower volumes in Europe, partly balanced by a positive price / mix effect. Brazil realized a seasonally higher EBITDA despite temporarily higher iron ore costs. The Leadership Journey(R) contributed EUR 16 million annualized gains to EBITDA. The cumulative annualized savings for Phase 3 now stand at EUR 105 million.

Depreciation and amortisation was EUR (36) million for the third quarter of 2019.

Aperam had an operating income for the third quarter of 2019 of EUR 43 million compared to an operating income of EUR 59 million for the previous quarter.

Net interest expense and other financing costs for the third quarter of 2019 were EUR (4) million. Realized and unrealized foreign exchange and derivative gains were EUR 3 million for the third quarter of 2019.

Income tax result for the third quarter of 2019 was an income tax expense of EUR (6) million.

The Company recorded a net income of EUR 37 million for the third quarter of 2019.

Cash flows from operations for the third quarter of 2019 were positive at EUR 70 million, with a working capital decrease of EUR (2) million. CAPEX for the third quarter was EUR (26) million.

Free cash flow before dividend and share buy-back for the third quarter of 2019 amounted to EUR 45 million.

During the third quarter of 2019, the cash returns to shareholders amounted to EUR 35 million, consisting of EUR 35 million in dividends. Total cash returned to shareholders during the first nine-months of the year 2019 amounted to EUR 200 million consisting of EUR 93 million of share buy-back and EUR 107 million in dividends.

As of September 30, 2019, shareholders' equity was EUR 2,394 million and net financial debt was EUR 172 million (as of September 30, 2019, gross financial debt was EUR 529 million and cash and cash equivalents were EUR 357 million).

The Company had liquidity of EUR 657 million as of September 30, 2019, consisting of cash and cash equivalents of EUR 357 million and undrawn credit lines<sup>3</sup> of EUR 300 million.

## Operating segment results analysis

### Stainless & Electrical Steel <sup>(1)</sup>

(in millions of Euros, unless otherwise stated)	Q3 19	Q2 19	Q3 18	9M 19	9M 18
Sales	771	842	917	2,544	2,927
EBITDA	57	79	101	188	335
Depreciation and amortisation	(29)	(30)	(31)	(89)	(92)
Operating income	28	49	70	99	243
Steel shipments (000t)	401	440	449	1,320	1,444
Average steel selling price (EUR/t)	1,861	1,856	1,983	1,863	1,969

(1) Amounts are shown prior to intra-group eliminations

The Stainless & Electrical Steel segment had sales of EUR 771 million for the third quarter of 2019. This represents a 8.4% decrease compared to sales of EUR 842 million for the second quarter of 2019. Steel shipments during the third quarter were 401 thousand tonnes compared to 440 thousand tonnes during the previous quarter. Seasonal factors, continued high imports into Europe and weak demand in both Europe and Brazil explain the difference. Average steel selling prices for the Stainless & Electrical Steel segment remained stable compared to the previous quarter.

The segment had EBITDA of EUR 57 million for the third quarter of 2019 compared to EUR 79 million for the second quarter of 2019. The decrease in profitability was primarily driven by lower volumes in Europe. Positive price/cost and mix effects and positive contributions from the Leadership Journey(R) were not sufficient to balance the headwind.

The Stainless & Electrical Steel segment had an operating income of EUR 28 million for the third quarter of 2019 compared to an operating income of EUR 49 million for the second quarter of 2019.

### Services & Solutions<sup>(1)</sup>

(in millions of Euros, unless otherwise stated)	Q3 19	Q2 19	Q3 18	9M 19	9M 18
Sales	418	453	489	1,391	1,599
EBITDA	9	16	8	41	46
Depreciation and amortisation	(2)	(4)	(2)	(8)	(6)
Operating income	7	12	6	33	40
Steel shipments (000t)	166	182	191	562	638
Average steel selling price (EUR/t)	2,397	2,374	2,436	2,358	2,403

(1) Amounts are shown prior to intra-group eliminations

The Services & Solutions segment had sales of EUR 418 million for the third quarter of 2019 compared to EUR 453 million for the second quarter of 2019. For the third quarter of 2019, steel shipments were 166 thousand tonnes compared to 182 thousand tonnes during the previous quarter. The Services & Solutions segment had higher average steel selling prices during the period

compared to the previous period.

The segment had EBITDA of EUR 9 million for the third quarter of 2019, compared to EUR 16 million for the second quarter of 2019. Lower costs did not offset seasonally lower volumes and negative valuation effects.

The Services & Solutions segment had an operating income of EUR 7 million for the third quarter of 2019, compared to EUR 12 million for the second quarter of 2019.

