

# FINAL TRANSCRIPT

## Update November 2020

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### PRESENTATION

#### **Eva Behaeghe, Umicore IR manager**

Good morning to all. Thank you for standing by and welcome to Umicore's conference call. Please note that this conference is being recorded today. Your lines are automatically muted and we kindly request to keep them muted during the introduction and Q&A session.

If you would like to ask a question, please use the raise hands functionality in teams. For those connecting via phone, please send an email with your questions to [ir@umicore.com](mailto:ir@umicore.com). We will treat these questions during the live session. We will repeat these guidelines again at the start of the Q&A session, but now I'll turn the conference over to Marc Grynberg.

#### **Marc Grynberg, Umicore CEO**

Thank you Eva, good morning everyone and thank you for joining this conference call. The purpose of this call is to provide some additional color to the release we issued this morning and answer the questions that you may have.

The market context has been extremely volatile since the outbreak of the pandemic and with this press release we wanted to inform you about the changes in trading conditions which we have observed since our last communication at the end of July. The automotive market, for example, posted a much stronger third quarter than anticipated when we communicated at the occasion of our first half results.

Also, this year, due to the highly unpredictable context and unlike in other years, we had not yet been in a position to provide a quantified guidance for the full year. Now, with almost 10 months in the books, I believe we have sufficient visibility to do so. Finally, while overall visibility remains extremely limited, I felt it was appropriate to provide some perspective on the building blocks for 2021 and highlight my expectation that Umicore is in a strong position to resume its growth trajectory once the disruptions caused by the pandemic will be behind us for good.

As you will have read in our communication, I confirm the directional guidance I had given earlier this year, both for the Group and for the different business groups. Umicore is on its way to deliver a **solid performance this year**, notwithstanding the severe disruptions caused by the pandemic, and I expect **adjusted EBIT for the full year to be in the range of € 465 million to € 490 million**.

Let me now walk you through the **recent trends, performance and outlook in our 3 business groups**. **Catalysis** posted a very strong third quarter performance, benefiting from a sharp recovery in the automotive market in most regions and particularly in China, where the recovery in car sales has been remarkable. You will recall that Umicore has a very strong market position in China, in particular with international OEMs and this has allowed us, once more, to outperform the market globally. Earnings

reflected this strong volume uplift as well as the impact of cost reduction measures introduced earlier this year.

Based on current market trends, we now expect global car production to be down by approximately 20% for the full year – you may remember that, earlier this year, we anticipated a contraction of the global car market of 25% in 2020. In the scenario of a 20% contraction, I expect **adjusted EBIT for Catalysis for the full year 2020 to be in the range of € 130 million to € 140 million**, which is well above the current market consensus.

**Looking already cautiously at 2021**, I can say that we should continue to benefit from our strong market position in gasoline light duty applications, the start of the rollout of China VI legislation for heavy-duty diesel applications and the cost savings resulting from measures that we have implemented this year. I said cautiously because the evolution of the pandemic, unfortunately, makes it impossible today to predict how automotive demand will develop in the near term. This being said, I expect Umicore to continue to outperform the market.

I am moving on to the performance in **Energy & Surface technologies** now, which, as anticipated, was impacted by a significant negative operating leverage.

Looking first at the **EV market**, I would like to **bring some perspective to numbers** that are circulating and could lead to wrong extrapolations. EV sales in the third quarter grew substantially, however, this is compared to a very undemanding third quarter last year. Looking at YTD sales provides a better view on battery demand. EV sales in the first nine months of 2020 were up 9% year on year and the increase was driven by the growth of PHEVs. Full EV sales were roughly flat year on year. PHEVs have much smaller batteries and need therefore less kWh of cathode materials, on average 5 to 6 times less than a full EV. So if you duly take into account the growing share of PHEV's in the mix, the global demand for batteries used in automotive applications expressed in GWh grew by about 5%, which is the correct metric to look at in order to assess the evolution of the cathode materials market. Now, if we would exclude the share of Tesla demand, as you know that we are currently not supplying this brand, end-demand in the addressable market for Umicore was actually flat. You will have seen in our release that we expect to grow sales volumes of cathode materials for EVs in the second half, both year-on-year and sequentially.

