Umicore HY 2022 Results

Friday, 29th July 2022

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Operator: Welcome and thank you all for standing by. All participants are in listen-only mode until the question-and-answer session. To ask a question, you may press star followed by the number one. This call is being recorded. If you have any objections, you may disconnect at this point.

Now I'll turn the meeting over to Mathias Miedreich, CEO. Sir, you may now begin.

Mathias Miedreich: Thank you very much, and good morning. Welcome to everybody also from my side to our H1 results call. And thank you very much, especially for joining in this hot summer, close to vacation time and your interest for Umicore.

The agenda that we will cover today is the usual agenda for our results discussion. So I will talk about the highlights of the first half of '22, give you an insight in our business review in the details by our business groups, and then Filip will take over for a financial review, and then we will cover the outlook wrap-up and Q&As.

But before we do that, I want to come to another point. You for sure have seen in our press release this morning that Filip has decided to leave his position as CFO of the Group end of September in order to start a new chapter after being with Umicore now for nearly 20 years, and half of that as Group CFO. We regret very much to see him go, as he has been one of the architects of the Umicore that we see today, including being very instrumental in the development of the Umicore 2030 RISE strategy.

I also personally want to thank Filip for the time that we have been working together as he substantially helped me to onboard to Umicore and understand the insights and structures of the businesses.

Now, as sad as I am to see him leave, I'm very happy that we have found with Wannes Peferoen, an excellent successor that will take the baton from Filip and steer Umicore as CFO towards the successful implementation of our 2030 strategy. Wannes has been able to develop a deep understanding of Umicore's activities, spending over ten years in Group and various groups in the BU, controlling, functions and finance missions. And for the past five years, Wannes has collected a very important experience being in various general management roles for the Group, combining finance with commercial and entrepreneurial aspects.

So Filip and Wannes will work closely together until end of September, ensuring a smooth transition and handover and then you also listening to this call time by time, will have the chance to meet Wannes, to get to know him and to understand even more about his background. And I'm also happy that even after that period, Filip has agreed to stay connected to the Group in an advisory role to further support the transition. And Filip for sure, will address more to this point in his own section.

Now, let's review the highlights of the first half of 2022. For sure, one of the highlights for us was the Capital Markets Day that we held in London with the introduction of our Umicore 2030 RISE strategy, a strategy that is based on the strong belief that we are positioned on the megatrends that really matter in the next decade and beyond, the megatrends of mobility transformation and the growing need for advanced materials.

We have a portfolio of businesses that are not only strong individually, but especially by their complementarity in many dimensions, business maturity, in terms of cash flow, some of them are growing, some of them are in need for cash, circularity matters. And for sure, automotive, that is more and more an important end market for us. But there's one red thread, which is the purpose for sustainability that is really at the core of Umicore.

And with RISE, we have created an instrumentum, and I want to highlight again for everybody who could not join our Capital Markets Day, RISE stands for the ambition to rise above previous levels, but also each letter has an own meaning. R stands for the reliable transformation partner that we will be with our customers. I is the ambition to continue to be the innovation leader in the fields that we are active. S for sure, is for sustainability champion, which is at the heart of Unicorn. And E is the excellence in execution. And with that strategy, with that positioning, we are very confident that we will be able to grow the Group to more than doubling its revenues until 2030 with a strong profitability above 20% EBITDA margin and a ROCE of 15%.

And with that, we can combine the attributes of a start-up company, fast growth with the ones of an established one to deliver returns from the beginning, from day one over the whole period. And this really, as we think sets us apart. And this ambitious and as we think realistic strategy, is carried by the full conviction and commitment from the complete Umicore senior management, and we share the belief that Umicore will be a net beneficiary of the unfolding electrification revolution.

Now there are other highlights that I want to mention. First, on the financial performance. We will detail that throughout this presentation. Very good results that we achieved in the first half of the year, were again driven by a strong performance across all of our business groups, despite severe market disruptions, as we all know, now rising cost inflation and the volatile precious metal price environment. This is the second highest performance achieved in Umicore's history, only outmatched by the very exceptional record performance in the first half of last year of 2021.

So I don't go into details of the business groups. We will do that in a second. But you will see that Catalysis again has proven its strong market position and profitability. In E&ST, there is a very good momentum in terms of earnings driven by CSM, so our Cobalt & Specialty Materials, but also by the Rechargeable Battery Materials. There's a certain lithium impact that I will detail out later. And Recycling with the second highest performance in its history, with strong operational cash flows and a lower working capital increase than expected.

Now on the implementation of the RISE strategy, we also can report good progress. We didn't start with the implementation only when announcing it. We, of course, have started much earlier, and we have been able to set some key milestones there, like the announcement of our plans to go into the local production of cathode materials in North

America with a partnership with the Canadian government going forward with the – with their strategy. I will come to that in a second.

