Umicore Half Year 2024 Results

Friday, 26th July 2024

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Operator: Hello, and welcome to the Umicore Half Year 2024 Results Call. My name is Caroline, and I will be your coordinator for today's event. Today's call is being recorded. For the duration, your lines will be on listen-only. However, you will have an opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad. If you require assistance at any point, please press star zero and you'll be connected to an operator.

I will now hand over to your host, Bart Sap, the CEO, to begin today's conference. Please go ahead, sir. Thank you.

Bart Sap: Yes, thank you. So, good morning, everyone, and welcome to the Umicore H1 results update.

Today, I think we have a pretty packed and interesting agenda for you. We'll first start off with the strategic review on the Battery Materials where we stand. Let's then have a look at the key figures and the highlights of the first half 2024. Then we'll go over the business review for the different business groups. Wannes will talk to you about the financials. I'll be coming back with the outlook for 2024. Then we'll do a wrap-up, and then it's open for Q&A.

So let me start off by the strategic review for Battery Materials.

Now there's a new market reality out there, and we have to adjust to it. The market context is challenging, and we have seen a slowdown in the growth of EV sales in the short and mid-term. The OEMs are revising the speed but also the regional setup of their electrification plans, and this results in a more limited visibility in the short and mid-term.

Now of course, we cannot stand still, and we're taking, therefore, immediate actions and we have been taking those actions already. Now we launched already the strategic review to assess our growth projections beyond 2024 for the Battery Materials business.

We talked about strict capital discipline. And this year, we will be spending less than €650 million. Additionally, we have launched a further efficiency and cost measure programme on top of our Efficiency for Growth programme, which we announced earlier.

Now if we look in the broader picture then, despite the current slowdown in the growth, we do see that policy mix continue to support this clean mobility trends. And this is also reconfirmed by the Green Deal, as published recently.

Now this is where we are for 2024. Now in a second step, and we're using here a layered approach, is that we're taking stock of what we have today. And today, we have an interesting footprint. And as well, we have a projected order book. And we brought those elements together in a base scenario. And some of the main assumptions and main considerations in this scenario are: we have at least an 18-month delay in ramp-up of customer contracted volumes; we see substantially reduced volume projections, reflecting the current offtake commitments at take-or-pay thresholds, in line with the currently confirmed investment waves; we are more prudent on our assumptions on operational cost evolution; and we're minimizing further expansion of the existing footprint in Europe and Korea in order to serve our customers with the contract that we have today. This will result in lower CAPEX spending going forward.

This will also result that at the end of this decade and the last years of this decade, we will have a well utilised global capacity at the exception of our Chinese CAM assets, basically in China.

So what is the consequence of this? We're taking an impairment across the Battery Materials business. This is a €1.6 billion non-cash adjustments mostly related to property, plant and equipment and non-current inventory, mainly in Asia. This means that the remaining book value that we'll have at June 2024 stands at €1.5 billion. So the remaining book value, €1.5 billion.

The Battery Materials' EBIT will remain negative or below break-even in 2025 and 2026. And in the last years of this decade, we will see returns above the cost of capital.

Now what I now discussed is the base scenario and where we take stock of what we have today. This is not an endpoint. This is the basis from which we start and build further for our strategic review. So that is also what we're continuing to do in the next months.

So we are now having a comprehensive and structured review to see how we can further unlock more business value from this business. We're exploring opportunities on top of the current base that we have. And we do this in close cooperation with all our stakeholders, but in particularly also with our downstream industry partners.

The guiding principles for this review are: we will focus on maximising our capacity utilisation of the existing assets first, before we consider any further expansions. We're looking at our global footprint. And this includes, of course, Asia, Europe, but as well Canada. And for Canada, we can say that pending the outcome of our strategic review, which is still ongoing, we are delaying, at this moment in time, our spending for that site.

So again, no conclusions taken for that site, but we're spending until – we're spending our investments until we have that final review done.

Further, we will optimise the Battery Materials setup in close alignment with our customers and their new growth path. We will continue to leverage on the strong agreements that we have and on our differentiating CAM position that we have in Europe, which I do feel that our customers value a lot.

We will focus on further customer diversification, and we are open to partnerships along the full value chain. Our focus on technology as well as operational and cost efficiency will remain an integral part of this review, and we will come with our conclusions at the Capital Markets Day in Q1 2025.

Next to the review of the Battery Materials update, of course, we also keep focusing on our other business groups, our foundation businesses and their strategy execution. At the same time, at Group level, we are implementing capital and cost discipline across the Group.

Now what I also felt in earlier discussions and based on feedback is that there might be merit cain trying to explain our take-or-pay mechanisms even more clearly.

So how do these take-or-pay mechanisms actually work? So on the one hand, we have a contractual annual offtake volume, which is agreed upon for the confirmed investment wave. That means that for every confirmed investment wave, there's a dedicated annual contractual volume, which is fixed. Next to that, we have also a take-or-pay floor defined as a percentage of that contractual annual volume. And that percentage is also defined for that specific year. So there's a specific percentage and a specific contractual annual volume for any – for a given year. Now at the start and especially in the first year of the ramp up of SOP, the first year of SOP, that percentage is somewhat lower. While once the contract is up and running, these percentages on average go to 85%.

Now then annually, what do we do? We look how much did the customer or how much will the customer take in that specific year, and then we compare it with the annual contractual volume multiplied by the take-or-pay percentage. And that difference, if the customer volume would be below that take-or-pay floor, we will receive a compensation.

