

UMICORE SA UPDATE ON TRADING CONDITIONS AND OUTLOOK CALL

April 23, 2019

Corporate Speakers:

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

Participants:

- Charlie Webb; Morgan Stanley; Analyst
- Chetan Udeshi; JPMorgan; Analyst
- Nathalie Debruyne; Degroof Petercam; Analyst
- Ranulf Orr; Redburn Partners; Analyst
- Geoff Haire; UBS; Analyst
- Sebastian Bray; Berenberg Bank; Analyst
- Peter Testa; One Investments; Analyst

PRESENTATION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Umicore conference call. (Operator Instructions). I must advise you that this conference is being recorded today on Tuesday, April 23, 2019. I now like to hand the conference over to your speaker today, Marc Grynberg. Please go ahead.

Marc Grynberg: Thank you and good morning, everyone. We announced earlier this morning some significant developments which have emerged or crystallized since we last spoke and which will be affecting our business in the near-term. Given the material influence of the development on the great potential for this year and next, we had to communicate them as soon as possible. That's why we are providing the first earnings guidance of this year a few days ahead of the AGM; the AGM being the occasion on which we have typically provided such guidance in the past.

The primary purpose of this conference call is to address any questions that you might have regarding the news that we released this morning. And I appreciate therefore that you are joining the call at such short notice.

Before opening the floor to questions though, I will recap the key elements of this morning's announcement starting with the main developments in Energy & Surface Technologies and in particular in the rechargeable battery materials business.

You will most likely recall that I said a year ago, at the time we announced the newest wave of capacity expansion, that we projected to achieve sales of 100,000 metric tons of capital materials in 2019 and to have a capacity of 175,000 metric tons by the end of 2021. It appears more probable now that we will reach these two milestones with a delay of approximately 12 to 18 months. This is due to a combination of three factors which have either emerged or crystallized in recent weeks.

In the first place, the context has become less favorable and we observed a slowdown in the sales of EVs. In China, the largest EV market in the world, this slowdown is most pronounced and it is probably due to the change in the subsidy mechanism which has just been decided by the Chinese authorities.

The fading out of subsidies in China by 2020/2021 is not a surprise. But the cuts for 2019 are deeper than expected. Their impact on EV demand is expected to be significant in the near-term in a context where automotive demand in China is weak. The impact of the subsidy cuts on the [e-bus] market segment is even more severe as the demand in this segment is almost exclusively driven by regional and national government support.

Secondly, the start of production of one of the largest EV platforms in China for which [ore] materials are qualified has been postponed.

The third factor relates to energy storage systems in Korea, which has become the largest market for this application as a result of a strong government push to install new storage capacity for renewables. The installation of such systems has been halted following a series of safety incidents.

Several fires broke out in installed capacity in the course of 2018 and, as new incidents occurred in 2019, the government decided to shut down publicly run systems and recommended private owners should do the same while the safety incidents were investigated. As a result, battery producers have now decided to stop the production of any new systems and the demand for NMCs used in this application has dried up.

The combination of these three factors – the slowdown in EV demand in China both for passenger cars and [e-buses], the postponed launch of one of our large EV platforms in China, and the absence of demand for energy storage systems in Korea – is reducing the demand for ore NMC materials and explains the estimated delay of 12 to 18 months to attain the milestones of 100,000 and 175,000 metric tons.

Obviously we are adjusting our additional capacity plan accordingly. In practice the commissioning date for the new sites in China and Poland aren't changed so that the first new lines will be commissioned around midyear in China and mid-

2020 in Poland. What will effectively change is the pace at which we will be adding new lines in China.

Besides the delay affecting the development in the near-term of our capital materials volume, I would like to point out that our volumes and margins in Energy & Surface Technologies are affected in a material manner by the violent swings in cobalt price. This is particularly visible in the Cobalt & Specialty Materials business unit where margins on cobalt refining, recycling and distribution activities are a function of cobalt price.

You will recall that this proved a supportive factor in the first half of 2018 at a time of very high cobalt prices and turned against us in the second half of the year when the metal price started to decline. Unfortunately, this impact became even bigger in the first quarter of 2019 as cobalt prices almost halved from the end of 2018.

This price effect was amplified by volume effects as customers bought more cobalt containing products than they needed when the cobalt prices were on the rise by fear of a shortage, and started to work off the excess inventories when prices were falling in the second half of last year and continue to do so in 2019.

