

THOMSON REUTERS

EDITED TRANSCRIPT

Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

EVENT DATE/TIME: SEPTEMBER 24, 2019 / 7:00AM GMT



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

CORPORATE PARTICIPANTS

Marc Grynberg *Umicore SA - CEO & Executive Director*

CONFERENCE CALL PARTICIPANTS

Adam Robert Collins *Liberum Capital Limited, Research Division - Analyst*

Chetan Udeshi *JP Morgan Chase & Co, Research Division - Research Analyst*

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

Gunther Zechmann *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

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

Martin John Evans *HSBC, Research Division - Analyst of Global Chemicals*

Mutlu Gundogan *ABN AMRO Bank N.V., Research Division - Analyst*

Nathalie Debruyne *Banque Degroof Petercam S.A., Research Division - Analyst*

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

Sebastian Christian Bray *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Thomas P Wrigglesworth *Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst*

Wim Hoste *KBC Securities NV, Research Division - Executive Director Research*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Umicore announcement of the partnership with LG Chem Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Tuesday, the 24th of September 2019. I would now like to hand the conference over to our speaker today, CEO, Marc Grynberg. Thank you. Please go ahead, sir.

Marc Grynberg *Umicore SA - CEO & Executive Director*

Thank you. Good morning, everyone, and welcome to this conference call. As you know, Umicore has a tradition not to disclose customer names or actually any details about the commercial contracts. In a limited number of cases, though, we depart from the tradition. And of course, there needs to be enough good reasons to do so. So as a matter of introduction to this call, I thought it would be appropriate to explain very briefly why we are communicating about this nonexclusive agreement with LG Chem.

Firstly, this agreement is the first of its kind in the industry in several respects. It's the first multiyear agreement of such a magnitude and with volume commitments, which creates predictability along the supply chain to EV manufacturers. It's the first agreement to support global EV platforms with exactly the same products to be supplied in 3 different regions. This agreement goes to show that our unique global positioning is a competitive differentiator. It's the first agreement to encompass material supply, IP rights and in the future, recycling, which goes to show that the business is driven by technology and that our closed-loop model is gradually gaining traction.

The agreement also confirms that leading battery manufacturers, which have in-house cathode materials capabilities will continue to rely on the technologies from material specialists. And in this respect, I would like to read the announcement or a very short section of the announcement that LG Chem released very early this morning in Asian Time where they say that Umicore has the world's best technology in the nickel, cobalt and manganese cathode materials industry, which LG Chem has adopted for EV batteries.

I think this is quite telling. Obviously, we only communicate about commercial agreements when both parties to the agreement deem it's appropriate to communicate. And in this particular case, we wanted to confirm that the fundamentals behind electrification are intact. That EV demand is clearly taking off with Europe becoming a key EV region. Both parties felt it was also important to signal or confirm that this business is, and remains a technology business, where scale and global capabilities are key.

While the agreement with LG Chem fits in the growth trajectory which we have shared with you previously, it is exciting news and represents a key milestone in the consistent and successful execution of our long-term growth strategy. With this, I would like to now open the floor to your questions. (Operator Instructions) Thank you.

QUESTIONS AND ANSWERS



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Operator

(Operator Instructions)

And we already have a couple of questions sir, on the queue. And our first question comes from the line of Wim Hoste from KBC Securities.

Wim Hoste *KBC Securities NV, Research Division - Executive Director Research*

Wim Hoste, KBC Securities. My question is about the timeframe of this contract. It mentions several years. Can you offer a little bit more precision about how many years this is more or less? Is this roughly 5 years? Is this longer or shorter? Can you offer any additional clarity on that?

Marc Grynberg *Umicore SA - CEO & Executive Director*

So the -- what I can say, it is -- that it's the typical average duration of a platform.

Operator

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

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

I just wondered, does this agreement cover all of your supply with LG Chem? Or could there be additional volumes to them in the future alongside this?

