Umicore

April 22, 2021

Corporate Speakers:

- Marc Grynberg; CEO; Umicore
- Filip Platteeuw; CFO; Umicore

Participants:

- Charlie Webb; Executive Director, European Chemical Equity Research; Morgan Stanley
- Georgina Iwamoto; Equity Research Analyst; Goldman Sachs
- Mutlu Gundogan; Analyst; ABN AMRO
- Chetan Udeshi; Research Analyst; J.P. Morgan
- Geoff Haire; Managing Director; UBS
- Ranulf Orr; Equity Research Analyst; Redburn
- Alex Stewart; Analyst; Barclays
- Mubasher Chaudhry; VP; Citi Global Markets
- Adam Collins; Equity Research; Liberum
- Sebastian Bray; Head of Chemicals Research; Berenberg
- Jean-Baptiste Rolland; VP; Bank of America
- Wim Hoste; Executive Director Research; KBC Securities

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to Umicore update. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) I will now like to hand the conference over to your speaker today, Marc Grynberg. Please go ahead.

Marc Grynberg^ Thank you, [Roberto]. Good morning, everyone, and welcome to today's conference call in which I will provide some additional color on the press release that we issued this morning. I will briefly comment on the main messages and then open the floor to your questions.

The highlight of the release is obviously that we expect adjusted EBIT for the full year to approach €1 billion. This is well above the current market consensus, which is slightly below €700 million, and it's close to twice the record level of €536 million achieved in 2020.

You would recall that in early February when we published our full-year results for 2020, we already guided towards substantial earnings growth for the group in 2021. We also indicated that all business groups would contribute to the growth. This outlook was based on the assumption that the elevated precious metal prices, observed back then, would prevail throughout the year. Since then, metal prices have continued to surge.

Rhodium, for instance, has increased by around 40% since we last spoke, and palladium by around 20%. Compared to last year, the surge in precious metal prices could give an exceptional boost to adjusted EBIT of roughly €250 million, if prices hold up of course, and this is incorporated in our full-year guidance. This calculation was made on a like-for-like basis in terms of volumes, in order to single out the metal price effect.

The positive impact of this price effect is mainly visible in Recycling and to an extra extent, in Catalysis. Cashflow wise, this material growth factor will not fully translate into higher free cash flow generation though, as working capital requirements, in particular in Catalysis, are also increasing on the back of the higher metal prices.

The direction of guidance we gave at the beginning of February was also assuming that the COVID-19 pandemic would not result in additional material or protracted disruptions to the economy, or Umicore's operation.

While the pandemic is not yet under control, unfortunately, the economy has continued to recover and we are clearly benefiting from the strong demand across businesses, and in particular from the automotive industry. The favorable market and demand trends observed toward the end of 2020, continue to gain pace in the first quarter of 2021 and are still supporting our business today.

The high demand, combined with a robust operational performance in all activities, and the positive effect of higher precious metal prices, mean that we are off to a very strong start this year.

Taking into account seasonality effects in several businesses and the planned maintenance shutdown of the Hoboken recycling plant in the second half of the year, we expect adjusted EBIT to be higher in the first half than in the second half of the year.

Obviously, visibility remains limited at this time of the year, particularly in today's context, and I would like to stress that our outlook assumes no degradation in global car demand, nor in the overall macro-economic environment in general.

Let me now briefly comment on the individual business groups, starting with Recycling. The positive metal price impact of €250 million compared to last year is expected to mainly benefit the Recycling business group and lead to exceptional earnings for the full year 2021, very substantially above the €362 million adjusted EBIT of 2020.

Alongside the boost from precious metal prices, we see strong activity levels and earnings growth across our recycling facilities in Belgium, Germany, Austria, Brazil, North America, and in Asia. Our growth in recycling is a combination of volume growth, an excellent supply mix, and favorable prices.

Today, we are reaping the benefits of recent investments, which enable us, in particular, to process much higher volumes of complex PGM-containing materials and take full advantage of the current market conditions.

