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## Half Year 2020 Umicore SA Earnings Call

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Umicore Half Year 2020 Results Call. (Operator Instructions) I must advise you that this conference is being recorded today.

I'd now like to hand the conference over to your speaker today, Marc Grynberg. Please go ahead, sir.

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**Marc Grynberg** ***Umicore SA - CEO***

Thank you, Nadia. Good morning, everybody, and welcome to the presentation of Umicore's results for the first half of this year. Obviously, the presentation will address the effect of the COVID-19 pandemic. And by way of introduction, I will walk you through in a moment the impact of COVID-19 on the automotive industry, which is our largest end market. I will also comment on our response to the crisis. I will then go over the developments in the businesses and the outlook for the coming months before handing over to Filip, who will walk you through the financials. Finally, I will wrap up before opening up the call to you for any questions that you might have.

Before speaking of markets or numbers, though, I would like to express once again my immense gratitude to all those who have fought and continue to fight the pandemic on the front lines as well as to all Umicore employees who have gone the extra mile and have adjusted to very challenging market conditions in order to ensure business continuity to the best extent possible.

As you well know, the automotive industry is the largest end market for Umicore's clean mobility solutions. It is, therefore, useful in first instance, to take a closer look at what happened to that industry in the first half. The figures on this slide clearly show the brutality and depth of the impact of the pandemic on the automotive industry, comparing monthly production of cars across all powertrains in the first half of 2019, which we considered at the time to be very low, with the much worse figures for

2020.

You might recall that the downturn in the automotive industry actually started in the second half of 2018 and grew worse in 2019. In the first half of 2019, we saw steep declines in the world's largest car markets, with production down 12% year-on-year in China, down 6% in Europe and 4% in North America. While we considered the market contraction to be severe a year ago, the figures this year are simply brutal. Production, for instance, was down 88% in China in February, down 93% in Europe in April and down to almost 0 in the U.S. in April, when OEM assembly lines were shut down following lockdown measures.

Globally, car production in the first half was down 35% compared to the already depressed levels of a year ago. Thereby wiping out some 15 years of industry growth.

The only piece of good news came from China, where the recovery started in March and has been remarkably strong since then. In other regions, car production only resumed later, and as you can see from the graphs, at a modest pace.

The next slide details the trends in sales of full EVs and plug-in hybrids. China as the largest market for EVs shows steep drops compared to the first half of 2019 when EV sales were already facing severe headwinds. We have added for reference the average figures for the second half of 2018 to show the sequential trends. We see some recovery as of March when lockdown measures were lifted. But from a low base and with EV sales remaining well below the depressed levels of the first half of 2019 and even below the levels of 2018. It is worth noting that while the Chinese car market has been recovering remarkably well in terms of internal combustion engines, demand for NEVs in the Chinese market remains depressed.

Europe shows relatively good year-on-year growth in the first half, except in April during the lockdown. The growth coincides with the introduction of tighter CO2 regulations in the European Union. However, this performance needs to be put into perspective as it starts from a low base, and roughly 50% of volumes are plug-in hybrids, which on average, need 5 to 6x less kilowatt hours and therefore, 5 to 6x less battery materials than full EVs. In comparison, in China, full EVs account for about 75% of the NEV market.

Globally, sales of electrified vehicles were down 17% year-on-year. However, expressed in gigawatt hours of battery demand, the contraction was more severe because full EV sales declined way more than plug-in hybrid sales.

An exceptional crisis calls for prompt and firm measures and our response to COVID-19 was, first and foremost, to protect our employees by providing healthy and safe working conditions. We introduced strict hygiene and precautionary measures across sites early on, and those continue to be reviewed by a dedicated global crisis committee and adjusted as needed. This week, we had to tighten these measures again in those regions where the pandemic is unfortunately regaining ground. We also took immediate measures to maintain the financial health of the company, particularly in terms of preserving cash. Production capacity was adjusted and employees were furloughed when and where necessary. We also took measures to optimize working capital, and we delayed some of our capital expenditures but decided not to delay EHS related or strategic investments.

To ensure that the efforts were shared equitably among all stakeholders, Umicore's management and Supervisory Board decided to halve the dividend for 2019 to EUR 0.375 per share. Swift and consistent implementation of these different measures allowed Umicore to generate positive free cash flows in excess of EUR 100 million despite reduced activity levels.

As a matter of precaution, we have also decided to further strengthen and diversify our funding structure and increase liquidity. Filip will comment on that later. We have a strong balance sheet and ample liquidity to pursue our strategy. As part of the longer-term response to the crisis, we have reassessed the production footprint of certain activities as well as the carrying value of selected assets. In this context, we have decided to consolidate our North American operations, our Automotive Catalysts in Burlington, Ontario, and closed down our Automotive Catalysts operations in Tulsa, Oklahoma. As the assessment is ongoing, further measures may be required in the second half of 2020 potentially leading to additional cash and noncash adjustments in the second half of the year of a size which could be similar to or somewhat higher than those recorded in the first half of the year.

