19 October 2022

RHI Magnesita N.V.

("RHI Magnesita" or "the Company" or "the Group")

Earnings on track for full year expectations

RHI Magnesita today issues its trading statement in respect of the three-month period to 30 September 2022 ("Q3").

Q3 trading

Overall demand conditions in the Steel business during Q3 were in line with expectations, but varied by region, demonstrating RHI Magnesita's resilience due to its balanced and diversified global footprint. The anticipated softening in Europe resulting from destocking and temporary idling of steel mills due to high energy prices and weaker end markets was largely offset by stronger demand in India and the Industrials business. In the USA order books remain robust, despite 4% lower steel production volumes in the year to date. Steel production in South America is also approximately 4% lower year to date but remains globally competitive and order books for the Group's products are at normal levels. In China & East Asia the segments in which the Group operates performed relatively better compared to the overall volume decline in the region. In India & West Asia the Group benefited from an ongoing broad based growth trend, with year to date steel production increasing by 7% versus 2021, according to latest available World Steel Association data.

Order book visibility for the Industrial projects business remained strong globally, as the Group's customers continue to benefit from high commodity prices. The cement repair season is expected to proceed as normal in Q4 2022 and Q1 2023, with any under-utilisation of cement kilns during 2023 unlikely to impact refractory consumption until Q4 2023.

Refractory margins increased, supported by ongoing price increases on finished goods. As guided, the margin contribution from the Group's raw material production assets was impacted during Q3 due to a combination of lower global prices for magnesite and dolomite based raw materials and higher costs of production at the Group's facilities. Margin contribution from the Group's raw material assets is expected to be constrained throughout H2 2022 due to foreign exchange rates and higher energy and freight costs compared to raw material producers based in China.

The pace of cost escalation slowed in Q3 although inflationary pressures persist in spot energy markets and on certain freight routes utilised by the Group. Higher costs of production, in particular those relating to higher energy costs, continue to be successfully passed on to customers via increased product pricing.

Production optimisation plan

Strategic projects in Europe relating to the Group's production optimisation plan are mechanically complete, with the main outstanding item being the installation and integration of the Manufacturing Execution System ("MES") at Radenthein in Austria. The related benefits will start to be realized over the course of 2023.

In Brazil, the Group's projects at Brumado (raw materials) and Contagem (finished goods) have been impacted by supply chain related delays, cost inflation, contractor availability and changes to key parameters such as foreign exchange rates and freight costs which underpinned the original project design. The Group has therefore decided to postpone further work on the Contagem expansion for the time being, to allow the operations teams to focus on improving operational delivery.

Completing the Brumado upgrade as soon as possible is now the primary focus in the region. The lining of the new rotary kiln is scheduled to be carried out in Q4 and production from the new facilities is expected to commence in H1 2023. The project will deliver a significant increase in capacity of dead-burned magnesia, a higher quality and higher value product range, lower production cost and a significant increase in mine life, due to the ability to process a broader range of lower grade material including previously extracted material classified as waste.

M&A update

RHI Magnesita completed its acquisition of an 87% stake in SÖRMAŞ Söğüt Refrakter Malzemeleri Anonim Şirketi ("SÖRMAŞ"), a producer of refractories for the cement, steel, glass and other industries in Türkiye, on 1 September 2022 for a cash consideration of €46 million.

The acquisition significantly expands the Group´s locally manufactured product portfolio and serves as a production hub and platform for business growth in Türkiye and the wider region. With an enlarged product portfolio, further potential exists from the opportunity to deliver full-line service solutions to customers in Türkiye.

SÖRMAŞ recorded revenue of €19.2 million and EBITDA of €6.6 million in the six months to 30 June 2022. Previously exported raw materials will now be consumed in Türkiye thus almost doubling the volumes of locally produced refractories compared to SÖRMAŞ stand-alone.

The Group, through its listed subsidiary RHI Magnesita India Limited, has also agreed to acquire the flow control refractory business of Hi-Tech Chemicals Limited (the "Refractory Business") for a consideration of approximately €77.5 million in cash. The acquisition will expand the Group's presence in India and the wider region. The Refractory Business recorded profit before tax of €8.2 million in the year to 31 March 2022 and had Gross Assets of €36.1 million at 31 March 2022. The acquisition will be funded through a combination of intercompany loans from the Group and local bank lending.