The reason why I take the time to explain these market data is that too often quarterly data or announcements made a single market player are being extrapolated or misread. Looking at our position over a somewhat longer period, our market share is solid and stable, give or take minor movements linked to platform or regional mix; in China for example, the growth of Tesla has been spectacular and obviously Umicore is not benefiting from that. So I would like to emphasize once more that we are faring relatively well in a challenging market, we have not lost market share and are not losing market share.

#### **Turning back to the market now and Umicore's performance in that market.**

The **European EV market** continues to do well. This helped to bring down the levels of inventories in the battery materials value chain and we expect this inventory effect to subside by year-end.

It is also encouraging to see EV sales pick up in the **Chinese market**. This being said, to put – again - things in perspective, the level of EV sales in China continues to be well below the peak levels seen in the second half of 2018 and way below the levels required in order to absorb the existing overcapacity. It may take a few years for supply and demand to be back in balance in China and for market conditions to improve. This being said, I am convinced that this is not a structural issue as the Chinese government continues to be fully committed to electrification.

Against this market backdrop and as anticipated, the underutilized capacity in our plant in China, in combination with higher fixed costs related to our expansions, continued to induce a significant negative operating leverage in the Rechargeable Battery Materials activity. The unfavorable pricing environment in China, where we do have some short term price exposure, also impacted earnings.

In the other business units of Energy & Surface Technologies, performance continues to reflect the impact of weak trading conditions resulting from the pandemic.

Against this backdrop, I expect adjusted EBIT for **Energy & Surface Technologies** in 2020 to be in the range of **€ 70 million to € 75 million**.

I realize that our current performance may be below expectations but this does not reduce our determination to maintain the strategic course of action and prepare for profitable growth in this emerging market. While market conditions have played against us since last year and may continue to prove challenging for some more time, I have no doubt that we have the right capabilities and strategy to develop successfully as one of the leading technology providers. It takes sizeable upfront investments to participate in this fast growth industry and reach scale effects. In the current market context, it takes more time than originally anticipated to bring the business to satisfactory and sustainable levels of profitability.

I am turning now to **Recycling** which posted, as you might recall, record results in the first 6 months of the year. We also indicated in July that this performance was not to be extrapolated to the second half of the year, taking into account the reduced availability of the smelter due to the 4-week maintenance shutdown in July as well as seasonality effects in the Jewelry & Industrial Metals business unit.

Over the third quarter, the business group continued to benefit from favorable trading conditions, a supportive supply environment and high precious metal prices. Considering the maintenance shutdown in Hoboken and anticipated seasonality effects in Jewelry and Industrial Metals, I expect adjusted EBIT for **Recycling** in 2020 to be in the range of **€ 320 million to € 330 million**.

I also expect that the business group will continue to benefit from a favorable supply and metal price environment in the coming year. We have a fairly good visibility as we have secured a sizeable part of our supply and metal exposure. Visibility is far from perfect though as our results also depend on price levels of metals which cannot be hedged and those cannot be predicted.

You will also have read in our communication this morning, that we expect EBIT adjustments in the second half to be in the region of € 150 million. These adjustments come on top of the € 72 million adjustments booked in the first half and are again mostly non-cash in nature. The main adjustments in the second half relate to the € 55 million charges for the streamlining of our activities in Cobalt & Specialty Materials, some asset impairments and a provision to create a green zone next to the Hoboken plant.

You will recall from the communication at the end of July that the lead in blood levels of children living close to the Hoboken plant showed elevated readings as opposed to the historically low levels in 2019. The emissions from the plant as measured both by the authorities and Umicore have been consistently well below the legal norm and there was no indication that such an increase in lead in blood values would occur.

Although the root cause investigation has shown that there is no major source of lead emissions in the plant, the unexpectedly elevated levels made us explore new avenues, such as making an offer to buy the houses closest to the plant to create a green zone and thereby increase the distance between the residential area and the site. These provisions for a green zone are included in the EBIT adjustments.