Moving to Catalysis now, global car production was up by close to 15% in the first quarter of the year, further building on the recovery, which started in the second quarter of 2020 in China, followed by a recovery in other regions after the summer of last year.

Umicore continues to substantially outperform the car market, both in volume and revenues through share gains in the Chinese and European light-duty gasoline markets, combined with a favorable platform mix. Also, we benefit from the continued decline of diesel in the passenger car sales mix in Europe.

Against this backdrop, we expect to more than double adjusted EBIT this year compared to the €154 million achieved in 2020. The business group is also benefiting from growing demands in precious metals chemistry and fuel cells in stationary catalyst, as well as high PGM prices.

Finally, it is worthwhile repeating that adjusted EBIT in Catalysis will also benefit from the footprint adjustments, which we carried out in 2020. In Energy & Surface Technologies, we currently expect full-year adjusted EBIT to be slightly better than the outlook provided in February.

Back then, we mentioned that adjusted EBIT would grow meaningfully in 2021, compared to the €75 million achieved in 2020, and would be in line with the then prevailing market consensus of €115 million for 2021. Today, we expect to come out slightly above that figure for the full year.

In Rechargeable Battery Materials, volume growth is materializing as anticipated, and we see particularly strong traction in Europe, which, in light of the more challenging market conditions in China, results in a more favorable mix. In addition, demand in the other business units within the business group is also stronger than expected.

Finally, we expect corporate costs to increase to approximately €70 million in 2021. As mentioned on previous occasions, this increase reflects a step-up of R&D assets in line with our mid and longer-term technology roadmap, as well as digitalization initiatives. As usual, we will provide you with a more elaborate business update at the end of this month on the day of the AGM.

However, we felt it was necessary to already inform you of the positive developments leading to an EBIT guidance well above market consensus, as soon as the impact of these developments could be quantified. Of course, at this early stage in the year, there are still many variables that play and high uncertainties, which have to be kept in mind.

With this, I would like to open the floor to your questions, and I hand over the call to the Operator, [Roberto], to open the lines.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). We have our first question from the line of Charlie Webb from Morgan Stanley. Please go ahead. Your line is open.

Charlie Webb^ Morning, Marc. Thank you very much for the call and, obviously, to ask questions. Maybe first from me, obviously, the metal price complex has improved sharply, as you know, and clearly very tight as we look into FY21.

Can you remind us of your visibility in this business for this year? Also, I'll be very interested to hear your thoughts about how sustainable this current tightness we see across PGM and precious metals is likely heading into 2022. That'd be the first question.

Second question, just any sort of quick update on the battery materials business in terms of -- well, I guess we were talking about the oversupply issues in Asia. Would you say that we've kind of worked through that now and now there's a bit of inflation back in the system, demand is more apparent specifically in China?

Marc Grynberg^ Good morning, Charlie. It's difficult to predict where metal prices will be going, and like anyone else, we have to work with a set of assumptions. This being said, I see -- continue to see, actually, strong fundamentals behind the PGM demand because of tighter emission norms are kicking in or having kicked in, in a number of regions.

You had Europe a while ago with the Euro 6d a little while ago. You have China moving a full team to China 6 in the course of this year, actually with effect starting last year, which will require higher loadings of PGMs.

You have a number of very supportive factors in terms of automotive demand driven by the tightening legislation, while supply continues to be somewhat constrained by some of the difficulties related to the fact that some of the best mining ore bodies have been depleted or are being depleted, and that mining companies have to move to a more complex and more costly operations in a way.

These fundamentals continue to be at play, and while it's difficult to say how long and how sustained the rally will be, I do not see a -- I mean, I don't have today indications or clear signs that the tension will be over very soon. That's on the metal price question. Regarding batteries, no, unfortunately, the situation in China is not yet where we would like it to be.

Demand has started to improve or started to improve at the very end of last year and the trend is better, or indeed this year. The improved trend continues to play out this year. However, this is too early and insufficient to work through the excess capacity, which I believe I mentioned last year would be with us for another couple of years to the best of our estimates.