Energy supply

The Group's contingency plans for ensuring continuity of energy supplies in Europe are progressing according to plan. New infrastructure to offset potentially reduced gas availability through switching to alternative fuels, including Liquified Petroleum Gas ("LPG"), and solid fuels, is expected to be in operation by the end of 2022. The Group has secured contracts for the supply of LPG at fixed prices and is investing approximately €15 million to secure natural gas in physical storage in Austria. Together these measures can replace up to 50% of the Group's normal usage of natural gas in Europe in the event of supply rationing.

Financial position

Inventory was maintained at elevated levels during the quarter to ensure customer deliveries. Whilst inventory volumes were stable, the value of inventory held on the balance sheet increased in Q3 due to the effect of foreign exchange rate changes and higher costs of production, in particular relating to energy.

In order to accelerate the reduction of inventory towards target coverage ratios, management have reduced planned production volumes for the second half, whilst seeking to manage the potential adverse effect on margins due to lower fixed cost absorption in plants operating below full capacity. Release of finished goods inventory is expected in Q4 based on the timing of shipments and the production plan for the period. Raw material inventories reduced in Q3 and will continue to reduce in Q4 as higher cost raw material is processed and sold.

Following c.€70 million of expenditure on acquisitions in the year to date, continuing high levels of inventory to meet customer deliveries in Q4 and additional spending on natural gas for physical storage, gearing reduced only modestly in the third quarter. The Group is confident of achieving a further reduction in gearing in Q4, now targeting a level of 2.4x net debt to EBITDA or below by the year end.

Available liquidity at 30 September 2022 was over €1.0 billion with no major debt maturities scheduled until 2027. The Group's average cost of debt at 30 September 2022 was 166 bps with approximately two thirds of interest expenses at a fixed rate.

Outlook

Having delivered a strong performance in the first nine months, the Group is comfortably on track to meet analyst consensus expectations for EBITA in the 2022 financial year. The outlook for the steel business in Europe in Q4 and into the first half of 2023 has softened, as anticipated, due to reduced levels of customer activity. As a counterbalance, the demand for steel refractories in other geographies remains robust and demand for industrial projects and cement worldwide is not showing signs of weakness, with order books remaining strong into mid 2023. The potential downside to revenues in 2023 is expected to be broadly balanced out by additional earnings from acquisitions that have already been agreed or completed and incremental benefits from the Group's strategic initiatives.

Stefan Borgas, Chief Executive Officer, said: "Throughout this period of ongoing volatility in key input costs and regional demand imbalances the Group is well positioned following the major investments we made in the optimisation and regionalisation of our production network since 2019. We have successfully secured the energy supplies to our operations in Europe through switching to alternative fuels. We are therefore able to maintain our earnings guidance for the full year despite challenging operating conditions and to remain a reliable partner for our customers."

Conference call

A conference call will be hosted at 8:15am UK time to discuss the trading update:

Dial in	UK 020 3936 2999 Austria 0800 802 898 International +44 20 3936 2999
Access code	901480
Webcast and playback facility	Link

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About RHI Magnesita

RHI Magnesita is the leading global supplier of high-grade refractory products, systems and solutions which are critical for high-temperature processes exceeding 1,200°C in a wide range of industries, including steel, cement, non-ferrous metals and glass. With a vertically integrated value chain, from raw materials to refractory products and full performance-based solutions, RHI Magnesita serves customers around the world, with around 13,500 employees in 29 main production sites and more than 70 sales offices. RHI Magnesita intends to build on its leadership in revenue, scale, product portfolio and diversified geographic presence to expand further in high growth markets.

The Group maintains a premium listing on the Official list of the London Stock Exchange (symbol: RHIM) and is a constituent of the FTSE 250 index, with a secondary listing on the Vienna Stock Exchange (Wiener Börse). For more information please visit: www.rhimagnesita.com

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (596/2014/EU).