Marc Grynberg *Umicore SA - CEO & Executive Director*

So this agreement covers the vast majority of our supply to LG Chem for the coming several years. So of course, as I mentioned, as a response to the previous question, for the duration of the platform that -- for which the product is qualified. And there is a bit of upside that has been incorporated in the contract. So there is a possibility for upside in case the demand proves to be higher, the market demand proves to be higher than what was anticipated. And it does not cover our other supplies to LG Chem, which may be for other applications than automotive, like in energy storage or in portable electronics. So this is a purely automotive platform for NMC automotive platform.

Operator

Next question comes from the line of Mutlu Gundogan from ABN AMRO.

Mutlu Gundogan *ABN AMRO Bank N.V., Research Division - Analyst*

Congratulations on the contract, Marc. I understand that this is a take-or-pay contract. Can you tell us how the price of this contract compares to the volumes you sold in the last few years?

Marc Grynberg *Umicore SA - CEO & Executive Director*

Yes, your understanding is correct. So there is a volume commitment -- firm volume commitment, which is also one of the reasons we wanted to signal that there is a change happening in the industry because EV manufacturers and their supply chains need to achieve more predictability in order to develop the capacities, in particular, and indeed, it is a take-or-pay contract. Unfortunately, I'm not at liberty to disclose details about the pricing. Suffice to say, at this point in time that it is a pricing that was agreeable to both parties, obviously.

Operator

Next question comes from the line of Tom Wrigglesworth from Citi.

Thomas P Wrigglesworth *Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst*

Does LG Chem agree that it won't invest in further upstream capacity whilst this agreement is in place? Obviously, there's -- the -- yes, that's my question.



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Marc Grynberg Umicore SA - CEO & Executive Director

The answer is no. There is no such agreement because there is no need for such an agreement. As I've mentioned on several occasions in the past, there will be coexistence and continued coexistence of in-house and external supplies to players, which like LG Chem have -- do have in-house capabilities. So we're not substituting in-house capabilities. We understand that LG Chem and other -- some other players will continue to increase capacity. And at the same time, will continue to rely on growing capacities and capabilities from third-party suppliers, just to make sure they have access to the best technologies and the best capabilities around the globe. Because I would like to highlight once again that one of the specificities of this contract is that it's a contract that covers global supplies from the main EV regions being Korea, China and Europe of exactly the same products for the same platforms. And so this global aspect is quite relevant when it comes to assessing the coexistence of in-house and external supplies.

Operator

Next question comes from the line of Adam Collins, Liberum.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Congratulations again. I wanted to ask about the comments about cross licensing that are made in the statement. What IP does LG Chem have that might be of interest to you? And just a point of clarification in terms of the comments that came out overnight from LG Chem, I saw a press report that suggested that LG Chem was saying that roughly half of the long-term production volume will be supplied by your European factory. Could you just clarify if that's the case?

Marc Grynberg Umicore SA - CEO & Executive Director

Yes. So indeed, actually more than half of our volume will be supplied out of Europe. Indeed, and you may recall that what I said a while ago that there was no reason for us to adjust the timing of our investment plan in Europe when we said that we're pushing out some line additions in China. So this is, indeed, very correct. More than half of the volumes will be supplied out of Europe. The cross licensing agreements. I'm not going to enter into the details of the patents that are covered on each side. I would like to say and to also repeat at this stage that for both parties, it represents a strengthening of the IP portfolio and the IP portfolio is extremely important to provide players with the required freedom to operate. And what it will also do is strengthen the ability of both players to defend the IP against some certain competitors.

Operator

Next question from the line of Nathalie Debruyne from Degroof Petercam.

Nathalie Debruyne Banque Degroof Petercam S.A., Research Division - Analyst

If I can just come back to your comments that there is upside incorporated in the contract if demand is higher than initially you projected. Is it like you have to set aside part of your capacity to actually meet that potential upside? Or how does it work?

Marc Grynberg Umicore SA - CEO & Executive Director

So that's actually, as a matter of capacity planning, you may also recall or you -- that, what I explained earlier is that we work with multiple customers, multiple platforms such that statistics -- statistically speaking, we'd have better probabilities to have the highest utilization rates when one model sells better than plans. It makes up for a model not selling as well as forecast. And this is the kind of flexibility that we will continue to use in order to cater for possible upside on this contract, because as you will also recall from my previous statements, we're trying to plan for capacity in a way not to end up with excess capacity, indeed. But that will continue to be, I would say, a day-to-day operational focus is how we manage capacity, how we accommodate the required flexibility. It's not going to be trivial, because definitely, it's something that is part of our plans.