To conclude and before we turn to your questions, I would like to repeat the main messages from this morning's communication. I expect Umicore to post a solid performance this year, despite the unprecedented challenges caused by COVID-19 and we are extremely well positioned to benefit from market growth once the impact of the COVID-19 pandemic will be behind us for good. My priority today remains the health and safety of all of Umicore's employees and I am grateful for the commitment and agility they demonstrate on a daily basis. Despite the many uncertainties in the short-term, Umicore remains committed to its long-term growth strategy in clean mobility and recycling and I am convinced we will come out of this challenging period well positioned and prepared for growth.

Filip and I are now ready to take your questions and I hand over the call to Eva first.

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## QUESTIONS & ANSWERS

### **Eva Behaeghe, Umicore IR Manager**

Thank you, we will now start the Q&A session. Please note that we kindly request to take following guidelines into account. Please ask only one question per person to give everybody the opportunity to ask questions. To ask your question, please use the raise your hand button at the top menu on the teams window. Keep your microphone muted until I will call your name. You will then be able to unmute your microphone and ask the question directly. After the question, please lower your hand by clicking on the raise your hand button again. For those connected via phone or those that do not have the raise your hand functionality in their settings, please send an email with your questions to [ir@umicore.com](mailto:ir@umicore.com). We will treat the incoming questions during the live session.

And the first question, which was sent to the IR mailbox, comes from Charlie Webb, Morgan Stanley, and the question is: how do we think about the recovery in E&ST in 2021? It sounds like you expect the inventory issue to be concluded by end of this year, EVs are recovering well, but presumably we will also need to account for ramp up costs for Poland. Consensus expects this division to more than double in terms of EBIT in 2021. Is this achievable?

### **Marc Grynberg, Umicore CEO**

So a good morning Charlie. I think it would be premature to go into quantified guidance for 2021. What the market will do in 2021 remains also somewhat hard to predict given the current evolution of the pandemic in some regions and the possible impact thereof either at the end of this year or in the course of next year. This being said, I would say that if you disregard for a moment the pandemic and the possible impact it may have in 2021 and the overall market, I would expect Umicore to do well in terms of volume developments compared to this year, if the EV market continues to grow and also considering the launch of some EV platforms on which we are qualified. From a, I would say, results a point of view, I would expect, again with the caveat that I don't know where the market will be going, that we should see improvements compared to this year driven by the volume growth. If the volume growth is confirmed, and again with the caveat that I mentioned regarding the market, and still considering that we are incurring significant investments and significant costs to bring the business where it needs to be from a technology and scale point of view.

### **Eva Behaeghe, Umicore IR Manager**

And the next question comes from Sebastian Bray, Berenberg. You could now unmute yourself. Please go ahead.

### **Sebastian Bray, Berenberg**

Hello, good morning and thank you for taking my question. It was on the calculation of addressable market size. Is it right to simply exclude Tesla from this? Especially how do you think about the rise again of LFP and new LFP cathode technology in China? And does your comment made earlier on the market being roughly flat excluding Tesla take into account the fact that LFP has gained share in China this year. Do you think this is a longer term trend that could constrain the growth of E&ST? Thank you.

**Marc Grynberg, Umicore CEO**

Good morning, Sebastian. No, I'm not concerned about the LFP story. It is confined to China and is addressing a niche of somewhat less performant cars, which indeed is not going to dent the growth of Umicore over the long term. Whether it's appropriate to exclude Tesla, I would say I was just mentioning that as an observation that since we're not supplying Tesla and Tesla represents a significant portion of the GWh demand and the growth in GWh in 2020. So it was a relevant way to look at how we are faring in the non Tesla business in a way.

**Sebastian Bray, Berenberg**

Thank you for taking my question.

**Marc Grynberg, Umicore CEO**

And even if you include Tesla, I think it's important, and this is been vastly misinterpreted, to note and to bear in mind that even if you include the growth of Tesla, the market overall in 2020 has grown by 5%. So it's important not to extrapolate from monthly or quarterly data or from data from a single player. The market, has grown by 5% and against that backdrop we are faring quite well. And the fact that we confirm that our volumes are growing in the second half of the year and that we did well in a way in the first half of the year as well while the market was down in GWh, confirms that we are maintaining at least our position.