One of the aspects that I would like to point out is that some of the growth in vehicle built, in EV built in China, goes hand-in-hand with very small batteries. The gigawatt hours, the growth is not as spectacular as it would need to be in order to work through the excess capacity.

Where we continue to see very good traction and we benefit from that, as was explicitly mentioned in the press release this morning, is Europe where you have a very favorable market environment, market context, which is driving strong growth in volumes for us.

Charlie Webb^ That's very helpful. Thanks, Marc.

Operator^ Thank you for your question. We have our next question from the line of Georgina Iwamoto from Goldman Sachs, please go ahead. Your line is open.

Georgina Iwamoto^ Hi, good morning, Marc. Thank you very much for taking my questions. I've got two on Catalysis. I was wondering if there's anything that you can say to kind of help us out with how much of the metal price tailwinds will be showing up in that division, maybe if you could remind us mechanically how the segment is impacted by metal price fluctuation.

And then also in Catalysis, what can you say about the growth that you're seeing there? I mean, clearly, there have been trends for you to be going above auto production for some time, but it seems to have accelerated. Anything that you can share in terms of your market share gains and trends there would be helpful. Thanks very much.

Marc Grynberg^ Good morning, Georgina. We have some metal pricing indeed tailwinds in Catalysis as well. It's not to the same extent at all as in Recycling. It comes mainly through the precious metals chemistry unit, and which is setting PGM-based compounds to a number of industries. There is some exposure to metal prices that is created along the value chain, and some of that business is also closed-loop business.

It involves actually some, I would say, Recycling components or recovery components, and that today is proving extremely helpful and supportive. That's on the metal price side.

Regarding the mix and the market share gains, the situation, the reality is that we continue to benefit quite substantially from the evolution of the sales mix in Europe with the decline in diesel and gasoline engines are gaining ground, or very strong position in gasoline catalyst including filters makes us a clear winner in that space. We have a very favorable mix effect from that to continue the trend.

Also, clearly, we are extremely well-positioned in China and in Europe, regardless of this mix effect, and have continued to gain share, and to disproportionately benefit from the growth in the Chinese market and the recovery of production in Europe.

The other point which is important is that in that respect, or the consequence of that, is that we've been operating at extremely high utilization rates in these regions, which creates, of course, a positive leverage effect.

You will recall that we had the opposite effect last year when we had to shut down plants for a number of weeks in the midst of the COVID pandemic and the related shutdown measures. Now, we see the opposite. We have very high utilization rates, and so that helps achieving the best operating leverage. Yes, I mean, it's difficult to quantify the share gains.

Suffice to say that we're happy to observe that we continue to be more successful or most successful in light-duty gasoline applications. Next to that, we also continue to make headways and continue to see a strong demand for heavy-duty catalyst, and this is valid in Europe and in China as well.

Georgina Iwamoto^ Thank you very much, Marc.

Operator^ Thank you for your question. We have another question from the line of Mutlu Gundogan from ABN AMRO. Please go ahead. Your line is open.

Mutlu Gundogan^ Good morning, everyone. A few questions. The first one is on Recycling. The 250 million euro uplift in EBIT had a majority of that coming from recycling. How is that divided over H1 and H2, Marc? Is that equally divided, €125 million per period? That's the first question.

The second question is also on recycling. Can you tell us where the additional supply volumes are coming from that contain rhodium and palladium residues? Perhaps you could update us on the supply volume split today, i.e., what percentage of your volumes are coming from the metals and mining industry, spent auto cuts, spent industrial cuts, and e-scrap?

Finally, if I may, on Catalysis, does the guidance of higher earnings in H1 versus H2 also hold for this segment?

Marc Grynberg^ Good morning, Mutlu. I would say that, yes, the €250 million is equally divided or to be seen as equally divided over the two semesters. It's an assumption that we're making on precious metal prices.