The impact on our sales of the customer destocking is exacerbated by the ample availability of cheap cobalt units originating from artisanal mining operations, which enable several of our competitors to offer cobalt containing products at a significant discount.

As you well know, Umicore has a strict policy of not buying any cobalt from artisanal operations, although these units – these cobalt units are cheaper. This is because the working conditions in artisanal cobalt mines in terms of safety and occupational health are indecent and very often these operations involve child labor.

Umicore has been a front runner in implementing a sustainable procurement framework for cobalt. Together with some other players we are promoting a more sustainable rechargeable battery value chain, for instance through the Global Battery Alliance, which works under the auspices of the World Economic Forum.

As a matter of fact, working in a responsible manner comes at a higher cost to Umicore as we have to ensure our entire supply chain and our own operations strictly meet tight standards. My ambition, and this was explicitly stated as part of the Horizon 2020 objective, is to turn our sustainability approach into a competitive advantage that would be recognized by the customers either through a sustainability premium or through additional volumes.

So, I am clearly disappointed that today we are still penalized twice, firstly by incurring higher costs, secondly by directly or indirectly missing out on volumes.

The cobalt price effect and the inflow of artisanal cobalt combined with the delay in the development of capital material sales means that recurring EBIT of Energy & Surface Technologies in 2019 is expected to be well under the level achieved in 2018. This outlook also incorporates the effect of higher fixed costs, such as depreciation charges resulting from last year's investments, and the upfront costs for the greenfield sites in Poland and China.

Let me now turn to the Catalysis business group. As expected the automotive market is proving to be challenging with global car production down by about 6% in the first quarter compared to a relatively strong Q1 last year. The slowdown is most visible in China and Europe with production dropping in the first quarter by 12% and 5% respectively.

While there is still some uncertainty about the timing and extent of a recovery in demand, Umicore is set to benefit this year from the gradual introduction of gasoline platforms which we have recently won and that require a particulate filter. We are expanding production capacity in Poland and China in order to meet this additional demand and the new production lines will be ready to operate in the second part of the year as originally scheduled.

In the smaller precious metals chemistry business unit we continue to see growing demand for our compounds used in pharmaceutical applications and in chemical depositions. This unit is also building a fuel cell catalyst plant in Korea which will be commissioned at the end of this year. Overall recurring EBIT for the catalysis business group is expected to grow from last year's levels, slightly ahead of the consensus of the market.

In recycling we see a combination of positive factors supporting the business. Firstly, as we indicated earlier this year, the Hoboken plant underwent an extended shutdown in the first quarter during which we carried out regular maintenance work as well as technical modifications to the key equipment. The investments were successfully completed and will already benefit the performance of the plant this year. This should offset the volume impact caused by the longer than usual unavailability of the plant.

I would also like to point out that the facilities which had been damaged by the fire in September last year have been fully repaired and are now operating normally.

The second positive factor in recycling is an improvement in market conditions for certain grades of end-of-life materials. Finally, the business group should also benefit from higher PGM prices. Overall it is expected that recurring EBIT for recycling will exceed that of last year, ahead of the consensus of the market.

Considering the development in all three business groups, I expect recurring EBIT for the full year to be in a range of EUR475 million to EUR525 million with catalysis and recycling expected to grow over the levels achieved in 2018, while the contribution of Energy & Surface Technologies is expected to be well below that of last year. This range reflects the uncertainty that prevails in the automotive market; the impact of fluctuating metal prices, especially for those metals that cannot be hedged; and the overall macroeconomic environment.

Clearly the delay we see today in the realization of our growth plan in capital materials is an unexpected setback. The need for a transition to cleaner mobility remains however, and we are fully committed to our strategy and leadership ambition in this domain.

We will address the challenges along the road with determination and I expect we will achieve significant growth in revenue and recurring EBIT in 2020, albeit below the indications that I had previously given. The growth will predominantly come from the volume developments in capital materials and the volume and value uplift in automotive catalysts as a result of the introduction of tighter emission norms in several regions.

With this I would now like to turn the call over to you for questions. (Operator Instructions).

QUESTIONS AND ANSWERS

Operator: (Operator Instructions). Charlie Webb, Morgan Stanley.