**Sebastian Bray, Berenberg**

Thank you, Marc.

**Eva Behaeghe, Umicore IR Manager**

And the next question comes from Mutlu. You can now unmute yourself.

**Mutlu Gundogan, ABN Amro**

Yes, good morning everyone. Just one question on E&ST. You're guiding for a second half REBIT of some 19 million if I take the midpoint, so that's in decline of almost 70% sequentially. I think that volumes should be up sequentially, so it must be the lower prices that you alluded to or higher operational costs that is driving the low results. So can you tell us which is the most important one? And how we should look at the trajectory going forward?

**Marc Grynberg, Umicore CEO**

Mutlu, good morning so it's a combination of mostly three factors. It's the price pressure in China that we have described earlier, it's the costs which we have to continue to incur scaling up as we develop new technologies, new processes, new sites and it's some mix effects as well.

So the cost factor is quite significant and if I had to rank them, at first sight, I would say that the cost element is probably among the top factors and in that respect I would like to also remind everyone that we have a different strategy than most or all of our competitors in the cathode material space as we have decided to go for a multi-regional approach with equal capabilities in three major regions being Korea, China and Europe. And this comes at a much higher fixed cost level than most of our competitors, so you will imagine that in the current depressed the market context where scale effects are not there and where

price pressure is, that this strategy is not helping us in the short term to produce adequate margins. This being said, and as I mentioned in my remarks, I'm really convinced that looking at where the market trends are, from a regional and from a global point of view that this is the right strategy, and that having the same capabilities in three key regions for us is going to pay off. But it takes a bit of time indeed.

**Mutlu Gundogan, ABN Amro**

Thank you.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Mubasher Chaudhry. Please go ahead.

**Mubasher Chaudhry, Citi**

Thank you for taking my question. Can you just provide an update on the Polish plant and have you seen any delays in contracts or volumes that were expected for that plant from your customers given the weakness? Thank you.

**Marc Grynberg, Umicore CEO**

Good morning. So in a nutshell, the answer is no. We mentioned some delays in the construction projects a while ago which were due to the restrictions imposed by the pandemic and the lockdown measures and the impossibility to travel for some teams or contractors or engineers, and this remains valid. So we have delays in construction and now expect the plant to be commissioning around mid of next year. Then if you take into account the time it takes after commissioning for the customers to qualify the lines and for us to start mass production, it means that indeed we will start production towards the end of the year next year. The more visible contribution of the new plant from a revenue ramp up point of view will be in 2022. This does not mean or imply that there are any delays in terms of contracts or demands or changes in forecast from customers, as you will possibly recall that while we are building the plant and take the time to start up the plant in Poland, we are serving the European market through our Korean factory. So there is no change in that respect.

**Eva Behaeghe, Umicore IR Manager**

The next question comes from the IR mailbox and is from Geoff Haire from UBS: When do you expect to reach full capacity in China and in Europe? How much of the current capacity in China is exposed to Chinese pricing? In the LG and SDI contracts are prices and volumes fixed?

**Marc Grynberg, Umicore CEO**

So good morning Geoff. So a few questions embedded in the overall questioning. Let me start with the LG and SDI contracts. So these have indeed fixed prices and some of these volumes for LG and SDI are indeed being produced in China. This being said, I would say the majority of our capacity in China would be exposed to Chinese price pressure. How long it will take for the capacity underutilization to be supplied is difficult to say today because I don't have a clear view of how the market in China will develop. What I see is that the excess capacity in the industry is quite substantial and will take a few years to be worked out of the system. It's not a matter of a few months unfortunately, and that's why we mentioned explicitly in our communication today that we expect this overcapacity to continue to result in price pressure in the near term.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Adam Collins please go ahead.

**Adam Collins, Liberum**

Hello Mark, good morning I had a question about your capacity alignment and at the moment I think we're sort of slightly dancing around a pin in that we're discussing the scenario where there's still too much China capacity and some pricing pressures without really understanding how your capacity splits between the three regions. And I wondered if you would be in a position to give us any sort of sense of where the China capacity is now and compared to if you looked at the 2021 plan. How is the part split by the three regions just to give us a sort of sense of the extent to which you got a surplus issue in China?

