

VEB Questions AGM ArcelorMittal

Investment track record

ArcelorMittal just completed three substantial acquisitions (Ilva, Essar joint-venture, and Votorantim) only to be severely impacted by the COVID-pandemic. While ArcelorMittal focused on deleveraging. It seems every time the 7 billion USD debt target was within reach; the company aspired new M&A opportunities. We must conclude ArcelorMittal's (historic) timing of M&A – and subsequent capex increases as a result – has been unfortunate, with the merger of Mittal in 2006 – almost at the cyclical peak of the steel market – as the ultimate example.

1. Can you confirm ArcelorMittal has been involved in pro-cyclical M&A and capex-spending over the last years?
2. How does ArcelorMittal look back on the timing and conditions (i.e., transaction valuations) of the aforementioned three acquisitions?
3. Does ArcelorMittal believe the returns on recent M&A, and the Ilva-acquisition, in particular, will exceed the company's cost of capital of at least 10 percent?
4. ArcelorMittal recently announced it intends to substantially reduce capital expenditures from 3.2 billion USD to 2.4 billion USD for fiscal 2020. Does ArcelorMittal believe this level is sufficient to maintain the company's future earnings capacity? If yes, why?
5. The final terms for the new investment agreement for Ilva are currently still negotiated with the Italian government. How committed is ArcelorMittal to limit capital expenditures (commitments) with respect to Ilva? How much management-time is Ilva currently absorbing? What are the *lessons learned* regarding the Ilva-acquisition?
6. During the first-quarter financial results presentation (May 7), management was “*confident*” ArcelorMittal would be able to complete its 2 billion USD divestment program, as “*suitable and viable buyers have expressed serious interests in certain assets.*” Are those potential buyers

still interested? Is it (still) in the interest of shareholders to continue the disposal program, even if assets can only be sold at bargain prices?

Unexpected capital raise

ArcelorMittal surprised investors with the 2 billion USD capital raise that was announced on May 11, 2020. During the first-quarter results presentation – held the week before, May 7 – CEO Lakshmi Mittal stated *“our net debt is close to our lowest ever level, and our liquidity position is strong.”*

While acknowledging uncertainty with respect to COVID-19, ArcelorMittal’s CFO Aditya Mittal also remarked regarding the impact of the virus on steel markets: *“There are some indications that this may be the low point in terms of volume and activity level primarily because you can see that especially in Europe, the easing of lockdowns has begun.”*

7. Was the recent capital raise imperative for ArcelorMittal to ensure continuity?
8. On May 5, ArcelorMittal signed a new credit facility with a syndicate of banks. Did the new and/or existing banks that provide credit lines urge ArcelorMittal to raise additional equity capital?
9. Since 2009, via four issuances, ArcelorMittal raised more than 12 billion USD of equity and convertible loan capital (exceeding the current market capitalization of around 10 billion USD). All the issuances occurred around the bottom of the cycle, hence substantially diluting existing shareholders. How does ArcelorMittal look back on the shareholder value destruction that happened over the past decade?
10. ArcelorMittal repeatedly stated to investors that the 7 billion USD net debt target would support an investment-grade rating through the cycle and, when reached, would allow for more material cash distributions to shareholders. Does ArcelorMittal believe the 7 billion USD target is still appropriate from a risk-perspective in the post-COVID world? Why?

11. Could ArcelorMittal confirm due to the recent capital raise ArcelorMittal's net debt target is within reach? Is ArcelorMittal planning a new Capital Market Day on short notice in which it will elaborate on its strategy (i.e., future M&A, European production footprint, capex requirement as a result of new environmental ambitions, etc.) and capital distribution policy?

Balance sheet

Directly or indirectly, the lion's share of the value of ArcelorMittal's assets is heavily dependent on (expected) steel prices, and shipments that are the key determinants of the cash flows these assets produce.

12. Does ArcelorMittal believe the assumptions used for the impairment test in the 2019 annual report are (still) consistent with the current conditions and outlook of the markets the company operates in?
13. Does ArcelorMittal believe the current unprecedented situation is a "*triggering event*," hence implying new impairment tests should/must be executed during the 2020 half-year financial results presentation? Why (not)?
14. Is it fair to assume (substantial) write-downs are inevitable in the near term?
15. Are ArcelorMittal's assets, mainly in Europe, still economically viable in the long term? Is it fair to assume permanent closure of assets are required?