## Alloys & Specialties<sup>(1)</sup>

(in millions of Euros, unless otherwise stated)	Q3 19	Q2 19	Q3 18	9M 19	9M 18
Sales	128	156	136	437	416
EBITDA	12	12	9	36	39
Depreciation and amortisation	(3)	(2)	(2)	(7)	(5)
Operating income	9	10	7	29	34
Steel shipments (000t)	8	9	8	27	27
Average steel selling price (EUR/t)	16,018	16,122	15,521	15,796	14,522

(1) Amounts are shown prior to intra-group eliminations

The Alloys & Specialties segment had sales of EUR 128 million for the third quarter of 2019 compared to EUR 156 million for the second quarter of 2019. Steel shipments during the third quarter of 2019 were at 8 thousand tonnes compared to 9 thousand tonnes during the second quarter of 2019. Average steel selling prices decreased over the quarter.

The Alloys & Specialties segment achieved an EBITDA of EUR 12 million for the third quarter of 2019 compared to EUR 12 million for the second quarter of 2019. Lower volumes were compensated by lower costs and positive valuation effects.

The Alloys & Specialties segment had an operating income of EUR 9 million for the third quarter of 2019 compared to an operating income of EUR 10 million for the second quarter of 2019.

## Recent developments

On September 27, 2019 Aperam S.A. closed a "*Schuldscheindarlehen*" loan agreement for a total aggregate amount of EUR 190 million.

On October 1, 2019, Aperam S.A. announced its intention to redeem its U.S.\$300 million 0.625 per cent. Net Share Settled Convertible and/or Exchangeable Bonds due 2021, exchangeable into ordinary registered shares of Aperam, of which U.S.\$27.6 million in aggregate principal amount remained outstanding. All of the outstanding Bonds were repaid at their principal amount plus any accrued interest on November 4, 2019.

## Investor conference call

Aperam management will host a conference call for members of the investment community to discuss the third quarter of 2019 financial performance at the following time:

Date	New York	London	Luxembourg
Wednesday, November 6, 2019	04:00 am	09:00 am	10:00 am

The dial-in numbers for the call are: France (+33 (0) 1767 00794); USA (+1 631 510 7495) and international (+44 (0) 2071 928000). The participant access code is: 9179044#.

A replay of the conference call will be available until November 13, 2019: France (+33 (0) 170950348); USA (+1 (917) 677-7532) and international (+44 (0) 3333 009785). The participant access code is 9179044#.

## Contacts

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## About Aperam

Aperam is a global player in stainless, electrical and specialty steel, with customers in over 40 countries. The business is organised in three primary operating segments: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialties.

Aperam has 2.5 million tonnes of flat Stainless and Electrical steel capacity in Brazil and Europe and is a leader in high value specialty products. Aperam has a highly integrated distribution, processing and services network and a unique capability to produce stainless and specialty from low cost biomass (charcoal). Its industrial network is spread in six production facilities located in Brazil, Belgium and France.

In 2018, Aperam had sales of EUR 4,677 million and steel shipments of 1.97 million tonnes.

For further information, please refer to our website at [www.aperam.com](http://www.aperam.com)

## Forward-looking statements

This document may contain forward-looking information and statements about Aperam and its subsidiaries. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "target" or similar expressions. Although Aperam's management believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Aperam's securities are cautioned that forward-looking information and statements are subject to numerous risks and uncertainties, many of which are difficult to predict and generally beyond the control of Aperam, that could cause actual results and developments to differ materially and adversely from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in Aperam's filings with the Luxembourg Stock Market Authority for the Financial Markets (Commission de Surveillance du Secteur Financier). Aperam undertakes no obligation to publicly update its forward-looking statements or information, whether as a result of new information, future events, or otherwise.

## APERAM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in million of EURO)	September 30, 2019	June 30, 2019	September 30, 2018
<b>ASSETS</b>			
Cash & cash equivalents (C)	357	189	169
Inventories, trade receivables and trade payables	742	747	753
Prepaid expenses and other current assets	98	84	81
<b>Total Current Assets &amp; Working Capital</b>	<b>1,197</b>	<b>1,020</b>	<b>1,003</b>
Goodwill and intangible assets	483	491	480
Property, plant and equipment (incl. Biological assets)	1,593	1,598	1,518
Investments in associates, joint ventures and other	29	34	36
Deferred tax assets	155	163	174
Other non-current assets	81	80	141
<b>Total Assets (net of trade payables)</b>	<b>3,538</b>	<b>3,386</b>	<b>3,352</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Short-term debt and current portion of long-term debt (B)	164	190	227
Accrued expenses and other current liabilities	285	303	290
<b>Total Current Liabilities (excluding trade payables)</b>	<b>449</b>	<b>493</b>	<b>517</b>
Long-term debt, net of current portion (A)	365	175	6
Deferred employee benefits	145	146	153
Deferred tax liabilities	131	129	130
Other long-term liabilities	54	56	113
<b>Total Liabilities (excluding trade payables)</b>	<b>1,144</b>	<b>999</b>	<b>919</b>
Equity attributable to the equity holders of the parent	2,390	2,383	2,429