Further, a good progress in building out what we think we are pioneering in doing customer partnerships towards creating an ecosystem that will be successful in the battery material area. We have announced some of them already and we will, as we said in the Capital Markets Day, over the course of the year, have additional news to share on that aspect.

We also have made quite some progress and probably we don't talk about that enough on our R&D road map, on our innovation and technology plans. We've inaugurated our new state-of-the-art global battery material R&D centre in Korea. And we are moving along our road map of products and process innovations. We talked about high nickel, but especially also HLM technologies and more and more, we're moving into solid state technologies. You might have seen the announcement that we are joining forces here with what we think is the leading player in solid state electrolyte, Idemitsu, from Japan to jointly work on a new battery material, a combination that could have the name catholyte.

On top of that, we have been working very hard on our sites against CO2 emissions. What we really want, as you know, is a CO2-free car also from the supply chain, and I'll come in the second slide to that, to give you some details on our Scope 3 ambition that we have set out over the course of the year.

Now over the next three to four slides, some examples here. You can see the picture signing the supply agreement with ACC in April, which has the ambition to go at least to 46 gigawatt hours in Europe by 2030. On the next one, you see from the signing ceremony of the MoU for the Strategic Innovation Fund with the government of Canada. The strategy of Canada is very strong. They want to position themselves, and I think they will be successful as the leader in the North American space to have the battery and battery materials value chain in place from mine, through all the processing, and we are involved there then finally into the batteries and the battery materials.

So we have secured a land there, and we are now working on the value creative customer contracts, and I can tell you after we have announced that, my phone has been ringing quite a lot with our customers to work on joined plans, how we can use these capacities that we are planning to build.

On the next slides, you can see our plant in the Nysa. We have last time said that we have a plan to start production mid of the year. We can confirm now that we have done that. So successfully started production in Nysa, which then will be ramped up, as we said. And further – we're already working on the further expansion that will follow our business success in Europe.

Last special page, again, on the Scope 3 targets. This is really something where we think Umicore can play a unique role in really decarbonating the supply chain of electric vehicles, because we are the only player that is positioned really from mine to battery without being in the mine business nor the battery business. And we have all it takes to work with our supply chain partners to bring down the CO2 emissions that Scope 3 ones, you see 42% that's based on the scope of Umicore.

But if you drill it down to the battery materials and compare it with today's industry average, this is a target of reducing by 75% until 2030. This is – we do this because we see it our responsibility, our – it's the purpose that we have to contribute to the better of the planet, but also I'm strongly believing that this would be a very big competitive advantage for us going forward that will set us apart from our competitors that cannot offer such a low CO2 footprint.

Now let's go to the business results. So the results for the Group stands strong. We are accounting €2.1 billion of revenues and a EBITDA of €601 million, a ROCE of 20.8%. And it's also very important with the plans that we have going forward, a very strong balance sheet with a stable net debt at €955 million and a net debt to EBIT ratio of only 0.88%. So Filip will go much more in detail on that.

And I would like to give you now some more insights on our business group. So first, on Catalysis. The underlying market – one of the important markets is the automotive market. And we all know probably that the first half of 2022 proved to be another challenging time for the automotive industry, shortage in semiconductors, increasing global logistic difficulties, COVID-19 research in China. And of course, the tragedy in Ukraine has caused severe disruptions.

And also the demand for the ICE production was down or, let's say, the production of ICE vehicle was down by 6.7%. So this – I remind you, this is not the car production, it is the submarket of the internal combustion engines that were down 6.7%. That's the reference market for our Catalysis business. And in particular, the Chinese and the European market, both were around 13% hit, and this is really not easy.

And while you compare this pre-COVID levels, the H1 2022 is still around 20% below those pre-COVID levels of 2019. Now with this in mind, this very difficult business environment, let's now look to the business performance of Catalysis.

And this performance stands quite strong with revenues almost flat year-over-year. Just remember what we just said about the market. And the adjusted EBITDA in Catalysis for H1 amounted to €170 million, well up compared to the second half of last year, although below the record performance of the first half of '21. The EBITDA margin with 23% continues to be strong versus historical levels, thanks to strict cost management, our ability to pass through cost inflation price, and as well a beneficial mix.

And with this, if you have followed our RISE 2030 strategy, we are convinced. This is one first steppingstone that proves that we are on track with our strategy to make a significant step-up in this business versus our historical margins and to deliver strong cash flows forward to support and finance our 2030 RISE strategy.