Charlie Webb: Just my one question, as we think about 2020, I remember previously that that ramp-up was backend loaded when we thought about how 2019 and into 2020, given the 12-, 18-month delay to EV sales, cathode sales opportunity, how do we look at 2020 in terms of – is it more getting to that guidance range by 2021? Is that the right way to look at that now? Or can you perhaps help us understand how much growth we should expect through into next year is that ramp-up starts to come through?

Marc Grynberg: Yes, good morning, Charlie. Given the – still the uncertainty between 12 and 18 months of delay, I think your reading is probably correct indeed.

Charlie Webb: Okay, thank you very much.

Operator: Chetan Udeshi, JPMorgan.

Chetan Udeshi: Mark, on your comments on EV sales slowdown in China and I'm just a bit surprised here because you've not actually seen any slowdown year

to date. In fact, if anything the sales data from China suggests that the EV sales have remained pretty strong so far before the subsidy cut.

So, maybe you can explain, is that specific to maybe the customers that you might be exposed to who might be seeing it? Because it doesn't seem the market in general is seeing or has seen a significant slowdown in China as such. And maybe just a small follow-up on the same point. How does the volume slowdown on the delayed other impacting if any the pricing dynamics in your [cathode] materials business? Thank you.

Marc Grynberg: Good morning, Chetan. So, it depends how you look at the data. In a way if you look on a year-over-year basis you indeed continue to see growth in global sales and in EV sales in China as well. However, since the industry has added significant capacity throughout the value chain in the course of 2018, the sequential evolution is somewhat more telling.

And while the quarter-on-quarter sales are higher indeed, globally they represent about one-third of what they were in the second part of last year. So the sequential drop is pretty brutal and is most pronounced in China.

So, I refer indeed to the sequential evolution with the industry having built significant capacity to address a market that, in the course of last year, had become significantly larger than the sales and the demand are today.

Operator: Nathalie Debruyne, Degroof.

Nathalie Debruyne: I was just wondering, so you [flex] pretty well actually the sequential evolution of EV demand and EV production in China. Do you see a similar pattern for plug-in hybrids or do you see actually the trend a bit softer there? Like the decline could be slower I would say in plug-in hybrids than in electric cars as such. And if so what would be the impact for you?

I know that from a cathodes material perspective it's, of course, not interesting. But I'm also thinking from a catalysis point of view, this might partly compensate. So how do you see the dynamic evolving there?

Marc Grynberg: So when I mentioned EVs I referred to not only full EVs and I also included there, as we typically do, the plug-in hybrids. So, it's electrified vehicles. Today we don't have the full data set in order to distinguish between EVs and plug-in EVs in terms of evolution. And I can only say today that it's the overall market that is down.

Now looking at the catalysis side of things, clearly the automotive demand overall has been fairly, I would say, depressed in the first – was fairly depressed in the first quarter of this year with production down globally by more than 6%. And again there China being the most significant factor where production, if my

numbers are correct, was down by some 12%, 13%. So this indeed, by definition, has an impact on the catalyst activity obviously.

Operator: Ranulf Orr, Redburn.

Ranulf Orr: It sort of feels like the delay to the EV platform is – the large EV platform in China is really the big incremental new news here. And I'm just wondering if you can sort of quantify how much of an impact that is having on the delay to the capacity. Is that the largest contributor?

And then sort of following directly on from that, is there any confidence you can give us that this won't happen to other very large EV platforms that you are reliant upon? Thank you.

Marc Grynberg: So there are a number of new developments in not only be postponed launch of that platform, the lack of demand – or the absence of demand for the energy storage market in Korea is another material development for us. And the change in subsidy mechanism in China is the third one that has and is likely to continue to have a material impact on the market both for passenger cars and e-buses. And e-buses being a sub segment where Umicore early in the game had been well positioned.

So, it's the combination of these three factors that really explain the 12- to 18-month delay. And each one taken in isolation is material enough to be mentioned, but it's really the combination of the three that explains the delay.

Ranulf Orr: Okay, I guess I was just referring to the fact that we knew the subsidy cut was coming – or the changes to the subsidy program were coming back in February when we lost met. And to perhaps ask it a different way – are there any other significantly large EV platforms of the same sort of magnitude on your order books that are at risk of being delayed as well?