Non-controlling interest	4	4	4
<b>Total Equity</b>	<b>2,394</b>	<b>2,387</b>	<b>2,433</b>
<b>Total Liabilities and Shareholders' Equity (excluding trade payables)</b>	<b>3,538</b>	<b>3,386</b>	<b>3,352</b>
<b>Net Financial Debt (D = A+B-C) *</b>	<b>172</b>	<b>176</b>	<b>64</b>

\* Increase in Net Financial Debt by EUR 124 million from EUR 48 million as of December 31, 2018 to EUR 172 million as of September 30, 2019 primarily due to accounting effects (+EUR 56 million out of which IFRS 16 Leases +EUR 29 million and Convertible Bonds 2021 repurchases +EUR 27 million), share buyback (+EUR 93 million), dividend paid (+EUR 107 million) and other items (+EUR 9 million), partly offset by free cash-flow generated during the first nine months (-EUR 141 million).

## APERAM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in million of EURO)	Three Months Ending			Nine Months Ending	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Sales</b>	<b>972</b>	<b>1,090</b>	<b>1,123</b>	<b>3,240</b>	<b>3,557</b>
<b>EBITDA (C = A-B)</b>	<b>79</b>	<b>95</b>	<b>123</b>	<b>255</b>	<b>414</b>
<i>EBITDA margin %</i>	<i>8.1%</i>	<i>8.7%</i>	<i>11.0%</i>	<i>7.9%</i>	<i>11.6%</i>
Depreciation and amortisation (B)	(36)	(36)	(35)	(107)	(105)
<b>Operating income (A)</b>	<b>43</b>	<b>59</b>	<b>88</b>	<b>148</b>	<b>309</b>
<i>Operating margin %</i>	<i>4.4%</i>	<i>5.4%</i>	<i>7.8%</i>	<i>4.6%</i>	<i>8.7%</i>
Result from other investments and associates	1	-	-	1	1
Net interest expense and other net financing costs	(4)	(5)	(7)	(25)	(17)
Foreign exchange and derivative gains / (losses)	3	(1)	(2)	4	(1)
<b>Income before taxes</b>	<b>43</b>	<b>53</b>	<b>79</b>	<b>128</b>	<b>292</b>
Income tax benefit / (expense)	(6)	4	(7)	(9)	(55)
<i>Effective tax rate %</i>	<i>13.0%</i>	<i>(8.0)%</i>	<i>8.4%</i>	<i>6.8%</i>	<i>18.7%</i>
<b>Net income attributable to equity holders of the parent</b>	<b>37</b>	<b>57</b>	<b>72</b>	<b>119</b>	<b>237</b>
Basic earnings per share (EUR)	0.47	0.69	0.87	1.46	2.80
Diluted earnings per share (EUR)	0.47	0.69	0.87	1.46	2.46
Weighted average common shares outstanding (in thousands) *	79,804	81,583	83,546	81,628	84,610
Diluted weighted average common shares outstanding (in thousands)	80,801	82,644	84,232	81,888	92,258

\* Number of shares outstanding as of September 30, 2019 (in thousands): 79,822 (83,696 issued shares, net of 3,874 treasury shares)

## APERAM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Euros)	Three Months Ending			Nine Months Ending	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Operating income</b>	<b>43</b>	<b>59</b>	<b>88</b>	<b>148</b>	<b>309</b>
Depreciation & amortisation	36	36	35	107	105
Change in working capital	(2)	32	(74)	11	(209)
Income tax (paid) / refund	(1)	-	(8)	1	(29)
Interest paid, (net)	(1)	(2)	(2)	(4)	(4)
Other operating activities (net)	(5)	(28)	25	(25)	35

<b>Net cash provided by operating activities (A)</b>	<b>70</b>	<b>97</b>	<b>64</b>	<b>238</b>	<b>207</b>
Purchase of PPE, intangible and biological assets (CAPEX)	(26)	(26)	(49)	(99)	(137)
Other investing activities (net)	1	1	-	2	3
<b>Net cash used in investing activities (B)</b>	<b>(25)</b>	<b>(25)</b>	<b>(49)</b>	<b>(97)</b>	<b>(134)</b>
Proceeds (payments) from payable to banks and long term debt	160	(91)	(14)	223	(40)
Purchase of treasury stock	-	(93)	(15)	(93)	(70)
Dividend paid	(35)	(39)	(33)	(107)	(96)
Other financing activities (net)	(1)	(2)	-	(5)	-
<b>Net cash provided by (used in) financing activities</b>	<b>124</b>	<b>(225)</b>	<b>(62)</b>	<b>18</b>	<b>(206)</b>
Effect of exchange rate changes on cash	(1)	-	(1)	(1)	(4)
<b>Change in cash and cash equivalent</b>	<b>168</b>	<b>(153)</b>	<b>(48)</b>	<b>158</b>	<b>(137)</b>
<b>Free cash flow before dividend and share buy-back (C = A+B)</b>	<b>45</b>	<b>72</b>	<b>15</b>	<b>141</b>	<b>73</b>

### Appendix 1a - Health & Safety statistics

Health & Safety Statistics	Three Months Ending		
	September 30, 2019	June 30, 2019	September 30, 2018
Frequency Rate	2.2	1.2	2.1

Lost time injury frequency rate equals lost time injuries per 1,000,000 worked hours, based on own personnel and contractors.