So some details by business unit, the AC. The market, as we said, was around 13% down in Europe and China, which are key markets for Umicore. Umicore outperformed the market in both of those markets, in most of the global markets. But especially, I want to put a focus on China, where, as we said, a 12.5% decline in volumes in ICE gasoline market, and AC has been able to increase by 5%. So close to 20% differential, which helped us to significantly gain market shares and a strong confirmation that Umicore can increase its competitive position in difficult market conditions.

Precious Metal Chemistry contributed as well with strong revenues in fuel cell and stationary catalysts were hit by the COVID-19 lockdown. You know that China is a key market for the fuel cells, and so customer orders have been postponed and the revenues have been temporarily dampened through that.

Now let's move to the next segment, the Energy & Surface Technology. One important element of that is, of course, the environment for battery materials and battery metals. And as we all know, it's not the news. The metal that are needed for battery materials have significantly increased in price versus 2021. However, what is new is the level of volatility and fluctuation compared to previous years, especially visible through the price development of lithium.

So how this – did this affect our business or where do we stand? So Energy & Surface Technologies, we're standing with revenues and earnings well up versus H1 last year, 21% and 44%, respectively. The main drivers of this very strong performance are CSM, Cobalt & Specialty Materials. I come to that in a point with again a very strong H1. And RBM, which had a special effect from the lithium spike that we saw on the page before.

So Rechargeable Battery Materials, we have to clearly say that there's no change in the situation that we have announced in December last year and reconfirmed in the Q1 update in terms of the volume situation for our business in 2022 and 2023. And we confirm again that the year of growth with the right chemistry mix will start end of '23 and then full swing '24. We are very well on track with the advanced customer qualifications that we have mentioned already. Some of them have already been transformed into business awards that we cannot yet speak about but will be probably later the year.

And with that, we are very confident that what we have said in the two previous meetings is fully on track. You see the results are high also because of a positive contribution from lithium caused by a timing effect between lower-priced lithium supply and the exceptional spike in lithium that happened in H1 this year.

Cobalt & Specialty Materials, again, another strong half year, as I already said, driven by strong market demand and a favourable cobalt and nickel price environment in H1. Metal Deposition Solution and Electro-Optic Materials, stable to slightly higher revenues with good contribution to the business group results through both business units.

Looking to the Recycling business unit, the relevant metals to look at are the PGM group metals, especially rhodium and palladium and it was also a volatile environment, but especially here with lower price levels versus 2021, especially rhodium with significant gap between today and the exceptional development in 2021.

The business group, Recycling, had nevertheless a very strong performance, the second best H1 in Umicore history, lower results versus H1 2021, reflecting mainly the lower precious metal prices, as we just have seen in the page before, but also caused by the disruption of the industries less favourable supply mix, as well as of course cost inflation that had to be counted.

Precious Metal Refining, so our recycling activity has a very robust operational performance as the throughput of the materials, so the sheer amount of processed materials was at stable levels versus H1 '21. However, as we said earlier, the content, the mix of the in-feed was different. And a good ability has been shown to absorb this high volatility in feed mix and to react quickly on changes caused by global logistics disruptions.

Jewellery & Industrial Metals had a strong performance in all product lines with a strong demand, especially in platinum engineered materials and investment products. And Precious Metal Management, a unit that is, as the name says, managing all of our precious metal streams has also a strong performance, but behind the exception of '21 through less favourable trading conditions, especially in rhodium.

So now after this business review, I will come back to you for the outlook and some summary. And I will hand over now to Filip.

Filip Platteeuw: Yes. Thank you Mathias, and good morning, everyone. Going to the first slide. So when we consolidate the performance of the different business groups that Mathias already presented, we get to the Group numbers as shown here. The common thread is that, with the exception of revenues, the performance of the first half of the year was below the record numbers of the first half of last year, but well up compared to the second half, as well as compared to any other period before 2021.

Revenues were stable year-on-year, which is obviously a combined effect from the underlying demand trends in the different units, but also including a positive forex effect across the Group and a lithium price effect in Rechargeable Battery Materials.

Our cash flows were strong and resulted in a stable net financial debt compared to the end of '21, which is better than what we guided for earlier in the year. With an adjusted return on capital employed of 20.8%, we obviously remain well in value creation territory, and that's on a stable year-on-year average capital employed base.

The next slide plots the adjusted EBIT and EBITDA and corresponding margins over the last four years. And this visualises how exceptionally strong last year's first half performance was, which is today's basis for comparison.

Now looking through that, the graph shows that the positive margin trend that started quite some years ago continued into the first half of this year. In terms of absolute contribution, adjusted EBIT was down 26% year-on-year, but up 33% compared to the second half of last year. And for the adjusted EBITDA, the percentages are, respectively, 21% down and 23% up.

As you know, metal results are particularly important to Umicore's Group margins, given they contribute in a quite direct way to the bottom line.