I will now move on to the business review for the first half of the year. Considering the brutal impact of the pandemic on the global economy, Umicore showed great resilience with results in the first half in line with those of the first half of last year. We demonstrated once more the validity of our business model and strategy based on 3 main pillars with complementary activities that are not necessarily exposed to synchronized cycles. The first half of the year saw a stellar performance by our Recycling business group, offsetting the COVID-19 impact in the Catalysis and Energy & Surface Technologies business groups. At EUR 1.6 billion for the first half, revenues were only 4% down compared to the first half of 2019. Adjusted EBIT was up 1%, while adjusted EBITDA was up 5% year-on-year. Capital expenditure plans were adjusted at the beginning of the pandemic, and CapEx spend amounted to slightly more than EUR 150 million compared to EUR 241 million in the first half of last year. Filip will elaborate on the financials in a moment. I would also like to point out that the Board has decided to pay an interim dividend of EUR 0.25 per share.

As mentioned before, the car industry has been severely hit by the COVID-19 pandemic with Umicore's customers shutting down their assembly lines, we also needed to shut down the majority of our Automotive Catalysts plants for 6 to 10 weeks with additional periods of reduced activity, and this had a severe impact on earnings. The global car market shrank by 35% compared to the same period last year, with car production slumping in all regions, first in China and shortly thereafter in other regions as the pandemic spread and car OEMs were shutting down their factories. Umicore's catalysts' volumes and revenues were slightly less affected than the global car market as we continue to outperform the Chinese market, thanks to our customer mix and market share gains. Also, in the heavy-duty diesel segment, our volumes suffered slightly less than the market as we benefited from higher demand for our

China 5 technologies. The pace of recovery in car sales since the outbreak of the pandemic has been different across regions. In China, there was a remarkably fast recovery with a focus on returning to work and investing in private transport as opposed to public transport where social distancing is more difficult. In Europe and in North America, the return to work after lockdown was more gradual, and consumers are not rushing to the dealerships to buy new cars.

While revenues in Precious Metals Chemistry were impacted by COVID-19 in the segment of inorganic chemicals for the automotive industry, demand for fuel cell catalysts for transport remained solid and was up year-on-year. The business unit also benefited from higher demand for its pharmaceutical ingredients.

COVID-19 also had a significant impact on the results of the Energy & Surface Technologies business group. Global EV sales in the first half declined by 17% year-on-year, with a more pronounced decline of 44% in China, which is the largest EV market in the world. The demand for battery materials was down even more approximately 25% because the sales drop was most pronounced in China and the U.S., which are predominantly full EV markets. This drop was only partly offset by volume growth in Europe, driven to a large extent by demand for plug-in hybrids. Since full EVs have a battery size, which is typically 5 to 6x larger than in a plug in, the trends in regional and thus, vehicle mix amplified the EV sales drop. We expect inventory corrections in the second half of the year to keep a certain degree of pressure on demand for new materials.

Umicore's overall sales of cathode materials were lower than last year due to the COVID-19 impact on EV sales, while we fared better than the EV market, our sales were materially lower than we had expected, which led to unused capacity. This unused capacity, combined with higher fixed cost related to the ongoing expansion resulted in significant negative operating leverage. Demand for cathode materials for energy storage systems has picked up in Korea, since the government completed its investigation of safety incidents in February. However, volumes for the first half remained subdued. Demand for high energy cathode materials used in high-end portal electronics was substantially lower year-on-year as the COVID-19 pandemic also reduced consumer spending in this market segment.
Construction of the new cathode materials plant in Poland unfortunately incurred some delays due to the restrictions linked to the pandemic. Commissioning is now expected in the first half of 2021. For cobalt and specialty materials, after a good start of the year, the impact of COVID-19 became severe in the second quarter, with effects felt on the refining and recycling activities and on most of the end markets.

Electroplating recorded slightly higher revenues, while revenues in Electro-Optic Materials were roughly stable year-on-year.

The Recycling business group achieved record results with all business units contributing to this growth. This performance reflected supportive supply conditions, favorable metal prices and trading conditions across activities and in the Precious Metals Refining business unit a higher availability of the Hoboken smelter. The smelter had no shutdown in the first half of 2020 compared to the extended maintenance shutdown in the first half of 2019. This month, the smelter is undergoing a regular planned maintenance shutdown of roughly 4 weeks, which is one of the reasons that the first half performance cannot be extrapolated to the second half in a linear manner.

In the Jewelry & Industrial Metals business unit, we enjoyed very high demand for gold recycling services and for investment products, which is typically the case in times of recession and uncertainty when gold acts as a safe haven. The Precious Metals Management activity also contributed to the results in a larger proportion than usual, which happens at times of high and volatile PGM prices.