Operator

Next question comes from the line of Gunther Zechmann from Bernstein.

Gunther Zechmann Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

Can you explain a bit how the ramp will look like on the volume side over the duration of the platform? And also on the prices, that a fixed price over the duration is -- what are the flexibilities around pricing during that time, please?

SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Marc Grynberg Umicore SA - CEO & Executive Director

Okay. Let me start with the second part of your question, so the price has been negotiated for the duration of the agreement, indeed, whether it's fixed or not, I'm not going to disclose, but it's been -- I mean, fixed or moving during the duration of the contract I'm not going to disclose, but it's been -- it's predetermined. And the ramp will be pretty quick indeed because the demand for EVs is moving pretty rapidly. And a lot of work has been done in the past several months with LG Chem to prepare for the line and product qualification and to prepare for a fast ramp-up. So it's going to be pretty fast.

Operator

Next question comes from the line of Jean-Baptiste Rolland.

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

I'm trying to understand, could you explain why you haven't raised or accelerated your targets on the 175 kilotons of cathodes. Does that mean that some of the -- that you had any spare capacity or any capacity that was not fully committed at that stage?

Marc Grynberg Umicore SA - CEO & Executive Director

No actually, we don't have spare capacity or uncommitted capacity. And this is where we have used the flexibility or the modularity that I referred to earlier by pushing out some line additions in China and not changing the investment schedule for Poland. And clearly, the -- this announcement today fits in the trajectory, the growth trajectory that we had explained earlier, with the 175,000 tonnes of capacity to be reached initially planned by end of 2021, and now with 12 to 18 months delay. So we're still in sync with that -- with these comments. And no, there is no reason for us to change that. And there was clearly a need to maintain the project in Poland, where a lot of -- to maintain the schedule or the time line for the project in Poland because, as I explained earlier, the -- more than half of the volumes over time will be supplied out of that plan.

Operator

Next question from Sebastian Bray from Berenberg.

Sebastian Christian Bray Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I just would have one on the extent of IP collaboration. What -- so you have mentioned that the length of the life of the platform is the length of the contract. And my guess is that's 5 to 8 years. What happens to the IP transfer after this contract is done? Are both parties still free to use the other's IP? Or does, is there an expiration date to the licenses as they are awarded?

Marc Grynberg Umicore SA - CEO & Executive Director

So the IP agreement is not exclusively tied to the platform and the platform life that is actually underlying the supply part of the agreement. So it survives that platform. And as I mentioned earlier, it's important for the parties to strengthen their portfolio to have the freedom to operate and to be able to defend their IP in the market.

Sebastian Christian Bray Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

If I may phrase that differently, would LG Chemical will be able to use Umicore technology to produce its own cathodes post the end of this agreement?

Marc Grynberg Umicore SA - CEO & Executive Director

No, because the agreements, again, covers product recipes, product IP, fundamental product IP. But does not cover the process know-how and the process IP that Umicore process, and which is absolutely fundamental in making the product and giving the product the right properties and quality.

Operator

Next question comes from the line of Chetan Udeshi from JPMorgan.



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Just one question. I don't know, Marc, if you can give this color, but of course, you're not giving us actual duration of the volume contract. But is there a way you can quantify how much of these volumes, say in a single year during the peak, volume ramp-up of this contract cover the total capacity that you guys might have planned for the next 3 to 5 years? So how much of your total capacity is taken up by the single contract itself? Some number there would be useful. And the second question is, given the size of this contract, I think historically, I remember in the past, you guys have talked about China being the site where you will have the biggest capacity post the ongoing expansion. Do you think maybe that changes in like 3 to 5 years, maybe Europe becomes a bigger part of your sort of expansion drive going forward overall? Or part of your capacity share in cathode?