### Appendix 1b - Key operational and financial information

Quarter Ending September 30, 2019	Stainless & Electrical Steel	Services & Solutions	Alloys & Specialties	Others & eliminations	Total
<b>Operational information</b>					
Steel Shipment (000t)	401	166	8	(157)	418
Average steel selling price (EUR/t)	1,861	2,397	16,018		2,264
<b>Financial information (EURm)</b>					
Sales	771	418	128	(345)	972
EBITDA	57	9	12	1	79
Depreciation & amortisation	(29)	(2)	(3)	(2)	(36)
Operating income / (loss)	28	7	9	(1)	43

Quarter Ending June 30, 2019	Stainless & Electrical Steel	Services & Solutions	Alloys & Specialties	Others & eliminations	Total
<b>Operational information</b>					
Steel Shipment (000t)	440	182	9	(166)	465



Average steel selling price (EUR/t)	1,856	2,374	16,122		2,272
<b>Financial information (EURm)</b>					
Sales	842	453	156	(361)	1,090
EBITDA	79	16	12	(12)	95
Depreciation & amortisation	(30)	(4)	(2)	-	(36)
Operating income / (loss)	49	12	10	(12)	59

## Appendix 2 - Terms and definitions

Unless indicated otherwise, or the context otherwise requires, references in this earnings release report to the following terms have the meanings set out next to them below:

**Average steel selling prices:** calculated as steel sales divided by steel shipments.

**Cash and cash equivalents:** represents cash and cash equivalents, restricted cash and short-term investments.

**CAPEX:** relates to capital expenditures and is defined as purchase of tangible assets, intangible assets and biological assets.

**EBITDA:** operating income before depreciation, amortisation and impairment expenses.

**EBITDA/tonne:** calculated as EBITDA divided by total steel shipments.

**Free cash flow before dividend and share buy-back:** net cash provided by operating activities less net cash used in investing activities.

**Gross financial debt:** long-term debt plus short-term debt.

**Liquidity:** Cash and cash equivalent and undrawn credit lines.

**LTI frequency rate:** Lost time injury frequency rate equals lost time injuries per 1,000,000 worked hours, based on own personnel and contractors.

**Net financial debt:** long-term debt, plus short-term debt less cash and cash equivalents.

**Net financial debt/EBITDA or Gearing:** Refers to Net financial debt divided by last twelve months EBITDA calculation.

**Shipments:** information at segment and group level eliminates inter-segment shipments (which are primarily between Stainless & Electrical Steel and Services & Solutions) and intra-segment shipments, respectively.

**Working capital:** trade accounts receivable plus inventories less trade accounts payable.

<sup>1</sup> The financial information in this press release and Appendix 1 has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards ("IFRS") as adopted in the European Union. While the interim financial information included in this announcement has been prepared in accordance with IFRS applicable to interim periods, this announcement does not contain sufficient information to constitute an interim financial report as defined in International Accounting Standard 34, "Interim Financial Reporting". Unless otherwise noted the numbers and information in the press release have not been audited. The financial information and certain other information presented in a number of tables in this press release have been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this press release reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers. This press release also includes Alternative Performance Measures ("APM" hereafter). The Company believes that these APMs are relevant to enhance the understanding of its financial position and provides additional information to investors and management with respect to the Company's financial performance, capital structure and credit assessment. These non-GAAP financial measures should be read in conjunction with and not as an alternative for, Aperam's financial information prepared in accordance with IFRS. Such non-GAAP measures may not be comparable to similarly titled measures applied by other companies. The APM's used are defined under Appendix 2 "Terms & definitions".

<sup>2</sup> The Leadership Journey(R) is an initiative launched on December 16, 2010, and subsequently accelerated and increased, to target management gains and profit enhancement. The third phase of the Leadership Journey(R) - the Transformation Program - was initially targeting EUR 150 million of additional EBITDA gains per year by the end of 2020. In February 2019, the annualized gains target has been increased by EUR 50 million to reach EUR 200 million by year end 2020.

<sup>3</sup> Includes revolving credit facility of EUR 300 million.

### Attachment

Document title: Aperam\_Third quarter 2019 results

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