All employees of the Recycling segment have done outstanding work to ensure continuity of operations despite the restrictions imposed by COVID-19, and this allows us to benefit from the combination of favorable conditions which I have just described.

Unfortunately, the Hoboken site has been in the news in the past few weeks around increased lead in blood values and recent fire incidents. Please allow me to provide some context around this. In all our sites, we constantly strive to reduce metal emissions. This is also the case for Hoboken and thanks to very significant investments to enhance the environmental performance of the plant, we have succeeded in bringing metal emissions consistently and substantially below the legal norms. Despite this, we regretfully learned that the lead in blood values of the children living close to the Hoboken plant had increased unexpectedly as opposed to historically low levels in 2019. Lead emissions measured both by Umicore and by the authorities give no indication that such an increase in lead in blood levels would occur. Umicore is now investigating possible causes that may have resulted in the higher readings and is forming a task force with the municipality to explore sustainable solutions, including possible offers to purchase certain houses closest to the plant. We hope to make sufficient progress in the coming months to be able to quantify the effort needed.

Umicore is also investigating the cause of a fire in the lead refinery in March 2020, and a small fire on the roof of a wastewater treatment section in July, and we are updating and expanding our emergency planning with a special focus on fire, safety and prevention. We are obviously continuing to execute the environmental program launched several years ago to further reduce emission and we have reinforced our internal organization to strengthen emergency planning to protect the environment and the local community. Safe operations remain our top priority, and we aim to take all necessary steps to prevent such incidents in the future.

Given the current evolution of the pandemic and the uncertainty it creates in our key end markets, it remains impossible to provide a reliable quantified outlook for 2019. Despite the very limited market visibility, we continue to expect full year adjusted EBIT for the group to be below the levels reached in 2019.

Looking at the outlook per segment now. In Catalysis, we expect a much better second half compared to the tough levels of the first half. This is predicated on a 25% decline in car production over the full year, considering the 35% decline of the first half and the most recent trends. However, given the low visibility in car production and end consumer demand in the current pandemic and recession context, it is impossible to predict market development and hence, to provide a quantified outlook for the business group.

In Energy & Surface Technologies, the supply chains are somewhat longer than in Catalysis, and I expect demand in the second half to be subdued as excess inventories in the battery supply chain will need to be reduced. As a result, adjusted EBIT in the second half is likely to be below the levels of the first half.

In Recycling, the first half performance should not be extrapolated, as I just mentioned, in a linear manner to the second half as Hoboken is undergoing a 4-week planned maintenance shutdown in July and usual seasonality patterns in other businesses need to be taken into account.

While the response to the COVID-19 crisis has mobilized considerable resources, we did not lose sight of the longer-term growth prospects of the company. Our response has been articulated in such a way as to protect our employees and ensure business continuity without compromising our long-term growth strategy. While the current crisis has a near-term impact on our growth trajectory, the long-term drivers behind the strategy remain intact, supporting growth opportunities in clean mobility and recycling. The midterm outlook for electrification, in particular, is very promising as governments increasingly support the move to cleaner mobility with subsidy plans and stimulus packages. Tightening emission norms remain on the agenda in key regions, confirming the need for more complex Automotive Catalysts technologies in the future. Umicore's closed-loop business model also offers answers, well needed answers to resource scarcity and a path towards a more circular economy.

And with this, I would like to hand over to Filip, who will cover the financials.

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**Filip Platteeuw** ***Umicore SA - CFO***
Thank you, Marc, and good morning, everyone. So Marc has already provided you with the key group financials for the first half of this year. On this first slide, we put the adjusted operating earnings in a historical context to illustrate graphically the resilience of our group despite the current challenging business context.

The stellar performance in Recycling entirely offset the earnings decline in Catalysis and Energy & Surface Technologies and supported group margins. This complementarity is similar to what we have experienced in previous crises, and an intrinsic advantage of Umicore's unique business portfolio. Operating cash flows, expressed here as adjusted EBITDA also reflect this. When stripping out the EUR 16 million year-on-year increase in depreciation charges, which result from recent investments and the Kokkola acquisition, adjusted EBITDA increased 5% year-on-year to the second highest half year contribution in recent years, also driving a higher margin.

In our press release, we refer to the particularly pronounced operating leverage effect that played in the first half. This next slide illustrates this. The leverage reflects the fixed cost base of our operations, such as the capital cost as in depreciation charges, specialized skilled labor force and costs linked to license to operate standards. A substantial change in activity levels and revenues as witnessed in the first half of

this year, therefore, disproportionately impacts EBITDA and EBIT to an extent that temporary measures such as furloughing can alleviate but not compensate.
For Catalysis and Energy & Surface Technologies, this operating leverage was strongly negative as on average, plants operated substantially below their capacity. In the case of Energy & Surface Technologies, the increasing operating cost base of the Rechargeable Battery Materials activity due to recent expansions and ongoing projects, acts as an additional headwind.
By contrast in Recycling, the leverage effect on earnings resulting from increased activity levels and higher metal prices, and also favorable trading conditions, was highly positive and compensated for Catalysis and Energy & Surface Technologies.