At this stage, I cannot guarantee that the positive impact will be equally split over the two halves. That's based on the calculation assumption that we used. Yes, we have projected flat rates for the remainder of the year so thereby leading to some sort of an equal split.

On the supply mix, actually what we have seen over the past two or three years is a significant increase of the availability of complex PGM containing products to be recycled, and to a large extent spent automotive catalyst.

We have actually anticipated that trend of increased supply because by definition, when catalysts are fitted on a car, we know that the catalyst will be available for recycling some 12 to 15 years later.

Knowing which catalyst and how many catalysts were fitted on cars 10 or 12 years ago, or 15 years ago, we can project where the availability is going. We anticipated both the increased availability, and to a large extent, we also anticipated the tightness on the PGM market. I've been speaking of the strong fundamentals for at least two or three years now, if my recollection is correct.

We have prepared for that by increasing our capacity and capabilities to treat much higher volumes of these spent catalysts. This is what is driving the profitable volume growth that we see today. I would like to park for a moment on the question on the split of materials between byproducts, and recycling, and end-of-life products. We'll give you probably more color when we speak next time on the day of the AGM at the time we provide a fuller business update.

Then in Catalysis, again, some other assumptions, and the assumption we're making today is that there would be no material degradation in the demand patterns from the automotive industry across the year.

If that is proven right over time, this would mean, or could mean indeed, an equal performance, or approximately give or take a few millions, an equal performance or a performance of the same order in the two semesters. Again, it's a matter of assumptions and this is probably the best that I can say today.

Mutlu Gundogan^ Could I ask more on the question on the supply of PGMs in products? Just wondering, given the fact that you're making such high returns today in this segment, are you seeing more competition for PGM-containing complex materials?

Marc Grynberg^ There continues to be high competition and we continue to be best in class in terms of yields and performance, which puts us in a very strong position to attract the best and the most complex supply sources. We also have capabilities to treat some of the most complex of these end-of-life products, which is strengthening our competitive position. There is some competition, no doubt about that. Yes.

Mutlu Gundogan^ Understood. Thank you very much.

Operator^ Thank you for your question. The next question is from the line of Chetan Udeshi from J.P. Morgan. Please go ahead. Your line is open.

Chetan Udeshi^ Yes. Hi, Chetan here. Marc, can I check -- just a technical question here, but -- and thanks for quantifying the impact from metal prices. When you say a life for life impact of 250 million euro, my understanding is that's just reflecting the volumes as of last year.

Assuming you guys are expecting higher volumes in both Recycling and also the Catalysis business, is it fair to say that the actual metal price impact on numbers this year will be actually higher than €250 million given that even the additional volumes will also come with some pricing benefit? That's the first question. The second question is, can you remind us of what are the Capex and D&A assumptions you guys are having so far for 2021? Thank you.

Marc Grynberg^ Hi, Chetan, good morning. No, actually, the metal price impact is the metal price impact. The volume effect is the volume effect. I cannot say that we have a price impact on new volumes compared to 2020 because these volumes didn't exist in 2020. That the extra volumes are coming at the higher price is clearly so.

Yes, absolutely, but I don't call that the metal price impact. That's why we want it to be clear and want it to -- and that's why we spelled out that we were calculating the impact at the 2020 volumes to be sure that we think about the metal price impact and the rest will be volume growth indeed at very high prices.

On Capex, the assumption today remains around the €500 million for the full year, and on D&A, if I recollect correctly what Filip said a while ago, we should be around €270 million. No change in assumption compared to our last communication on this subject. Again, give or take a few million, it's still early in the year, and so that's what I would say today.

Chetan Udeshi^ Thank you.

Operator^ Thank you for your question. The next question comes from the line of Geoff Haire from UBS. Please go ahead. Your line is open.

Geoff Haire ^ Good morning. I've just got two questions. Historically, the Catalysis business has generated an EBITDA of, sort of a run, but €170 million sorry EBIT of around €170 million a year. You're guiding to both €310 million for 2021.