Switching now to cash flows. Approximately half of the €673 million of cash flows from operations was converted into €320 million of operating free cash flow. Net working capital increased €152 million, with an increase in E&ST, partly offset by a decrease in Catalysis and Recycling. This net working capital increase is less than the more material increase we guided for earlier in the year. This outperformance reflects our continuous internal focus on working capital management, lower metal prices towards the end of June than we had assumed in our earlier guidance and some temporary cash-ins also in June.

For the second half of the year, we expect a further increase of net working capital, obviously, depending on metal prices.

Cash spent on CapEx and capitalised development costs amounted to €201 million, with Energy & Surface Technologies accounting for approximately two-thirds of Group CapEx, driven mainly by Rechargeable Battery Materials expansion.

In Catalysis & Recycling, CapEx spending was stable year-on-year as we continue to focus on capital efficiency of our existing facilities. This being said, for the second half, we do expect to see a higher CapEx than in the first half. And currently, we would guide to some €500 million of CapEx for the full year, with obviously the bulk of the increase in Rechargeable Battery Materials.

Moving to the net debt bridge. The operating free cash flow of €320 million covered the non-operational cash-outs, translating into a stable net financial debt below €1 billion. The corresponding leverage ratio of 0.88 times the adjusted EBITDA is a reflection of Umicore's very strong balance sheet.

Looking at the full P&L. We, I think, already covered the operational line, so passing to the net financial costs. These were lower year-on-year due to lower forex related costs. Tax charges were also down, reflecting the combination of a lower taxable base and a lower effective tax rate of 22.8% compared to 24.9% a year ago. This resulted in an adjusted net result and adjusted EPS, earnings per share of €321 million and €1.34, respectively, of which €0.25 will be paid out as interim dividend in August in line with our policy.

We recorded total adjustments to EBIT of minus €20 million, mainly linked to an increase in environmental provisions.

That concludes the numbers. But before I hand back to Mathias, I would like to take the opportunity to say a few concluding non-financial words, if you allow me. So as you've seen from this morning's announcement, this is my last earnings call as CFO of Umicore. I can still vividly remember my first call, close to ten years ago. I would say the tremor in my voice back then was due to nerves. And if you hear any today, it's from different emotions. And gratitude is definitely one of them.

I would like to thank you for the many interactions we've had over those 10 years. They were definitely part of what made the CFO role so rewarding and enriching. This decision is based on my conviction that this is the right time to pass the baton to new and younger talent.

With the RISE 2030 strategy now clearly articulated, Umicore is starting a new chapter in its long and rich history. And this deserves to be shaped and owned by a CFO who with a fresh pair of eyes will lead his teams through the next ten years. Wannes can count on my full support to assist him in the succession. Again, I sincerely thank all of you and wish you all the best.

And now I hand back over to Mathias.

Mathias Miedreich: Thank you very much, Filip. I think nothing to add to that. And one thing I think you will see in talking to all of the people on the line that they, for sure, will miss you probably as much as you will miss them.

So now talking about the future. We talk about a new CFO, and we talk about the outlook for 2022. So looking ahead now to the continuation of the year, we expect another strong performance in 2022 for the Group across all business groups despite the severely disrupted external market context.

Based on the performance in the first half of the year and assuming precious metal prices remain at current levels for the remainder of the year, we expect adjusted EBIT for the full year 2022 to be somewhat above consensus, which stands at €828 million today. This includes some €220 million uplift from precious metal prices versus 2020. And I remind you the number last year, and we always compare to 2020, was €270 million.

If we look now to the different business groups. We start with Catalysis. And here, it is anticipated that the car production will remain impacted by the ongoing supply disruptions. Notwithstanding the related limited visibility, we expect to continue to benefit from our strong market position, especially in gasoline applications and taking into account the strong performance in the first half of the year and the current assumptions on volumes for 2022, adjusted EBIT in Catalysis for the full year is expected to be close to the record levels of 2021 and with that somewhat above the current consensus despite the impact of cost inflation.

Energy & Surface Technologies based on the first half performance and anticipating a normalisation in the Cobalt & Special Materials business, Umicore expects adjusted EBIT in Energy & Surface Technologies for the full year '22 to be above the levels of the previous year and with that, above current consensus expectations.

For Recycling, we expect that the adjusted EBIT for the full year 2022 will be in line with current consensus. This is based on the assumption that the current precious metal prices will continue to prevail. And this also takes into account a somewhat improved supply mix in Precious Metals Refining compared to the first half. And also, as we have announced previously, the corporate costs are expected to continue to increase above inflation in 2022 as we are committed to our longer-term innovation and digitalisation plans and are preparing our organisations and systems for the planned business expansion and actually growth that we are projecting through our RISE 2030 strategy.