Our full P&L shows little change year-on-year when considering adjusted earnings. The stable adjusted operating result translated into a stable adjusted net group result. Net financial costs increased as expected, mostly on the back of the increase in financial debt. For example, the interest due on the EUR 390 million U.S. private placement debt, which we entered into in June 2019 was now accounted for. These high interest costs were partly offset by lower ForEx costs.
The net interest charge is expected to increase further due to the cost of the newly issued convertible bond of EUR 500 million. While the bond base is 0 coupon and therefore will carry no cash interest cost, in accordance with IFRS, we will recognize as from the second half of this year, a finance cost that consists of the discounted value of the conversion rights and the amortized transaction cost. These combined costs are expected to add approximately EUR 12 million of financial charges on a full year basis, corresponding to some EUR 9 million after tax.
The tax charge in the first half was also stable year-on-year, reflecting a stable adjusted taxable base for the group despite some substantial changes in the underlying regional result distribution and a stable effective adjusted tax rate of 24.3% over the period. These results exclude material adjustments or nonrecurring items as we used to label them, which reduced the group's net results over the period by EUR 58 million.

The next slide provides more details on these adjustments, which accounted for a total of EUR 72 million on the level of EBIT. Almost all these adjustments are linked to the effects of COVID-19 on a number of our businesses and our response to them. As Marc explained, we reacted to this new reality by assessing our production footprint. This resulted in restructuring measures, of which the closure of Automotive Catalysts production site in Tulsa in the U.S. was by far the most significant.
Total restructuring-related adjustments accounted for a EUR 31 million charge before tax. In addition to these restructuring measures, we also assessed the carrying value of certain noncurrent assets in view of a changed market outlook and accounted for certain impairments. The associated total adjustment amounted to another EUR 31 million pretax charge, including EUR 24 million related to intangible assets such as capitalized development costs and specific IP rights. Of the total EUR 72 million EBIT adjustments, EUR 48 million are noncash and $24 million will result in future cash outs. EUR 55 million are related to our Catalysis operations.
In view of the changes in market context due to COVID-19, we are continuing to reassess our footprint and monitor the value of certain assets. This may trigger additional adjustments in the second half of the year of a similar or somewhat a higher magnitude than those recognized in the first half.

As already briefly mentioned, despite the challenging market context, Umicore's group cash flows showed resilience in the first half of the year. Cash flows from operations before any change in working capital amounted to EUR 347 million compared to EUR 298 million in the same period of last year, as is spotted on the top line on this top graph.
Cash working capital increased by EUR 72 million over the period. And this increase was driven by higher precious metal prices, and in particular, PGM prices. Working capital increased in Catalysis and Recycling, while Energy & Surface Technologies reduced its working capital needs. Cash preservation remains one of the group priorities and working capital management, obviously, continues to be very much part of that.
Cash spent on CapEx and capitalized development cost amounted to EUR 167 million compared to EUR 258 million over the same period last year. This reduction reflects the decision, following the COVID-19 outbreak, to restrict spending on nonstrategic projects with the exception of safety and license to operate investments. In the first half of the year, Energy & Surface Technologies accounted for just over half of group CapEx. This proportion is expected to increase in the second half in view of the projected spending related to the rechargeable battery materials greenfield plant in Poland. For the full year, we would currently guide group CapEx to approximately EUR 400 million.
Finally, these combined flows resulted in a net free operating cash flow of EUR 108 million, doubling year-on-year. This free operating cash flow has been almost fully translated into a EUR 94 million reduction of our reported net financial debt since the end of 2019. Here again, the technical note related to our recently issued convertible bond. Under IFRS, the value of the conversion right of the bond amounting to EUR 50 million is recognized in equity and leads to a temporary reduction of our reported net financial debt by that amount. Over the 5-year life of the bond, this value will be actually added back to our reported financial debt.

More importantly, however, this stable net financial debt, which corresponds to 1.75x adjusted EBITDA, confirms our stable funding structure. Moreover, since the outbreak of the virus, we have substantially increased and diversified our sources of liquidity. Our initial response following the COVID-19 outbreak consisted of increasing our committed and undrawn bank lines over and above the already substantial headroom offered by existing facilities. Then in June, we secured 2 important long-term funding instruments, composed of an 8-year loan with the European Investment Bank of EUR 125 million to partially fund our greenfield battery materials plant in Poland and a EUR 500 million 5-year convertible bond. The proceeds of both instruments are reflected in the EUR 1.2 billion of cash on balance at the 30th of June. This substantial liquidity, combined with a well-diversified long-term debt structure with no near-term material maturities provides a solid basis to pursue the group's long-term strategic ambitions and weather the current market challenges.