**Marc Grynberg, Umicore CEO**

Good morning Adam and indeed, I think this is a very relevant point. So the capacity in China is not as large as the capacity in Korea, but close to. So that's why, unfortunately, today in the current market environment, this is such a drag on profitability and does not allow us to reach the desired and required scale effects indeed.

And overtime the relative importance will change because, as you know, we have decided to postpone further additions of capacity in China to be better aligned with the timing of market demands. And as Europe will grow in terms of production capacities in the near term, the relative importance of China will decrease.

**Adam Collins, Liberum**

Are you able to say where your capacity is now in overall terms? Or where it is relative to the original plan of 175kT by 2021?

**Marc Grynberg, Umicore CEO**

Well, we have decided to postpone some capacity expansions given the state of the market. I mean, the market has been more or less stagnant in 2019-2020 after a an acceleration in 2017-2018 and so clearly we have taken that into account in adjusting our CapEx plans and our capacity additions. So we are far from the figure that you have mentioned in that respect. Plus there is another element which is that as the product mix has changed quite substantially with much higher nickel chemistries today the capacity should be looked at in terms of GWh rather than in terms of tonnage is because for the same tonnage of high nickel chemistry, you have more GWh or more kilowatt hours. So I think that yeah, in terms of tonnage which we refer to some two years ago is fairly significant in terms of GW h but less significant now for the reasons I've just mentioned.

**Adam Collins, Liberum**

Thank you.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Chetan Udeshi from JP Morgan. Could you give some color on the cathode material volumes for the second half or full year 2020 or the volumes in Europe versus China?

**Marc Grynberg, Umicore CEO**

No, I don't want to go into that level of breakdown of regional sales. I think that clearly China is a depressed market in terms of volumes. So by definition this is not contributing so much to the growth that we see in the second half of the year.

**Eva Behaeghe, Umicore IR Manager**

There was a second question, is there a change in full year 2020 D&A, CapEx, capital employed outlook?

**Filip Platteeuw, Umicore CFO**

I can maybe address it. So currently I would guide for the full year 2020 for a capex number just above 400 million. So that compares to about € 550 million last year. D&A, it depends a bit on the exact timing towards the end of the year, but I would guide for the full year D&A between € 260 and € 270 million and that compares to about approximately € 240 million last year, so that's about € 20 million increase, give or take, between last year and this year. That would be the current guidance.

**Eva Behaeghe, Umicore IR Manager**

Thank you and the next question comes from Jean-Baptiste Rolland.

**Jean-Baptiste Rolland, BAML**

Hi good morning, can you hear me? Good morning Mark. good morning Filip, good morning everybody. I wanted to ask you what makes you confident that LFP will remain contained to China and follow up question to this is maybe could it be that going for less performing cars and being the right strategy if that segments develop better simply because customers could be very much cost constraints. Thank you.

**Marc Grynberg, Umicore CEO**

Good morning Jean-Baptiste. The reason I'm confident about that is because the reason LFP is gaining some ground in China and has some sort of a second life is because there is spare capacity. And so the question is, does it make sense to invest in new capacities outside of China to produce? I would say technologies which are less performant in terms of density and range and which may not be necessarily so cost competitive, if you would have to make a greenfield investment in regions outside of China, then I think the answer is clear. The way I see it today is no, it wouldn't make sense for LFP greenfield investments to be made outside of China. But there is vast capacity available in China and there is some consumer audience for less performing cars which you do not necessarily have in other regions like Europe or North America. So I'm not so much concerned. I'm not saying that it will not be there. I'm just saying that this is not going to be mainstream outside of China in my opinion.

**Jean-Baptiste Rolland, BAML**

OK, thank you.

**Eva Behaeghe, Umicore IR Manager**

The next question comes from Charlie Web. Can you quantify the provisions set aside for the Green Zone around Hoboken? What solution has been agreed with loans today?