Marc Grynberg Umicore SA - CEO & Executive Director

And no, unfortunately, I cannot disclose the percentage of our capacities or future capacities that the contract represents. So I cannot be very helpful there. I can only say that this is a big contract, obviously. China will be, for the foreseeable our largest production country and largest -- where we will have the largest capacity. So for the reasons that were explained in the past, so there is no change to that perspective in the short run or the foreseeable future. This being said, I expect very fast growth in Europe in the coming years, driven by tightening CO2 legislation and a clear electrification road map of most OEMs selling your cars in Europe. So I expect that Europe will become a very, very significant market for Umicore in the medium term indeed. It's too early to say if and when Europe will overtake China in terms of our EV presence. I can only say that I expect very strong and very significant growth in this region, indeed.

Operator

Next question comes from the line of Geoff Haire from UBS.

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

I just wanted to ask, does this agreement limit, in your opinion, your ability to supply other battery pack producers or OEMs for that matter.

Marc Grynberg Umicore SA - CEO & Executive Director

No, it does not. It does not. So the contract, as I mentioned in my introductory remarks is nonexclusive. So it doesn't infringe on our ability or doesn't decrease our ability nor willingness to work with a large number of battery manufacturers and car OEMs in terms of technology development, in terms of product verification and in terms of supply and as well as in terms of closed-loop. It is a key milestone in the execution of our strategy, and it is not the only one.

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

So you have chosen to start, you have other contracts that are similar to this that you haven't told us.

Marc Grynberg Umicore SA - CEO & Executive Director

There are -- as I mentioned, indeed earlier, in some cases, there is a common willingness to announce contracts. And this is rather the exception than the norm in our business.

Operator

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

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

Thanks for taking the second question. I was just wondering if there was anything specific to your relationship with LG Chem that allowed you to announce this type of deal. Or to ask another way, is there any reason why we shouldn't see more of these types of long-term volume commitment deals being announced between you and other cell producers or even automotive OEMs?



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Marc Grynberg Umicore SA - CEO & Executive Director

Ranulf, I cannot, indeed, rule out further announcements in the future. And clearly, the -- we have a number of customers with very, very strong and long-standing ties from a technical point of view and commercial point of view in the different regions, both on the sides of battery manufacturers and car OEMs. So I expect that in the future, as the market will need more predictability in order to develop the supply chain, that this will become a possibility, indeed.

Operator

And next question comes from the line of Martin Evans from HSBC.

Martin John Evans HSBC, Research Division - Analyst of Global Chemicals

Again, it's just back to the location being in Poland, what's happening, Marc, in the Korean capacity sites that we saw last year. Is that -- are those operations running at full capacity, which is why you've chosen that most of the volumes, as you say, for this agreement will be coming out of Poland?

Marc Grynberg Umicore SA - CEO & Executive Director

No, that's not the reason why we chose that most of the volumes would come out of Poland. We are actually aligning our production to the customers' needs. And as I mentioned, we're talking about global platforms. And so it is important to produce in the region when -- where the end market is going to be. And so part of it is Korea, part of it is China. And the big chunk of that agreement covers the European market from a battery cell production point of view and from an easy end market point of view. So it's really in alignment with the needs of the customer more than anything else.

Operator

And another question comes from the line of Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan ABN AMRO Bank N.V., Research Division - Analyst

Can you explain this remark, I mean, I assume that there are -- could be EV models out there that contain a battery from LG Chem that has a cathode from Umicore. So how does this contract change from the existing situation?

Marc Grynberg Umicore SA - CEO & Executive Director

This contract relates to new platforms, Mutlu. And as I mentioned earlier, global platforms that has very specific requirements in terms of the cathode material and in terms of the location of production. So it's new. It's new. It doesn't overlap with the current things that Umicore's current supply that Umicore has to LG, some of which will be platforms that reach or soon to reach end of life. So this is natural evolution of the business.

Mutlu Gundogan ABN AMRO Bank N.V., Research Division - Analyst

Sure. I mean, I'm just wondering, to what extent would you -- I mean, is it possible that -- I mean, Umicore alone will still pitch for new EV models and you might -- for certain models, you might team up with different battery producers. So could it be possible that you will compete with your own partnership?