Marc Grynberg: Well, first of all, again, on the subsidy cuts, what is the factor, the surprise is not indeed that there is a subsidy cut, because we knew and the market knew that the subsidies were going to be gradually phased out by 2021 – by 2020/2021. What came as a surprise was how deep the cuts were both at the national and regional levels.

And their impact on the market is probably in a way aggravated by the fact that these deeper-than-expected cuts happened at a moment when the overall automotive demand in the region is quite weak.

Now I would like also to remind everyone that the start of production and volumes are never guaranteed. So what we know is for which platforms were qualified and we have quite a number of relatively large platforms indeed in the portfolio. This being said, the start of production – and the same is valid in

automotive catalysts, by the way – start of production and volumes are never guaranteed.

Operator: Geoff Haire, UBS.

Geoff Haire: I'm just wondering if you can help us understand what impact the change in guidance and also the delay in the ramp-up of the NMC production capacity will have on cash flow, particularly with regards to working capital, but any other lines that have an impact on the cash flow, please.

Marc Grynberg: I will hand over to Filip to answer that question.

Filip Platteeuw: So, on the cash flow front we today would repeat what we said in terms of guidance back in February, which is that on the free operating cash flow we expect a significant improvement versus what we've seen in 2018.

And maybe to walk you through that calculation, so if we take – we start from the top and recurring EBITDA, the EBIT range, you've heard today that we put to the market in terms of depreciation, to add to that I would guide today – and it's still early obviously in the year, but I would guide to a depreciation charge of something a bit above EUR230 million. So this compares to EUR207 million last year.

So you see that obviously given the historic investments, and especially the investments in battery materials last year, that we have a material increase in depreciation charges. So that is for EBITDA.

And then on CapEx, the CapEx guidance for this year, and this includes the timing effects that Marc talked about in terms of battery materials, I will guide to something like EUR600 million of CapEx for this year. That includes some carryover from last year. As you may recall, we mentioned that in the February call as well.

And then the delta is working capital, so on there I would say it's a bit too early in the year. But we definitely would repeat the guidance that free operating cash flow this year should be significantly better than what we've seen last year. We will update that as we get to the half-year results.

Geoff Haire: But Filip, just in terms of working capital, could I just come back on that? You obviously – if you're delaying the line extensions in China particularly, you obviously don't have to fill those lines. But then at the same time you've got capacity that is currently operational, which is building – or is making NMC capacity. So, we're just trying to understand what's happening to the inventories within that then.

Marc Grynberg: Yes, that is one of the factors, Geoff, that will indeed play into working capital, but there's other factors – there's timing factors, there's also timing effects like on payables versus receivables. So again, today we would repeat that the guidance of February, which is for – that's for free operating cash flow. And we'll give you an update in the half-year numbers.

Operator: Sebastian Bray, Berenberg.

Sebastian Bray: I'd just like to focus on the dynamic versus competitors within the market for cathodes. So I think briefly a reference was made to some competitors having cheaper products with otherwise sourced cobalt. I just want to understand, is the volume ramp-up delay due to customers canceling orders or platform delays?

Or is it because in what could be described as a market where people have added capacity, people are pricing their cathodes more aggressively than beforehand? And I'm thinking in particular of the internal production of some of the battery names, LG Chemical (inaudible) that have recently ramped up. Thank you.

Marc Grynberg: So there are many elements in your question that need to be addressed. First of all, let me clarify that the impact from discounted cobalt containing products on the back of artisanal cobalt, cheap artisanal cobalt is really affecting the high cobalt containing grades. So that's very much the case across the product line of cobalt and specialty materials, plus in its refining and recycling and distribution activities.

When it comes to cathode materials, this has a – mostly an effect on the high cobalt containing grades, that is for instance the lithium cobalt. So it has more impact on the electronic demand than elsewhere.

This being said, there may be also some indirect effects because I cannot exclude that, given the large number of supply chains through which this artisanal cobalt finds its way to end products, that some of that is ending up in cathode materials, in NMC cathode materials for automotive applications.

And while the pricing effect there may be somewhat less of a factor relative to the price of a car compared to other high cobalt containing applications, it means that those who work in a responsible manner, like Umicore and a number of others, may be missing out on volumes that are going to players that have no scruples at all.

So that is difficult to quantify and to provide more granularity. And that is why I mentioned direct and indirect effects from that type of competing materials.