Now last topic for – before we go into the Q&A is a short wrap-up. So if you would remember only three things from the presentation that Filip and myself have given you today, it would be the following three points. 2022 H1 was the second highest performance in the history of Umicore despite very challenging market context. And secondly, the outlook is confirmed to have a strong overall performance for the remainder of the year.

And last but not least, we are making good progress in the implementation of the Umicore 2030 strategy. Key milestones have been achieved and more to come in the second half of the year.

Thank you very much. And now it's time for the Q&A.

1. Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. If you wish to ask a question, you may press star followed by the number one. Please unmuted your phone and record your name and company name when prompted. Your name and company name is required to introduce your question. Press star two to cancel your request. Again, star one to ask a question. Our first question comes from Chetan Udeshi. Your line is now open.

Chetan Udeshi (JP Morgan): Yeah. Hi. Chetan from JP Morgan. My first question was on E&ST. Now, of course, there are a lot of moving parts. Can I understand this lithium price movement. Is it – can we think of it more like a revaluation gain? So the lithium prices today are higher, so you've sort of valued the business at a higher pricing. And so the lithium prices go down in the future, then you'll have a similar negative impact. So that's first.

And second question was, I know you guys haven't disclosed this in the past, but clearly with the mix in E&ST changing quite a bit, I'm curious if you can give us some steer on how big is the RBM revenue within the E&ST broadly speaking, even a rough range could be useful for us, so we know how we should think about the ramp-up going forward?

And the last question on Catalysis. Clearly, continuing outperformance there versus the auto production. Is there any still a material benefit from PGM prices in first half earnings in Catalysis EBIT? Or is that now more or less negligible, given the decline in rhodium prices that we saw in first half? Thank you.

Filip Platteeuw: Good morning, Chetan. So I'll take the first one on lithium. The reason why we talk about lithium this morning is really because of the exceptional increase in the price. So the average lithium price, I think, quadrupled year-on-year. And so while we normally have this pass-through mechanism, the fact that you have this kind of a spike means that the combination of, let's say, a number of our supply agreements in combination with a number of our sales agreement means that we have indeed a positive contribution from the fact of lithium. So kind of a delay effect.

To your question of going forward, indeed, that variability may continue – probably will continue in the second half and may actually extend to 2023 because it's really related to the existing customer base that we have. Anything going beyond that, that we're in the strategic more long-term agreements, which are somewhat different. But – so it's really the – yeah, het exceptional spike in the lithium that has created this.

Should I take the last question immediately, Mathias? So on – your last question on the impact of precious metal prices in Catalysts, I believe that was it. Yes, indeed, we still have a tailwind from that. So if we say we only do it for full year half that – full year, sorry, so 20 – €220 million increase, or let's say, tailwind for the Group of the precious metal prices.

Indeed, a part is definitely still for catalysis and that was also the case in the first half of the year. I think the – let's say, the relative proportions we've given last year are more or less still the case or relevant for this year, which was, as you know, the bulk being in Recycling and the rest in Catalysis. And also the importance of the rhodium price is also something that we see back this year.

Mathias Miedreich: And maybe I cover the middle one. The question, can we disclose the RBM weight in the business group?

So I mean, we are not changing our policy in that regards. But you can be sure, and if you look to the mid and long-term view, obviously, the big growth trajectory is coming from the RBM segment. So – and with that, as more the time goes by, the higher, of course, the weight will be in the business group.

Chetan Udeshi: Thank you.

Operator**:** Thank you. Our next question comes from Geoff Haire from UBS. Your line is now open.

Geoff Haire (UBS): Yeah. Hi. I was wondering if I could ask two questions. First of all, on the outlook. Could you sort of help us to understand what you mean by somewhat higher? Is that more than 10%? Is it less than 10%? And also, would you be willing to quantify the benefit of lithium within ES or within RBM?

Mathias Miedreich: Filip, that's clearly a financial question.

Filip Platteeuw: Well, the last one. No, Geoff, sorry, we will not – that's a bit too difficult for us commercially to quantify. But I mean, it's important enough to mention and that's an obvious one.

Mathias Miedreich: Somewhat regulated.

Filip Platteeuw: Somewhat. And yeah, I think it's – look, I mean, somewhat is below 10%, I would say.

Geoff Haire: Okay. Thank you. And if I could just come back, is the lithium benefit in the €200 million metal benefit that you talk about? Or is that an addition – is lithium an addition to that?

Filip Platteeuw: Yeah, that's an addition. So the €220 million is really precious metals only. Yes.

Geoff Haire: Okay, thank you.

Filip Platteeuw: We haven't just [inaudible].

Operator: Thank you, Mr Geoff Haire from UBS. Our next question comes from Sebastian Bray from Berenberg. Your line is now open.