I'm assuming that is a combination of market share gains and volume leverage which is very specific to 2021. Where do you see the sustainable level of EBITDA for Catalysis beyond 2021 assuming no big changes in auto production demand?

The second question is, I just wonder if you could explain to us how cobalt pricing impacts the Energy & Surface Technologies division, thinking particularly of the upstream cobalt business you have with the new refinery in Finland, plus, I don't see the needs that the cathode material business has as well. That would be helpful.

Marc Grynberg^ Good morning, Geoff . Let me first start with the Catalysis. There is one factor that you have to bear in mind when comparing past EBITDA levels to what we're getting today, is that in the meantime, we have carried out a certain number of footprint adjustments, which are sustainably contributing to the higher EBITDA levels.

Part of the equation is related, as I mentioned earlier when addressing the question of Georgina, is related to high metal prices and how sustained that is, you will have to make your own assumptions.

On the volume side and the market shares gains and the high utilization rates, I would say that we're in very good shape to sustain these levels of margins and profitability for a while, and indeed, it will depend on what your projections are, your assumptions are, for the car build rates with combustion engines in the longer run. I would say that what we see today is the sustained profitability indeed in that business.

Let me now move to the cobalt question, and I'm glad you raised it so we have a chance to clarify this effect because we have not been very explicit in the press release. The cobalt dynamic today is a clear headwind for Umicore, unfortunately, and we should, or we could have mentioned that in the press release indeed.

It's a headwind because, on one side, the metal prices are increasing, but in a way, the metal price is less relevant to us than the payable on the raw materials, the payable content, because we don't buy a lot of metals.

We buy a lot of raw materials, and the payables have shot up much more dramatically than the cobalt price. This is a strong negative for our upstream activities indeed and for the business group overall.

This is one headwind more that we have to deal with. It goes to show that despite this additional headwind, the volume growth is strong in the segment and helps us to compensate the various headwinds or additional costs that we see in the business and to come up with a somewhat more positive guidance than a couple of months ago.

Geoff Haire^ Okay. Could I just ask an additional question then? Can you quantify what the impact of metal prices is on the Catalysis business? I mean, a rough number. You given it, obviously for the growth at €250 million. What proportion of that is in Catalysis?

Marc Grynberg^ No, we are not going to disclose the breakdown between Recycling and Catalysis, I can only say the bulk of the majority is in Recycling and -- which we prefer for commercial reasons to not break it down in a more granular manner. Sorry about that.

Geoff Haire ^ Okay. That's okay.

Operator^ Thank you for your question. We have the next question from the line of Ranulf Orr from Redburn. Please go ahead.

Ranulf Orr^ Good morning, all. Marc, I was just wondering if you could please give us an update on the hedging in Recycling, and whether you've been able to extend your contract any further out than your last update?

As a second question, I didn't follow, sorry, all of your answer just now on the impact of the cobalt price in EST. Could you just clarify? You're saying that the higher cobalt price did not contribute any additional EBIT to the division in your new outlook? Thanks.

Marc Grynberg^ Good morning, Ranulf. The hedge book is the same as when we spoke last time two months ago. There's been no change in the meantime. Cobalt is overall a negative for us because we're more exposed to the payable content on raw materials than to the price of the metal itself. And so, overall it’s a headwind for the business group.

Ranulf Orr^ Fine. Okay. Thank you.

Marc Grynberg^ Just to be maybe a little bit more explicit, we're not buying a lot of metal. We're buying raw materials that contain cobalt and we have to refine them, and we're being paid for the refining job. But we're being paid much less than in the past in a way because we have to -- the payables content of metal has increased so we have to pay more for the raw materials.

Ranulf Orr^ Great. Thanks.

Operator^ Thank you for your question. We have the next question from the line of Alex Stewart. Please go ahead. Your line is open.

Alex Stewart ^ Hi, good morning, and congratulations on a very impressive statement today. Could you tell us whether the restocking of auto catalysts, which was helping your demand at the end of last year, do you think that has now stopped or can you still see your car customers refilling their shelves with catalysts?