This concludes my section. I hand back over to Marc.

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**Marc Grynberg *Umicore SA - CEO***

Thank you, Filip. As a wrap up, I would like to say that I'm proud of the great resilience that Umicore has shown in the most challenging context we have ever faced. Our performance in the first half demonstrated once more the merits of complementary activities within our business portfolio with very strong results in recycling, offsetting the impact of COVID-19 in Catalysis and Energy & Surface Technologies, which were badly affected by the widespread shutdowns at our customers, at our automotive customers.

Our performance also highlighted the agility and determination of our employees. It is also important to point out once more that the long-term drivers behind our growth strategy in clean mobility materials and recycling remain intact with our portfolio of complementary activities, our strong technological capabilities, highly engaged teams and strong balance sheet, we are definitely well equipped to emerge stronger from the current crisis and resume our growth trajectory. And of course, we are equally determined to continue ensuring safe and healthy working conditions.

With this, I would now like to open the call to your questions and now, therefore, hand over the call to Nadia.

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## QUESTIONS AND ANSWERS

**Operator**
(Operator Instructions) And the first question comes from the line of Charlie Webb from Morgan Stanley. Just a moment. So the first question comes from the line of Charlie Webb from Morgan Stanley.

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**Charles L. Webb** ***Morgan Stanley, Research Division - Equity Analyst***
Hello, can you hear me?

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**Operator**
Yes, there we are.

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**Charles L. Webb** ***Morgan Stanley, Research Division - Equity Analyst***
Just a few questions from my side. Unfortunate, obviously, around the delay to your Poland plant. It would be useful to understand how that impacts. I guess, we shifted back roughly 6 months, the growth outlook for your European cathode business into 2021, should we assume that, that has been delayed effectively by 6 months? Or will you be able to offset that with utilizing capacity elsewhere? That's my first question. Second question. Just on recycling, obviously, a very strong first half, as you said. Just understanding, you noted in your commentaries on the division, end of life and auto cats had a positive effect on the mix in H1. What did you see? I know some of your peers noted a big step-up in availability of material ahead of lockdown. So was that a positive effect for you guys as well? And how should we think about that into the second half? Has the availability more normalized now? Or do you still see a very positive mix? Is there kind of more of a secular trend or just availability in the market that we

should be aware of? And then lastly, if I may, just around E&ST, can you help us understand as we think about the second half comments that it will be weaker sequentially because of inventory effects in the cell manufacturer supply chain. How does that tie in to obviously a step-up in platforms launched? Auto markets getting better and I guess also, there's still a positive contribution from the Freeport Cobalt asset that you acquired. So just trying to understand the moving parts and what we should really think the underlying kind of run rate of kind of demand profitability is there? That would be helpful.

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**Marc Grynberg** ***Umicore SA - CEO***
Okay. Charlie, these are many questions. And I should have said initially that I would like everyone to raise 1 question at a time to give the chance to everybody to raise a question. But let me answer your 3 questions to start with the last question on Energy & Surface Technologies. I hear that you are quite optimistic on the market development of EV. Today, I would say, I don't know because I don't see clear signs that the global EV demand would be recovering. You have a fairly supportive market environment in Europe. However, starting from a very small base and with a very high proportion of plug-in EV. So in terms of battery demand, this is, by far, not making up for the shortfalls elsewhere.
In China and in North America and in other regions of the world, the EV market is anemic at best. So I would not dare to call that a recovery or a supportive market from a global point of view. So that's the first part of the comment.

Secondly, indeed, the supply chains are quite, I would say, full of excess inventories. And because of the anemic demand of the first part of the year following investments to gear up for higher growth. And this has to be reduced. And that's why today, my expectation is rather, I would say, downbeat. But the reality is that we don't know because the visibility is extremely limited. So I can only comment based on what I see today. But I would want to leave with you that I don't necessarily share your optimism, you may not necessarily share my more pessimistic view. And the reality is probably that nobody knows and we'll see. So that's on E&ST.

Regarding the supply situation in recycling, it is indeed to be expected that the supply conditions will remain supportive, if not very supportive for the second half of the year. We have not seen huge fluctuations because of the COVID-19 in most segments, except maybe in certain areas where collectors had to stop their operations for a little while. But overall, we are well supplied. And the prospectives are pretty good for the remainder of the year.

And your...

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**Filip Platteeuw** ***Umicore SA - CFO***
Polish plant.

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**Marc Grynberg** ***Umicore SA - CEO***
And, yes, then the first question regarding the Polish plant is that today, it's too early to tell whether we will be able to make up for the delay because that will depend on market developments. I see that the market is also somewhat affected or affected to a very large extent, in terms of growth by COVID-19. So I

would reserve my response to that question until we have some form of visibility into future market demand. But I expect that the delay that we incur today, that's the assumption that I'm making, I mean it's only an assumption, the delay that we're incurring because of COVID will more or less match the delay that we see in the market development.