**Marc Grynberg, Umicore CEO**

So there is no agreement yet. The discussions and the process are ongoing, both with the residents and with the authorities. So it would be too early to quote a figure at this point in time, and we hope to be more advanced or sufficiently advanced when we speak next in the beginning of February to provide more color on this. Suffice to say at this point in time that we're talking about a meaningful number, meaningful enough, material enough, to be mentioned in the release.

**Eva Behaeghe, Umicore IR Manager**

There was another question from Charlie Webb. How should we think about the working capital for full year 2020 as Catalysis recovers stronger than expected.

**Filip Platteeuw, Umicore CFO**



Yes indeed. Catalysis clearly plays an important role in working capital. As you rightly mention, this recovery aspect is volume related. But there's also the metal price aspects. As you've seen, the PGM prices, and particularly rhodium, are at a basically historical highs. So indeed, we do expect for the second half an increase in working capital for the group more than what we had in the first half, which was € 72 million. You're also right that it will be indeed a driver in the second half. An increase in working capital, and definitely Catalysis will play an important role in that.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Mutlu. Please go ahead.

**Mutlu Gundogan, ABN Amro**

Yes, just a just another follow up question. Can you share with us what the current capacity utilization is in your cathode material plants and assuming you expect an eventually significant volume recovery, volume growth within EV's. But prices may be the biggest risk so at this price will you make your cost of capital, will you make your return targets?

**Marc Grynberg, Umicore CEO**

If we single out the Chinese operations at the current price levels, we cannot make the cost of capital. And so there are two aspects to the equation. One is the capacity underutilization which prohibits us from reaching the required scale effects in order to reach the cost of capital. Secondly there is the pricing pressure. Both factors today do not allow us to reach the cost of capital in China. So that's why we would need both the price pressure to subside, so the excess capacity in the industry to be worked out of the system, and on our side also to be able to utilize our capacity fully in order to reach that target. I'm not going to comment on the degree of the capacity utilization. I can only say that the underutilization today is quite material as you can infer from the financial results coming out of the business.

**Mutlu Gundogan, ABN Amro**

Thank you, Marc.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Chetan. What is GPF adoption for Umicore's platforms for 2020 in China and Europe?

**Marc Grynberg, Umicore CEO**

We actually have the full effect of GPF adoption in China and in Europe in our platform mix. So all the platforms where Umicore is qualified and which require GPF are in production and have been in production, for some of them since 2019 and for all of them in 2020. So I would not expect, if that is the gist of the question, an uptick in terms of GPF adoption in the coming year for Umicore because our portfolio includes all of that already.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Wim Hoste. Wim, please go ahead.

**Wim Hoste, KBC**

Yes, good morning, question on the announcements Tesla made in its Battery Day a while ago regarding vertical integration and also making some statements that they have developed better process technology. To what extent do you see it as a threat? And, how do you see your process technology? I know you did a lot of investments in that technology but how does it kind of compare to competition? Any statements on that would be helpful.

**Marc Grynberg, Umicore CEO**

Thank you Wim. I believe that as mentioned on previous occasions, Tesla is clearly a game changer because it is setting the tone, setting the pace and setting the direction for the industry, putting the right level of pressure and targets in front of the automotive industry and the supply chain. So in that respect it is acting as a as a real game changer. And this I see as very positive for us because it's driving the market development to quite some extent. This being said, I believe that many observers share my assessments that some of the statements that have been made are aspirational at this stage and have not yet been worked out in any kind of detail. So there is no particular impact or threat that I see from that, and I believe that we have excellent process capabilities to compete in this technology driven in the industry.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Sebastian Bray. Sebastian, you can go ahead.

**Sebastian Bray, Berenberg**

Thank you, could I ask a question about the choice between price and volume in China? I believe Umicore is one of, if not the largest, producer in that geography, and you'd assume if scale effects were very important that it would be amongst the lowest cost producers. Why not push for a strategy which would favor volumes at this stage? Is that because the impact on profitability would be worse than under the current scenario of selectively producing volumes, and how do you view the position of the Chinese plant in terms of the cost curve versus low competitors?