Secondly, historically, big guidance upgrade announcements in Umicore has preceded capital increases related to new investments, new capacity build, that happened in 2018 and happened in early last year.

Could you tell us where we are in terms of needing to think about putting new capacity in the ground for RBM? That would be very helpful. Thank you.

Marc Grynberg^ Good morning, Alex. It's interesting you made that correlation between announcements – between various announcements. I hadn't thought about that. No, we’re not -- we don't have an equity raise on the agenda, if I can clarify that in the first place.

This being said, we have a capacity coming on stream toward the end of this year in Europe, as you know, and we are working on the following phase because, as I indicated on previous occasions, we are well-positioned in Europe.

We see strong traction in the EV market in Europe, and we know for a fact that the first phase of investment in Poland would not be sufficient to cater for the midterm demand. We're working on that and you stay tuned, and you will hear more from us about the next steps. Sorry, I missed -- the first question was about?

Alex Stewart^ The first questions is more simply is there restock in catalysts?

Marc Grynberg^ There must have been some of that in the last quarter of 2020. It's difficult to make out because the statistics are not providing enough granularity, I mean, the statistics from the automotive industry, to figure out whether there is restocking.

If I look at the inventory days in North America and in China, it looks like they are stable and there is no further restocking, and the demand and production are pretty much in balance.

For Europe, it's difficult to make out because most cars are being produced on order rather than being purchased from inventories. There it's difficult to make out, but I wouldn't see good reasons for car makers to build stocks ahead of all the order book. I don't think that's the case.

Alex Stewart^ Sorry, Marc. If I could just clarify, I'm not talking about inventories of cars. I'm talking about the car companies and their inventories of catalysts.

Marc Grynberg^ That's never been the case. You never...

Alex Stewart^ There was no restocking last year?

Marc Grynberg^ Oh, no. Sorry. I misunderstood your question, Alex. No, there has never been a restocking of catalysts. Catalysts are always delivered just in time because the value in transit or inventory would be much too high because of the value of the PGMs in the catalysts. That's not a practice in the industry.

Alex Stewart^ It's interesting you said that because...

Marc Grynberg^ The catalyst industry is located near the main automotive production center so there is no issue around the risk of logistics, bottlenecks, or whatsoever.

Alex Stewart^ Okay. Thank you very much.

Operator^ Thank you for your question. We have the next question from the line of Mubasher Chaudhry from Citi. Please go ahead.

Mubasher Chaudhry^ Hi, Marc. Thank you for taking my questions. What I want to know is on the working capital, you said that it will be quite a significant build. Should we think about the uplift and the guidance today as kind of mostly going towards the working capital building therefore and that free cashflow is going to be very, very limited?

Or should we expect a portion of that free cashflow going up from the outlook and PGM guidance that you provided today? Thank you.

Marc Grynberg^ Hi, Mubasher. I will hand over to Filip to address your question, if you don't mind.

Filip Platteeuw^ Yes. Good morning. I think what we're saying is that obviously, we've given the kind of metal prices you see today, the impact on working capital, and we're really talking about Catalysis is expected to be quite substantial.

It's a bit too early to quantify, but indeed an important part of the earnings cash increase that we expect that we guide to will be going to working capital. It's a bit too early to really quantify it, but we expect it to be substantial given the prices and customer effect that you have through inventories and receivables. We'll quantify that.

Mubasher Chaudhry^ Thank you.

Operator^ Thank you for your question. We have the next question from the line of Adam Collins from Liberum. Please go ahead.

Adam Collins^ Hello. A couple left, please on Recycling. Marc, in the prepared statement, you mentioned the capacity investments, which if I'm not mistaken were around sort of 2016, where processing capacity went up from about 350kT to 500kT.