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**Operator**

And your next question comes from the line of Jean-Baptiste of Bank of America.

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**Jean-Baptiste Henri Rolland** ***BofA Merrill Lynch, Research Division - Associate***

To follow-up on Charlie's question previously. I remember that you had said regarding your Polish plant that you had orders already lined up. And so basically, you had to build this plant. So how have you been able to explain that to your customers, where they are then going to find volumes if they still need those?

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**Marc Grynberg** ***Umicore SA - CEO***

Jean-Baptiste, again, what I would say is that our customers are equally affected by COVID-19 and the impact of COVID-19 on the end demand from the consumers. So I do not expect that the delay to be a major factor in the way we deal with those customers and their demand, plus please bear in mind that there is quite a degree of excess inventories in some of the supply chains that can help deal with the spikes, if any, would occur.

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**Operator**

Your next question comes from the line from Geoff Haire.

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**Geoffrey Robert Haire** ***UBS Investment Bank, Research Division - MD and Equity Research Analyst***

Sorry to come back to this question again. But this week, we've had LG and SDI, both talking about double-digit gigawatt growth for batteries in the second half of the year. If they're right, and you're right, that would imply that the supply chains are massively oversupplied over the next 6 to 12 months. Is that effectively what you're saying? Or are we missing something in those 2 comments from the battery pack manufacturers and what you're saying about supply chains?

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**Marc Grynberg** ***Umicore SA - CEO***

Geoff, difficult for me to answer that question because, in a way, nobody knows. And I mean, I don't see customers rushing back to the dealerships to buy cars. And so there may be growth, there may be stability. I think that the visibility, given the current stage of the pandemic is so low that I would be at err commenting on that. And my view is just a view. And their view is a view that may be valid, but the reality is that today, nobody knows. And again, the visibility on end consumer demand is so low, the visibility on the risk of the pandemic further expanding is currently low or is currently concerning in a way. So I tend to err on the precautionary side of things because I don't expect markets to be very supportive. And I would be more than happy to be proven wrong. But again, I can only say that the visibility is so low that the reality is we can only offer a scenario or a set of assumptions, but admitting that we don't know. And I think that the reality is that nobody knows. And everybody has to work with a set of assumptions.

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**Geoffrey Robert Haire** ***UBS Investment Bank, Research Division - MD and Equity Research Analyst***
So I'm assuming from your comments today that I think you said that you expected flat sales in cathode materials back in April. I'm assuming you're now assuming that sales will be decreasing year-on-year for the full year?

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**Marc Grynberg** ***Umicore SA - CEO***
I'm saying that it remains to be seen. We'll see. The market developments are so uncertain. The only certainty, again, sorry, I missed that in the previous part of my response, the only certainty that we have is that there is a lot of excess inventories that have to be worked down first.

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**Operator**
And your next question comes from the line of Charles Bentley from Crédit Suisse.

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**Charles Bentley** ***Crédit Suisse AG, Research Division - Research Analyst***
I just wanted to ask on the nature of the delays of Poland plant. I mean, are they continuing to date? I guess there wasn't really an indication of any risk of a delay from COVID until today. Can you explain kind of what's happened with that? And then I guess it, from your comments, also sounds like market developments are kind of maybe as much of a factor as actual relation to COVID. Is that fair?

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**Marc Grynberg** ***Umicore SA - CEO***
So the delays are typical COVID induced delays. With restrictions on the transport and movement of people and goods, not allowing certain, I would say, construction works to take place during a number of weeks. And certain equipment to be manufactured in time with our customers are being transported to the new site. So these are purely COVID induced delays that you would see probably in most projects of that sort nowadays. So the delays are not continuing, if that's also a part of your question. It's just the effect that we can estimate now of what has happened in the first part of the year. So hopefully, there will be no other lockdown measures needed in Europe and some other parts of the world. The first half of 2021 is a realistic expectation.

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**Operator**
And your next question comes from the line from Mubasher Chaudhry from Citi.

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**Mubasher Ahmed Chaudhry** ***Citigroup Inc., Research Division - VP***
I just wanted to get your comments on whether the contracts in cathode materials are being delayed by customers? Or are you seeing a mixture of delays and cancellations at the moment? And just 1 quick on working capital. If you could break out the inflow from E&ST and the kind of the outflow in recycling, just to kind of see the constituent moving parts, that would be really helpful.

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**Marc Grynberg** ***Umicore SA - CEO***
Mubasher, we see no cancellations in the contracts. And the contracts are multiyear contracts. So we are

reviewing constantly with the customers when the volumes need to be delivered. And I have no concern or no reason to believe that there would be cancellations because the volumes will be needed. As I mentioned, the mid-term prospects for electrification remain extremely supportive and solid. And so the materials will be needed. The EVs will be produced and sold. Currently, indeed, there are delays because of the current pandemic situation and its impact on the economy and on the consumer behaviors. But I have no reason to believe or to expect any cancellations under these existing contracts. I will ask Filip to take the question on working capital.