Sebastian Bray (Berenberg): Good morning and thank you for taking my questions. I would have two, please. They're both related to earnings outlook for 2022. Firstly, if you net out the impact of what are going to be higher volumes in 2023 Rechargeable Battery Materials versus the potential reversion in cobalt or lithium, do you think it's a reasonable assumption to have Energy & Surface Tech EBIT flat year-on-year in 2023? And likewise for Catalysis, could you please remind us of how much precious metals impact is in 2022, and once these market share gain annualise out, if you'd expect to see any growth in 2023? Thank you.

Mathias Miedreich: Yeah. Let me take the first one on RBM. And the second, Filip, if you could take that. So the situation on RBM actually has not changed what we have said in December. I said that before by 2022, 2023 are years that – are years of preparation for our growth that will start end of '23 and prepare end of '23 and then going to '24. But what for sure, you can see that in the second half of this year, as we have said earlier the – in the business group, the Cobalt & Special Materials business unit will decrease versus H1 because it was an exceptional performance that was made here. So with that, I hope you can make the overall balance. And in regards to the second question.

Filip Platteeuw: Second question on the precious metals. So last year we had a €270 million impact. I think back then we said that more than two-thirds is – was related to Recycling and the rest in Catalysis. So if you apply, again, more, or less those same proportions to the €220 million, I think that's a good basis to start from. If that's your – if that answers your questions, Sebastian.

Sebastian Bray: No, that is helpful. And thank you Filip and over the last few years' time at Umicore.

Filip Platteeuw: Thank you.

Operator: Thank you. Our next questions comes from Riya Kotecha from Bank of America. Your line is now open.

Riya Kotecha (Bank of America): Hi. Good morning. And thank you for taking my questions. So my first question is with regards to the CapEx outlook. Can you please give us an indication of what proportion of the €1.5 billion North American plant is going to be funded by the Canadian government? And do you expect any funding from, say, the Quebec provincial level as well?

And then my second question is, again, North American sort of strategy to secure off-takes with OEMs; and several OEMs have announced sort of partnerships in the last few weeks with South Korean players and are now booked out until 2025. So I just want to understand your sort of strategy with regards to gaining preferential agreements there. Thanks.

Mathias Miedreich: Yes. Thank you very much for the question. Let me take that one, Riya. So North America, Canada. So the Canadian government has declared that there is a strategic interest for the country to develop the battery value chain because they have a beneficial situation, the only North America where you have a supply of or access to the raw materials to the mines to nickel and cobalt and then also traditionally, in the past, automotive industry.

And with that, establishing the battery materials supply chain, it's kind of a strategy to reindustrialise the country and bring back the automotive industry into Canada. And as the name says, we have signed an MoU for a strategic innovation fund. That is a fund that is entitled to invest in projects that support this strategic target. So – and we have signed an MoU in that regards. So more I cannot disclose, but I think you can make your own math around this.

And in regards to Ontario, so I can give you a general explanation how it works. Normally, as far as I know the system in Canada, there is always a federal portion like the Strategic Innovation Fund. And there is a provincial portion that, in most of the cases, is equivalent to the federal part. So – and with that in mind, I think you can make your conclusions out of that.

But for us, I have to repeat that. I mean, the reason to go to Canada was mainly driven by the fact that it's the best combination of available renewable energy, energy prices, but also access to raw materials. And last but not least, also the talent pool that we have available there, where we are today. So altogether, we think a very winning solution if there is a place to be, I think, it's this place.

Second question regarding the North American market's success and how do we think we could play a role with the announcements that have been made. The good thing is that this market is a very big market. It is a fast-growing market which also lives from the fact that those OEMs, no OEM, even Volkswagen with whom we are working together is putting all their eggs in one basket. So the ability to get volumes outside of the partnership that have been announced. But clearly, there, we have several of them in the works if you want.

So – and by the way, that was also not a big surprises. I mean it was – what was announced is more following the logic, at least from our point of view that we have seen in the market already, but that does not disturb us in the conviction that we will get our fair share out of that – I mean with what you have just said. But on top of that, of course, there are the non-American or non-US players that also have a need.

And altogether with the capacities that we are planning, we are in the right range, because as we said, what is important for us in our Capital Markets Day is not unlimited growth, but value-creative growth to have the contracts with the right conditions, with the right customers where we can contribute with our unique position in the value chain. And in North America, this is absolutely given and a big part of our growth strategy despite the announcement that has been made.

Riya Kotecha: Okay. Thank you. I just have one quick follow-up, if that's okay. And that's on the energy headwind that you quantified, which you say is now going to be less than €150 million. You wrote about this €150 million previously. Can you go through some of your assumptions underpinning a reduction in the guidance, given that energy costs and power prices have only escalated since the first quarter? Thanks.