Question is, how close to full capacity are you now, and to what extent has the opportunity to fill some of that volume in the last few quarters has been a driver to your enhanced profits now? Another question on PMM. To what extent has strong demand for investment products and the volatility of prices, which benefits metal broking been a factor?

Marc Grynberg^ Good morning, Adam. I would say we are operating at a full capacity indeed. Now the capacity figure has to be interpreted in function of the mix of materials. You may recall when we spoke back in 2015 or 2016, about the 40% capacity increase, that the purpose at that time was to target mostly industrial byproducts that filled the additional capacity.

In the meantime, as I mentioned in some of my previous remarks today, the mix has changed quite dramatically, with much more focus on PGM containing end-of-life products, and we have adapted our capacities and capabilities to be able to treat more of those.

Considering the current mix impact, yes, we are operating at full capacity, and the ramp to that full capacity utilization last year and this year are significant factors in the overall uplift in profitability indeed. Then regarding precious metals management, again, we could have said something.

Now that you raised the question, with hindsight, I realize we could, or should have said something in the press release about this. Yes, we had last year a strong contribution from

PMM, and, yes, the contribution this year is very strong too. In the current context, we see continued very high demand for investment products.

That's one aspect, and you know that when metal prices are high and volatility is high, this trading activity is generating outstanding profits and has fairly, in relative terms, a high contribution to the overall profits of the business group.

Adam Collins^ Okay, Marc. Thank you. That's was clear. Thanks.

Operator^ Thank you for your question. We have the next question from the line of Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray^ Hello. Good morning, and thank you for taking my question. I just have one on the Energy & Surface Tech segment. I'm wondering, can we disaggregate the drivers for the slight upgrades to EBIT guidance since the last update?

Is there any metals price impact here, either positive or negative, from nickel or cobalt? And relative to the time Umicore last updated the market, have assumptions for prices or volumes changed for cathode material? Thank you.

Marc Grynberg^ Good morning, Sebastian. Let me outline the key drivers to the slight upgrade. One is the volumes. We have better volumes than expected and the non-battery units. The other business units of the business group, we see there stronger demand than we had anticipated when we spoke two months ago.

You may recall that for battery materials, we said in February that volumes would grow materially, or I think we said very substantially, in 2021 from the levels of 2020, and that is confirmed today. We are growing extremely well in battery materials. That is in line with what we saw back two months ago, and this is very much in line with how the market is growing at this stage.

This being said, we have somewhat more traction in Europe than in the overall mix, and this is a favorable factor compared to the assumptions we made two months ago. As I mentioned, the market conditions remained fairly depressed and challenging in China. The fact is that the regional mix helps us to a certain extent indeed, and somewhat more than we had anticipated when we spoke two months ago.

These are two positives. The strong demand in the other business units other than battery materials, and the mix effect in battery materials, while the growth there is very strong. There is one clear negative headwind I mentioned earlier in the call, of the cobalt dynamics.

Sebastian Bray^ Is there any impact from nickel?

Marc Grynberg^ Not compared to when we spoke last time. It's really negligible.

Sebastian Bray^ That's helpful. Thank you for taking my questions, Marc.

Operator^ Thank you for your question. We will take the two last questions from Jean-Baptiste Rolland from Bank of America.

Jean-Baptiste Rolland^ Hi, Marc. Good morning, and thank you for taking my question. I have only one in relation to Catalysis. I think you're usually very cautious in terms of commenting on markets there on short-term trends. I was curious to understand if you can share a little bit more in terms of who you're taking the market cap from in Asia.

Would you say that it is mostly from local players or some of your international competitors? Then on -- actually one just quite like another [technical difficulty] in relation to, I just want to follow up on Energy & Surface Technologies, when you say better volumes in non-battery units, how is that different to the headwinds that you're signaling from cobalt?

Is it just a matter of volumes versus pricing if they can be in the cobalt and specialty materials units, or does it work differently? Thank you. If you can clarify. Thanks.