Now clearly to address the in-house production, I mean this has been a factor and continues to be a factor in the supplier landscape – in the supply landscape of cathode materials. And I think it is a fact that some of the large cell makers are increasing their in-house production to meet a certain portion of their demand.

So that is not a new factor, that was highlighted a number of times in the past. And of course, if – one of the reasons I suspect for these cell makers to use in-house production is also to internalize the margin, it is being made otherwise on cathode materials. So I think your assumption is correct that this has an effect.

Operator: Charlie Webb, Morgan Stanley.

Charlie Webb: Just circling back around. Just actually following up on that last question – and probably more in particular in China, have you seen any change in behavior from both, I guess, [fellow] OEMs in terms of the price pressure they are putting on the supply chain given the subsidy cuts, and/or in terms of, I guess, cathode capacitors in terms of their behavior as they try to get more tons into the market given the softer demand environment?

Have you seen much change there in terms of, I guess, pricing margin discussions? Maybe not so much from yourselves, but maybe from your competitors being forced upon them perhaps by the OEMs? Have you seen any change there or is it kind of largely the same as it was last year?

Marc Grynberg: Yes, Charlie, the answer to your question is that we indeed see some increased price pressure in the market dynamics because of the fact that the overall context has changed for now with demand being on the low side, with the absence of demand for certain ESS applications, with the absence of demand to a large extent for e-buses, with lower production of EVs for now.

So, by definition, as the industry overall has developed the capacity to meet the higher demand that we saw in the second part of last year, the pricing dynamics are indeed somewhat affected by the overall context. That's right.

Operator: Peter Testa, One Investment.

Peter Testa: I was wondering if you could help just understand on the safety issues in Korea, the extent of which those may be around cathode materials or other materials. And whether, if there are safety issues, how your dialogue with automotive customers have extended around that topic as a separate product?

Marc Grynberg: Hi Peter. So the investigation is still ongoing and so actually it is – the energy storage market in Korea has grown substantially over the past few years, as I mentioned during the call, as a result of the very strong government push to install very significant storage capacity for renewable electricity. And that is a market where NMC materials have been utilized, so that's an NMC market,

and where Umicore has had historically a strong presence. So that's why we mentioned the impact.

What has happened is that a number of fires have broken out in the course of last year. And while these were investigated, the fact that a certain number of new fires occurred in the first part of this year has encouraged the government to shut down some of the publicly run energy storage facilities and to encourage private owners to do the same.

I'm not talking about residential units; we're talking about industrial scale units that are being utilized by utilities and grid operators that produce or distribute renewable electricity. And as a result of that and the investigation ongoing the battery producers have now decided to also stop production of new systems. The investigation is still ongoing so I think it's a bit too early to figure out what it may mean in terms of market development for the future.

Operator: (Operator Instructions). Ranulf Orr, Redburn.

Ranulf Orr: Just could you please clarify on the delay to the new capacity? Is it that you are delaying the rate at which you are building the capacity? Or really more just a delay to the rate at which it is turned on once it is already built?

And therefore, is there any scope for a re-acceleration if market conditions improve? Or conversely, should we slow our CapEx forecasts and estimates over the next couple years by – spread them out over a further 12 to 18 months?
Thanks.

Marc Grynberg: As I mentioned during the call, we continue to build the two greenfield sites so that they will be ready for commissioning in China by the middle of this year and in Poland around the middle of next year. So what is really changing will be the pace at which we will build – we will install new lines once the sites are in operation. So, it's really the – reducing the pace at which we will be adding new lines after commissioning and start of production of these two greenfield sites.

Filip has indicated some CapEx guidance for this year that also incorporates the carryover effects from the large investments of last year. I think it's too early to provide guidance longer-term. Now is there a scope for re-acceleration? If the demand recovers faster than we now anticipate, we will have to deal with that with the highest degree of agility. But it's fair to say that it will not be easy to reaccelerate.

Operator: (Operator Instructions). And there are no further questions at this time. Please continue.

Marc Grynberg: Okay, so then I would like again to thank you for joining the call at short notice and I will close the call now. And obviously, and of course as usual, if you have a follow-on question, please feel free to reach out to our Investor Relations team here at Umicore. So, thank you and wish you a nice day and talk to you soon. Bye-bye now.

Operator: Thank you, ladies and gentlemen. That does conclude the conference for today. You may all disconnect.