Filip Platteeuw: Yeah. So on the inflation, you've seen that we have not changed the guidance, which is that we expect the total gross – that is a gross inflation impact, cost inflation impact of less than €150 million.

What I would say is that, I mean, the energy portion compared to when we previously made that statement, I would say, has gained ground unfortunately, and that's really related to Europe. That's where we see most of the impact.

In terms of the split, maybe that's another way to give you some insight of the €150 million. There's two big buckets, which is the raw materials costs, which is something which is more global, and then the energy cost, which again is more focused on Europe. And those are, let's say, relatively similar of size.

And then the rest, you have labour cost inflation and logistical costs. So that's a bit the element that are below that. But energy costs definitely is still an important headwind for us. And again, that's mostly related to Europe, and I would say, even specifically related to, obviously, our Belgian operations.

Riya Kotecha: Okay. Got that. Thank you.

Operator: Thank you, Riya. Our next question comes from Ranulf Orr from Citi. Your line is now open.

Ranulf Orr (Citi): Hi. Morning, everyone. Three from me, please, if you don't mind. Just firstly – and apologies if I missed it. Could you please give an idea of the scale of the temporary working capital benefits that came at the end of the half?

The second question is similar. And I'm just curious about the impact of higher cobalt and nickel prices and the benefit of that in E&ST. In the past, you provided, I think, some guidance or retrospective guidance around the scale of that. Could you do the same, or at least sort of provide relative guidance compared to sort of the lithium benefit there?

And the third question is just around sort of the timings of future sort of supply agreements and partnerships. I was wondering if you could just help set expectations slightly better for the timeline of those and when we should be looking out for them? Thank you very much.

Filip Platteeuw: Yes. Good morning, Ranulf. I'll take the first two questions. So on the temporary working capital, it's not too material. I mean something like €150 million. We just wanted to provide that disclosure. If we then talk in at the end of the year on working capital that you have a bit of a view for the moving pieces is basically related to some timing of deliveries and payments because ultimately you take a picture at the end of June, and there was some temporary effects that will reverse basically in – or have reserved in July. So nothing too material, but we just wanted to give that transparency.

The second question for cobalt and nickel prices. So – and the fact that they were higher. Yeah, so that impact is really focused on – in terms of earnings and performance in CSM because that's really sketching the context in which the business operates and which indeed was a positive one, a strong one. Having said this, you've seen that cobalt and nickel prices have come down in, let's say, the last couple of months. So that context is changing, which is also why we've highlighted that we do not expect the same very strong performance of CSM in the second half of the year.

Quantified. We never, I think, really quantified the sensitivity to that. So I'm afraid we'll not be able to do that, but it's really related to CSM. And again, please be mindful of the seasonality for this year, for the second half.

Mathias Miedreich: Yeah. And the third part of your question regarding the addition of the market success, I would call it. I would say there are two big areas. The one, of course, is to finally close the joint venture where we had signed an MoU with Volkswagen. As we said in our Capital Markets Day, that's well on track. But we do not want to put timing considerations over the quality of the JV agreement, and it's a very big endeavour that we're doing there, about €1 billion company that we are creating into the future, and that takes some time. But there is no – there is no delay in – of a material sort.

So we will, as we said, in the course of the second half year, announce that together with Volkswagen when the time is right. And then there's the other part where we are working on additional things that we didn't say yet that we had already some progress, but we are not ready to talk more about that. But you could think that probably at the – yeah, I think in Q4, we should be able to have at least one more additional announcement.

Ranulf Orr: Yes, thank you very much.

Operator: Thank you. Our next question comes from JB Rolland from Credit Suisse. Your line is now open.

Jean-Baptiste Rolland (Credit Suisse): Good morning and thank you for taking my questions. I would have three, please. The first one, just a very quick one. I hope I didn't miss this information earlier in the call. Did you quantify how much benefit – how much PGM tawilwinds you had in the first part of the year?

And the second question is about your guidance. I understand that you assume lithium prices stay constant for the rest of the year. And I also understand that you have a sense of the quantum that disclosing it could be commercially sensitive. So could you help me understand what is it specifically about lithium that you deem more commercially sensitive than other PGMs? I guess you could have clubbed the lithium tailwind alongside the PGM one, but it seems that you decided not to?

And my third question is, I'd like to understand how you have yourselves been surprised by the impact of the lithium spike on your numbers. The reason why I'm asking is because from memory, I don't remember that we ever talked about lithium having the potential of, yes, having a material impact to your results. So I assume there is an element of surprise. And I'm wondering if this is what – if you consider being purely a one-off or if that means that you're going also to take some change in your policies with regards to hedging or procurement contract, etc.?