**Marc Grynberg, Umicore CEO**

Thank you. I think it's a business strategy choice, it's the philosophical choice and business model choice to be selective and to go for profitable business and not compromise our position and strategy to actually sell great technologies at lousy prices. I think this would not set the right benchmarks in the industry and may be difficult to rectify if and when the market turns around. So we continue to be selective, we have to and I don't want to create the wrong precedent by actually selling a technology at the wrong price.

**Sebastian Bray, Berenberg**

Thank you and when the Chinese customers come to Umicore, do they put pressure on prices? Do they point towards commodity indices when asking for price reductions? Or is this more of a bespoke negotiation that goes on between Umicore and its customers?

**Marc Grynberg, Umicore CEO**

I'm not sure what you mean with the commodity indices. Can you explain?

**Sebastian Bray, Berenberg**

What I mean is, do your customers come to you with a graph of NMC532 prices published by industry providers in China and say alright, can we have a 30% discount or does it still in the realms of a bespoke negotiation and the graph doesn't play a role so to speak.

**Marc Grynberg, Umicore CEO**

No, we have never had these type of discussions around indices or graphs and we have never looked at data being provided by external sources. These are not relevant in our negotiation process. It's a bespoke negotiation about certain grades of products that we make and which some other players in China can

also produce and given the overcapacity, some of them make different tradeoffs than we do and are ready to sell at prices which are, in my opinion, way too low.

**Sebastian Bray, Berenberg**

Thank you.

**Eva Behaeghe, Umicore IR Manager**

The next question comes from Chetan. The press release says that cathode material business continues to be driven by technological innovation. However, at the same time we have pricing pressure from overcapacity. How do you tie these two comments together?

**Marc Grynberg, Umicore CEO**

Yeah, I mean, I could also send the question back to you. If you say that we have to look at the Tesla announcements as some sort of threat in terms of technology developments and new process, it is a clear indication that the business continues to be driven by technology and I think if you analyze the announcements made by Tesla, there is a lot of technology development and innovation in there in terms of batteries, cell design, battery pack designs, in terms of anode materials, in terms of cathode materials, in terms of production process. This is exclusively a technology story, but we're not alone in that, and there are a number of players which are capable of developing innovative technologies and high quality technologies. So it's a competitive industry, but it's driven by technology innovation and technology development.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Charles Bentley from Crédit Suisse. In light of weak pricing and utilization in China, is there a risk of impairments in E&ST?

**Filip Platteeuw, Umicore CFO**

You've seen in the announcement that we do footprint adjustments, so additional impairments like we had in the first half. That's typically the exercise we do at the full year closing, so it's a bit too early to comment on that. Obviously when you look at impairments of production assets, you take a sufficiently long period of time into account. So it's a bit too early and we will provide the details of any of those impairments in the month of February.

**Eva Behaeghe, Umicore IR Manager**

And the second question, can you indicate how much cost savings were made in Catalysis in the second half? How much of this is sustainable versus temporary?

**Filip Platteeuw, Umicore CFO**

Yeah, we already had cost savings in Catalysis in the second half from the footprint adjustments that we've announced and implemented the first half. Now, next to that there's also cost savings from the COVID context, think of travel, etc. Limiting it to the footprint adjustments I would say the impact in total is probably something similar to the impact we've announced in Cobalt and Specialty Materials. The only thing is that in Catalysis it will come earlier, so you should see it already next year a full year impact of that cost saving.

And just to give an idea for Cobalt and Specialty Materials, I think we've said it's about € 15 million on a full year basis. That would only be once we fully implemented the footprint adjustment, so we're talking 2023. In Catalysis that will clearly come much earlier, we should see it next year.

**Eva Behaeghe, Umicore IR Manager**

Next question comes from Adam Collins from Liberum.

**Adam Collins, Liberum**

Thank you actually I had two if that's ok. First one is, has there been any further price hedging for gold, platinum, palladium in the recycling business and then, or do you want to just do that question first?

**Filip Platteeuw, Umicore CFO**

I'll take that first one. So nothing material compared to when we last spoke in July. Just as a repeat we hedged a significant portion of palladium and gold for next year. Hedged significant you could think something in the order of 2/3 of the estimated exposure. Obviously that goes into 2022, but at a lower percentage less than half. And we do have some hedges in place also for next year for platinum and silver, but definitely less than less than half, so nothing has changed compared to July.