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**Filip Platteeuw** ***Umicore SA - CFO***

So on working capital, maybe starting with Energy & Surface Technologies, indeed, after a number of years of increases, we've had a decrease in working capital also because we put quite a lot of focus on that. It's a combination of volume effects and pricing effects. If you take the metal prices, related to that operation, you will see that the prices have come down. So it's a combination of volumes, the market that we already discussed and end prices. In Catalysis, we have an increase, as we highlighted before, that's mainly driven by metal prices, by PGM prices. That's a very important factor. Obviously, COVID and the impact on logistics has an impact. The Catalysis business has many different plants close to the customer. But it's mainly metal price driven. And then in Recycling, it's metal prices, obviously, it's some temporary effects. But let's be clear that we really focus internally when we talk about working capital and first emphasis on Catalysis. So making sure that we manage the effects of metal price increases and on E&ST to bring down the working capital recycling just short of 80% of ROCE in the first half of this year. So that's obviously less of an impact. And also that has a business model, which, as you know, is low in working capital anyway. So really the focus is on enhancing these and that will continue.

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**Operator**

And your next question comes from the line of Alex Stewart from Barclays.

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**James Alexander Stewart** ***Barclays Bank PLC, Research Division - Chemicals Analyst***

I have 2 relatively quick questions, if that's okay. Just to go back to Geoff's comments, if your customers, LG and Samsung and all the others are expecting a better third quarter, then it doesn't really matter whether they're right or not about the end market demand because in the end, they expect better demand, they'll be buying more inventory ahead of time. So to ask the question again, if your customers are expecting a much better quarter and presumably filling their supply chains accordingly, and you're expecting a destocking then the level of excess inventory at your customers must be absolutely massive, which suggests they were hugely over ordering at the end of last year. And is that wrong? And if so, why is that wrong? And then just very quickly, could you comment on the target to get to 60 gigawatt hours and 100 gigawatt hours as previously communicated at the beginning of the year? Has anything changed in those 2 ambitions?

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**Marc Grynberg** ***Umicore SA - CEO***

I don't share your interpretation of the statements made by the 2 battery players that you've mentioned. It's not because you have expectations that you produce an order. You produce and order materials if your own customers are ordering effectively. So again, I'm not saying I'm right. I'm not saying they are wrong. I'm not saying they are right and I'm wrong. We'll see what the market development is. And again, I think we are humble enough to say that the visibility is not there today to answer these questions with any degree of precision and give you a more solid guidance in that respect. So I don't share your reading of their statements in a way. Sorry, you had a second question on the...

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**Filip Platteeuw** ***Umicore SA - CFO***

The gigawatt hours.

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**Marc Grynberg** ***Umicore SA - CEO***

The gigawatt hours. I mean, I cannot answer that question today. Once the pandemic will be over and we'll have, again, a more reasonable visibility on market developments, I will be able to answer that question in a reasonable manner.

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**James Alexander Stewart** ***Barclays Bank PLC, Research Division - Chemicals Analyst***

So you can't confirm that your previous guidance about the total gigawatt hours you expect to be installed by 2021 and 2023, you can't confirm that that's still valid?

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**Marc Grynberg** ***Umicore SA - CEO***

Well, today, there is nothing I can confirm because, I mean, tell me when the pandemic will be over, and I will answer the question. Nobody knows what market developments will be in the near term. And clearly, you're talking about something which is very near term, which is next year. So let us first go through the crisis. Figure out once the pandemic is over and hopefully that will be soon enough, and let's figure out how markets resume, recover, rebound, whatever happens at that time, and then we'll answer that question.

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**Operator**

The next question comes from Charles Bentley from Crédit Suisse.

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**Charles Bentley** ***Crédit Suisse AG, Research Division - Research Analyst***

Can I just ask on cathode volumes in the second half, I mean, I know visibility is basically 0. But like can you give me any indication on whether you expect any region to be higher half-on-half in the second half? And then can I just squeeze in the kind of recycling question. Can you just give an update on kind of what's hedged?

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**Marc Grynberg** ***Umicore SA - CEO***

Yes, I will hand over to Filip in a moment regarding the hedges. No, at this stage, I would prefer again to reserve my response on volumes for the second half. And yes, the regional mix, if I look only at the picture today, and again, I don't know how it will evolve in the coming weeks or months. The picture today is that the largest markets in the world are still severely depressed, and that is, in particular, the case in China, where we don't see, as we speak, a recovery in EV demand. It may change tomorrow, I don't know. And Europe looks today better because of the introduction of the new CO2 regulation. So although overall sales volumes of cars and production volumes of cars remain subdued. The penetration of plug-in hybrids and full EVs is increasing in Europe. So from a regional perspective, what I see today is that a somewhat more supportive picture in Europe as a result of the CO2 regulations and the introduction of new models, a broader model lineup. And while China and U.S. are extremely depressed. Filip, on the hedges, please?