Marc Grynberg^ Let me start with the second question. The negative of cobalt is upstream because of the refining conditions having deteriorated quite substantially compared to when we spoke last. The volume effect that I was referring to a minute ago is really in the downstream product businesses of CSM, MDS, etcetera. These are the products I was referring to, the product demand.

Still, I would like to put things in context. The strong volume growth is in battery materials, I just want to make sure that my comments are not misinterpreted. The strong volume growth, the strongest volume growth we have in the segments, which is driving the most of the earnings growth compared to 2020, is in battery materials, is in capital materials.

However, that volume growth is mostly in line with what I said back in February. I just wanted to make sure that there was no misunderstanding and that I have not created more confusion than clarity with my comments earlier in the day.

Regarding Catalysis, it is not always obvious to figure out who we're taking market share away from. In Europe, we know that we're benefiting from the decline of diesel against gasoline, and that helps our overall market share. Whether you call that the market share or mix effect doesn't matter so much.

The bottom line is, it's good for us. In China, it's a matter of our customers being very successful in their own markets. Our mix is indeed also favorable and market share gains probably from a number of players, but at this stage, I would prefer not to go into, I would say either quantification or speculation about who that is being taken away from.

Jean-Baptiste Rolland^ Very clear. Thank you very much.

Operator^ Thank you for your question. We will take now the last question from the line of Wim Hoste from KBC Securities. Please go ahead.

Wim Hoste^ Okay. Good morning, and thanks for the opportunity to ask my questions. I have two please, first, to come back on the hedging in Recycling. I'm a little bit surprised that you did not benefit from the very high metal price environment to take on additional hedges. Is there anything changing in terms of the strategy or approach towards hedging? That's the first question.

The second one is a bit of a maintenance question on the shutdown that is planned in Hoboken in the second half of this year. Can you elaborate on what kind of duration you expect it to have? Is it kind of an ordinary shutdown or will it require a come along with additional environmental investments or anything like that? Can you maybe elaborate on that as well? Thank you.

Marc Grynberg^ Good morning, Wim. I will handover to Filip in a moment to talk about the hedges. Let me say in the meantime that the planned shutdown in Hoboken will be a regular maintenance shutdown, so typically duration of approximately four weeks, and that yes, we will make use these four weeks to carry out a number of environmental investments or a commitment to make significant environmental investments.

Any improvement is there to stay. Part of the shutdown time would be utilized meaningfully in that respect absolutely. Now, I hand over to Filip to address your question regarding hedging.

Filip Platteeuw^ Well, the first thing to say is that I mean, we started the year already with a relatively high hedge position for especially gold, and palladium. You may recall, we mentioned it's about two-thirds.

We typically have a hedging strategy that, obviously, takes still some buffer compared to the expected exposure. We were already relatively highly hedged for those two metals, which is why I think it's sensible not to research further. The other metal that's really makes a lot of difference is obviously rhodium, and you know for rhodium, there's no liquid markets.

We had updated you in February that the first time in six months, we have entered into some forward contracts, but that was for 2022 and 2023 for a minor part of our rhodium exposure. This is not a liquid market, so that's not so easy to basically change that.

I would say nothing has changed in terms of the strategy. It's really because of a number of the precious metals we already started with the relative high hedging position in the year.

Wim Hoste^ Okay. Thank you.

Operator^ Thank you for the question. We don't have any other questions. I will turn back the conference to Mr. Grynberg.

Marc Grynberg^ Thank you, Roberto. I would like, at this point, to thank you for joining the call at a short notice and we will speak again in approximately a week's time on the occasion of the AGM.

As you know, on that day, we typically give a more elaborate business update. As I mentioned in my introductory remarks, we felt it was necessary to already share with you the latest developments leading to the guidance we provided you today. More information, more color, and possibly more granularity, when we speak next week during the AGM.

In the meantime, if you have follow-up questions, please feel free to reach out to our Investor Relations team. With that, I would like to thank you again and wish you a very nice day. Talk to you soon. Bye-Bye.

Operator^ That concludes the conference for today. Thank you for participating. You may all disconnect.