Filip Platteeuw: Yeah, I'll take the first and maybe the last one. So the first one, on the €220 million precious metals impact. So no, that's really a guidance for the – one indication for the full year. We haven't given that for the half year last year, nor this year. What I would say is that, the most important part of that will be in the first half. If you look just at the assumed metal prices, and again, that volume is an important one. The volume has come down quite a bit in recent months.

So if you compare that to 2020, really the most important part of the €220 million is in the first half, but we haven't quantified it as such.

Related to maybe the last question on the surprise of lithium. Look, lithium – if you look historically, last couple of years, lithium has been relatively stable. So why – again why we're talking about this lithium is because this was really a spike, something – I mean the surprise indeed came from the metal price evolution of lithium. And if you have this kind of an evolution, then indeed, let's say, normal mechanisms can result in unexpected increases.

I think your question is important in terms of going forwards and how do you manage that. Indeed, if you look at the growth that RBM has in front of them in terms of volumes; clearly, any kind of volatility related to metal prices we want to minimise. So yes, indeed, related to lithium, we are also definitely going in the direction to minimise whether it's through our contracts or through the way we treat lithium internally, thinking about hedging. We really, in a way, learning lessons from this one and changing the system so that going forward, looking at the important growth of RBM, we do not have this kind of a sensitivity or at least not to the same extent.

Mathias Miedreich: Yeah. And let me take the second one on the commercial sensitivity of lithium, why we're not disclosing that while we are disclosing the PGM. Now, this is a fundamental business. The PGM impact is mainly coming from our recycling operations, where it's very transparent anyway to our customers. What are the market prices of the different metals that we are processing, recycling, and refining. So it's less commercial sensitive.

While the lithium is part of our battery material business, this is the automotive world where you don't want to give too much transparency on the – on your kind of bill of materials. We also do not disclose what is our labour cost, what is our energy cost, what is the cost of secondary materials, etc., because that's, of course, part of the overall equation. So there is a much higher sensitivity in the business field, where lithium is relevant rather than the PGM side, where the majority is in recycling and refining.

Jean-Baptiste Rolland: Thank you very much, and good luck, Filip, for your future endeavours. And thank you so much for time over the years.

Filip Platteeuw: Thank you.

Operator: Thank you. I want to remind our participants, if you wish to ask a question, you may press star one. Just please remember to record your name and company name as that is important to introduce your question. Now we'll proceed with another question. It comes from Geoff Haire from UBS. Your line is now open.

Geoff Haire: Hi. Thanks for the opportunity to ask two more questions. I just wondered if you could comment, has the removal of Mr Diess, the previous CEO of VW, has that sort of caused any issues with the negotiations around the JV going forward?

And then secondly, just to sort of try and look at the lithium point in E&ST a slightly different way. If you stripped out the benefit of the spike to EBIT, would EBIT be up or down on last year?

Mathias Miedreich: So I will take the first one and get the second one to Filip. So regarding the changes in management of Volkswagen, of course, we will not comment on any changes or personal topics of our customers and partners. But I can give you some general points to think about.

So first of all, you might have followed also the announcement of Volkswagen's first Gigafactory, SalzGiga in Salzgitter, where also the Head of the Works Council of Volkswagen, Mrs Cavallo was speaking, and she was actually highlighting that since over ten years, the Works Council of Volkswagen is behind the plans of Volkswagen to have a make in batteries in order to secure jobs in the relevant changes. And everybody who knows Volkswagen knows that this means that this part of the strategy is deeply embedded now in the way going forward. And for that, you need the battery material.

Secondly, and this is my personal judgment only. If you look to Mr Blume, who is the new CEO, as you know of Volkswagen, track record in Porsche, where he is driving electrification even to an 80% electrification rate target, except the Porsche 911. Then you can see that he might be even a stronger advocate of electrification, but that's only my judgment.

And then what I also by coincidence read is the Q2 results announcement of Volkswagen there, where Mr Antlitz said that there is no change in the strategy of Volkswagen in the major terms and electrification will be driven forward.

Now, will there be a technical delay in the Supervisory Board that is also relevant in these kind of decisions? I cannot tell you. But I am personally not expecting any material change in our direction forward.

Geoff Haire: Okay. Thank you.

Filip Platteeuw: The other question on lithium. I'm sorry, Geoff, we – I think we don't want to go any further in terms of quantification. Again, we start to, yeah, triangulate and take matters out. So sufficed to say that it was an important contribution. And also, I would again like to repeat that CSM is also still there in E&ST and CSM had also a very strong performance. So if we start to chip out things, then we need to look at different drivers. So unfortunately, we'll leave it there.

Geoff Haire: Thank you.

Operator: Thank you, Geoff. That is our final question for today. Thank you all for participating. Have a great day.

Mathias Miedreich: Thank you very much. Have a great day. And hopefully, a good holiday soon. Thanks, everybody.

[END OF TRANSCRIPT]