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**Filip Platteeuw** ***Umicore SA - CFO***
Yes, on the hedges, Charles, so not really anything to add compared to what we put in the press release. So what we also mentioned mid of June. So when we talk about hedges, we talk about precious metals and certain PGMs, PGMs it's mainly palladium and partly platinum that there's no future market for rhodium. So in rhodium, we are not hedged, which is very important, obviously. And so in terms of the exposure for this year, I mean, the bulk of the exposure is locked in already. Then for gold and palladium, we locked in more than half for 2021 as well as part for 2022. And then we also have a portion of the silver and platinum exposure also hedged in for the next 2 years.

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**Operator**
And your last question comes from the line of Georgina Iwamoto from Goldman Sachs.

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**Georgina Iwamoto** ***Goldman Sachs Group, Inc., Research Division - Associate***
I was wondering, are you able to share what proportion of EST is China compared to Europe as of today? And how would you expect that to change over the next 5 years? Even just a qualitative answer would be extremely helpful. And then if you think about the supply landscape and barriers to entry, would you expect to have a higher market share on European platforms versus China as the European market develops in the future?

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**Marc Grynberg** ***Umicore SA - CEO***
Georgina, let me start with the second part of your question, which can be answered in a straight manner. The answer is yes. As I explained on previous occasions, the market is more fragmented in China than it is in other parts of the world. And therefore, I indeed expect to have a larger share of our European platforms sold into Europe than would be the case for the domestic market in China. Sorry, I missed the other question.

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**Filip Platteeuw** ***Umicore SA - CFO***
China versus Europe.

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**Marc Grynberg** ***Umicore SA - CEO***
Okay. Yes, of course. Clearly, if you look at the first half of the year, the market has been down in China by a significant margin. I mean, EV sales dropped by 44%. The gigawatt hour demand dropped even much more than that because of the excess inventories in China and the overcapacity in China. So battery demand has dropped quite dramatically. And indeed, in the first part of the year, China represented a much reduced portion of our E&ST results compared to prior years. That's indeed the case, looking at the market evolution.

I would like to add 1 thing, which I should have actually mentioned in my presentation and it could have helped to appreciate some of the market developments. Clearly, our revenues are down in E&ST because of the market developments in EVs. And if I look at our volumes and our revenues in rechargeable battery materials, while they were down, they were much better than the overall market. So that is another perspective maybe to offer, and another way to look at things. It's not satisfactory. Of course, I would have preferred the market to do well and Umicore to be on track with its growth plans and not to end up with unused capacity. But the other way to look at that reality is that we're doing relatively well compared to the average of the industry and compared to the overall market development. And this is one of the reasons why, as I have no visibility on the market developments, I remain confident that we are well positioned to resume our growth trajectory when market conditions will allow that.

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**Operator**

And the next question comes from the line of Ranulf Orr from Redburn.

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**Ranulf Orr** ***Redburn (Europe) Limited, Research Division - Research Analyst***

Just changing topic to recycling. You said not to extrapolate the performance into the second half. I'm just wondering if you could give some idea on the moving parts. You talked about the shutdown, but perhaps the trading component that supported its growth in the first half as well? And how much that contributed as well, and if that continues to?

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**Marc Grynberg** ***Umicore SA - CEO***

Ranulf, I would say the main difference between H1 and H2, when I mentioned that we should not extrapolate in a linear manner, relates to the maintenance shutdown. So that's the main moving part because, by definition, the availability of a smelter will be 4 weeks less in the second half compared to the first half. And in the current market conditions, considering the supply mix that we have, the metal prices, et cetera, 4 weeks availability means quite a bit. Trading conditions, clearly, the contribution of the metals management activities was very high in the first part of the year. I don't want to go and quantify that, but it was very high. It's disproportionately larger than in the normal years. And difficult for me to say whether that will be repeated completely in the second half of the year because it depends not only on the absolute level of metal prices, it depends more importantly on the volatility patterns in the PGM markets. And so we'll see where these are in the second part of the year. But let's assume that the trading conditions remain the same as in the first part of the year, there would be no reason to have a lesser contribution in the second half.

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**Operator**

That does conclude the Q&A session, and I hand over to the CEO, Marc Grynberg.

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**Marc Grynberg** ***Umicore SA - CEO***

Thank you, Nadia, and thank you. I would like at this point, to thank you all participants of the conference call and offer you, as usual, to reach out to our Investor Relations team to address your following questions as I'm pretty sure that there will be follow-on questions. And in any case, we will also speak again in the beginning of next week and have a chance to elaborate on some of the things that are closest to your heart. So thank you for now and wish you already a nice and sunny weekend and wish you all to keep well. Bye-bye.

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**Operator**

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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