Marc Grynberg Umicore SA - CEO & Executive Director

Yes, this is possible because there -- as I think, explained on previous occasions, that there may be overlaps between supply chains, and we will, indeed, continue to work with LG Chem and with others in pitching for new platforms, new EV platform, so I cannot totally rule out that we may be pitching through different angles and through different, I would say, supply partnerships for the same platform. That's a possibility.

Operator

And another question from Jean-Baptiste Rolland.



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

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

On my previous question, does this agreement suggest that you have made significant progress in silicone anodes? When you first presented at your CMD over a year ago, it sounded like it was in a research state -- in the research stage. And you mentioned that it was -- it seems really like to be one of the avenues worth exploring to debottleneck energy density in the cathode and in the battery. Are you still in development stage? Or have you reached any form of commercialization stage on this product?

Marc Grynberg Umicore SA - CEO & Executive Director

So Jean-Baptiste, when it comes to silicon anodes, the -- we're in commercial stage for nonautomotive applications. And when it comes to automotive applications, we're still in development -- at the development stage, which means that the silicon anode development is not really part of this agreement with LG Chem. I see that as a longer-term option for the automotive applications.

Operator

And another from Geoff Haire, UBS.

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

Just following up on my last question. When you go in tender for business with other OEMs or Samsung or SKI, how would you assure that LG doesn't get the -- what you're working on for other company? And therefore, lay some of their concerns that you have a partnership with one of their major competitors' battery pack manufacturer.

Marc Grynberg Umicore SA - CEO & Executive Director

Sorry, Geoff -- I did not really understand the question.

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

So if you're in partnership with LG Chem currently in both IP and supplying them. If you are then going to bid for contracts with other battery pack manufacturers, how will you assure them that they won't -- that what you're working on for them doesn't get seen by LG because, obviously, that would be a major concern that one of their major competitors will see what they're doing.

Marc Grynberg Umicore SA - CEO & Executive Director

No. Clearly, we'll send similar to what we're doing in catalysts. First of all, we have very strict procedures and processes in place to segregate the development work that is done jointly with our OEMs so with battery OEMs from one another. And this is, I would say, well-established industry practice. Both in the Catalyst business and in the battery material business.

On top of that, I would like to repeat what I said on previous occasions is that there is a significant trend to your customization and most of the work that we do in the context of such partnerships and development is ending up in exclusive products or exclusive, that are really -- sorry, products that are tailor-made for a given platform. And indeed, that's shareable with others.

Operator

And we will now take our last question and that comes from the line of Martin Evans.

Martin John Evans HSBC, Research Division - Analyst of Global Chemicals

There have been a lot of headlines in the last few weeks and months about Tesla, choosing amongst others, LG Chem for some battery supply for their Gigafactory, would it be a simplistic assumption that a correct assumption to assume, therefore, that some of your covering materials that are going to LG Chem will end up in the Tesla?

Marc Grynberg Umicore SA - CEO & Executive Director

Martin, unfortunately, I'm not allowed to mention where the products would be going. So I'm sorry, I cannot answer that question. I'm not allowed to answer that question.

Operator

No further questions. Please continue, sir.



SEPTEMBER 24, 2019 / 7:00AM GMT, Umicore SA to Discuss Partnership with LG Chem for the Supply of NMC Cathode Materials Call

Marc Grynberg *Umicore SA - CEO & Executive Director*

Okay. So I would like now to thank you very much for your participation at relatively short notice to this conference call this morning. And again, as I mentioned in my introductory remarks, while this announcement fits perfectly in the growth trajectory that we had announced and communicated earlier and shared with you on previous occasions, this is a key milestone and very important news for Umicore and the confirmation that we are continuing to consistently execute our growth strategy in battery materials. And with this, I would like to close the call and invite you, as usual, to reach out to our Investor Relations and Media Relations teams. If you have follow-on questions. So thank you, and have a great day. Bye-bye.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019 Thomson Reuters. All Rights Reserved.