**Adam Collins, Liberum**

Thank you

**Filip Platteeuw, Umicore CFO**

As a reminder and as we also set out in the press release, obviously the recycling business does have quite some exposure as well to unhedgeable metals.

**Adam Collins, Liberum**

Thank you. The second question is back to the cathode business. We've been discussing the mixed headwinds associated with the rising plug-in hybrid share, particularly in Europe this year. Isn't there an expectation that the BEV share will increase as Europeans get their act together in terms of new models and battery costs come down. And I wondered if you could say whether in your pipeline you're seeing a good number of BEV models looking forward.

**Marc Grynberg, Umicore CEO**

Well, if you look at the near term, Adam, or the next two or three years, we see still a very significant share for plug-in hybrids, and they're quite popular in Europe. It's a matter of consumer acceptance and consumer adoption more than anything else and it's not so much a matter of battery costs, in a way, perhaps unlike in other regions, but it's a matter of consumer mindsets that twice a year you need the range to go on vacation and that you don't see an alternative except for a plug-in hybrid now. So if I look at the pipeline for the near term I would expect the share of plug-in hybrids to remain pretty high in Europe. What it will be longer term is difficult to predict today in a way because it will depend on the consumer experience and perhaps that second generation buyers who have had a plug-in hybrid will move after that. After four or five or six years they might go to a full EV if they have enjoyed the electric experience on a limited basis and have figured out how to go on vacation other than by car. That may change, and it may also change in function of the tightening EU regulations, which will increase the pressure on car OEM's in the region. So difficult to make out at this stage for the longer term. But I would say I would not expect major shifts in the mix in the short term.

**Adam Collins, Liberum**

OK, thank you.

**Eva Behaeghe, Umicore IR Manager**

Our last question comes from Mutlu Gundogan, please go ahead.

**Mutlu Gundogan, ABN AMRO**

Yes, thank you for the final question. Coming back to the pricing in China. Can you provide some clarification or some color on what is happening there. Because if I go back a few years, I remember when you were announcing contracts you would always say prices are largely locked in, but it seems now that customers are significantly renegotiating their contracts. I mean, can you confirm to us that is what's happening? Is it dual sourcing? Are our customers switching volumes if you don't agree on a significantly lower price? Just some color would be helpful. Thank you.

**Marc Grynberg, Umicore CEO**

Really, what it is, is that the contract durations are shorter in general in China than they are in other parts of the world, and you have to bear in mind that when we announced the multiyear strategic contracts with LG Chem and SDI, these were first in the industry. And so the industry only started to move to multi-year contracts to secure supplies with fixed prices. This is a very good trend with a limited number of key battery makers. But in China typically the contracts are more limited in time and so every time you have to renegotiate the conditions in function of where the market is. So that's really what it is.

**Mutlu Gundogan, ABN AMRO**

Can I just add to that? So is it impossible that you might lose a customer if they demand a significantly lower price? Because my understanding was that you apply for a model because you can't switch in the meantime because otherwise the OEM would have to use a different cathode supplier.

**Marc Grynberg, Umicore CEO**

No. Let's keep in mind that we have been in a growth mode. Also, we have like others being adding capacity in anticipation of new business and significant growth, while the market is not growing in China since 2018, unfortunately, for reasons which we have explained on previous occasions and this has prevented us from using the capacity at adequate conditions. I mean, this is what it boils down to.

**Eva Behaeghe, Umicore IR Manager**

Thank you, we're going to conclude the Q&A session and I hand over to Marc Grynberg for his final conclusions.

**Marc Grynberg, Umicore CEO**

Thank you Eva, and at this point I would simply like to thank you for attending the call this morning despite the short notice. And, as usual, we invite you to raise any following questions to our Investor Relations team and, as a last remark, I would simply wish you all well. Please keep safe and talk to you soon. Have a nice day.

**Eva Behaeghe, Umicore IR Manager**

Thank you for participating. You may all disconnect now.