Now let me transit to the key figures and highlights for the first half of this year. Now we have been operating against a softer macroeconomic environment and also a less favourable metal price context for PGMs. Our revenues will stand or stand at €1.8 billion for the first half of the year. We have €168 million free operating cash flow, 20% adjusted EBITDA margin and €393 million adjusted EBITDA. Our ROCE stands at 11.3%. And we keep – our leverage will be at 1.7%. Yes, that's where it is.

Now if I look high level at the performance of the different business groups. I should say that actually our foundation business is broadly in line with market consensus. Catalysis had another set of impressive margins, 25%, return on capital of 40%. Our Recycling business continues to do well with EBITDA margins of 36.5%, a return of capital close to 70%. And despite – and this despite lower PGM prices and a maintenance shutdown. Our Specialty Materials business also had a good performance, but was suffering somewhat from a more difficult market context for Cobalt & Specialty Materials, and there the return on capital came in around 8%. Our Efficiency for Growth programme is well on track, and this should yield €70 million, as you know for 2024, and I can tell you that we're good on track and already more than halfway through the half of this year.

We remain committed to a strong balance sheet, and we have a resilient debt maturity profile, and Wannes will talk more about that later in the presentation. We also reconfirm our adjusted EBITDA outlook for 2024. And this will be in the range of €760 million to €800 million.

Let me now transit to an overview of the different business groups, and let me start off again with Battery Materials.

Now I've talked about this before. We see that the market is changing. We see a slow level of ramp up, and this is what we have to take into account for the short term, but also for our longer term evolution. So if we then look at 2024. For the first half of this year, we do see a decline in our revenues and adjusted EBITDA, which is quite significant versus last year. Revenues are down 33%. At the same time, our volumes are broadly in line with H1 2023.

Our adjusted EBITDA is close to breakeven, and this EBITDA includes costs related to the start-up of our greenfields in Canada as well as in Poland, €170 million in CAPEX, and of course, the €1.6 billion impairment, which I highlighted earlier.

When I go to Catalysis, there we see that the market, actually in the terms of ICE production, is globally flat. Now it does disguise some regional changes. On the one hand, we see strong growth in China with 6%, Americas is more muted, 3% decline in Europe, but especially Japan and Korea is rather weak. We also see in the HDD segment, a decline in Europe with 13%, and China, the HDD volumes remain at a low level. And despite that, they had a small growth, but overall low level. Now if you then go to the underlying performance of the business, despite this more difficult market context, our EBITDA is still reflecting a very strong performance as it's in line with last year. And this is, thanks to strict cost discipline and efficiency measures.

In the Automotive Catalyst business, we are significantly improving our quality of earnings despite some lower light-duty and HDD sales applications, we do see strong underlying performance. So in the future, it's not only about top line development, it's also about the improvement and the evolution of the quality of earnings, and that's what we're working on, and that's what the teams are doing very successfully. We started also the streamlining of our R&D organisation, as we announced earlier in the context of the maturing market of ICE, so internal combustion vehicles but also in the context of the weaker Euro-7 legislation.

In the PMC, we saw slower sales in the Homogeneous Catalysts business. But overall, despite the lower PGM prices, we did see that results are resilient and our metal hedges made up for those deltas. The Fuel Cell markets remains difficult in China, and the earnings of that business is affected by costs that we are incurring related to the start-up or actually the construction of our plant in Changshu as anticipated. This project is on track and going well.

Now if you look at Recycling. There, we also have some important news to share with you today. So we have taken some decisions around our Battery Recycling Solutions business. So what we basically – we came to the conclusion that we're going to postpone our investment in a large-scale European battery recycling plant with a start-up of production anticipated not earlier than in 2032 – 2032 at the earliest. And this, given the slowdown in EV sales. What does that mean concretely? Short term, there will be a lower availability of battery scraps. There will also be a delayed influx of end-of-life batteries as a consequence of this slower trend. But we also see that there's a longer useful life for batteries as such good news for the market, but that means that these batteries will come back only later to be recycled.

Now in the meanwhile, we are continuing to focus on the first – on the further industrial developments and deployment of our pilot plants in Hoboken with further optimising our technology. And I'm talking, of course, here about the Hoboken plants in Belgium.

Now coming to the broader context of battery – for the broader contracts of recycling. And there, of course, the PGM prices do play an important role. We see that rhodium is down roughly 50% year-on-year, palladium 35%. And you can imagine that for a business that has significant or high exposure to these metals that this has an impact on our results. And that's also what we see basically when we look to the H1 performance.

Now our revenues are down 30%, our EBITDA 16% for that business. And this reflects a less supported precious metals environment, as I highlighted earlier.

Now for the Precious Metals Refining business, we can say that our suppliers mix is broadly in line with last year. Our revenues, of course, are impacted by the unfavourable PGM price environment. At the same time, in Q1, we also had the first – we also have the plant maintenance shutdown, right? So that's all according to plan.

Now if we look at the earnings, these earnings are still robust and strong on the back of further efficiency improvements that we have taken, as well as a reduction in the energy costs. For the Jewellery & Industrial Metals business unit, we see stable revenues but also here higher earnings based on cost discipline and efficiency measures.

For Precious Metals Management, there, especially the rhodium environment was unfavourable, and therefore the earnings were significantly impacted and will be lower than last year.

Let's now come to the Specialty Materials business group, and we report for the first time on this business group. And that's a business group, which highlights – which actually turned – centres around three business units.

So Cobalt & Specialty Materials is really working on cobalt and nickel chemicals and all a variety of applications with a very strong distribution footprint. We have the metals deposition solution. It's all about layering semiconductors, microelectronics, that's what this business is focusing on. So coatings, that is the focus of that business.

And then Electro-Optic Materials. Here, you can think about solar panels in space, but also night vision. You can think about fibre for your internet. So germanium is in quite a lot of applications here as well.

Now the Cobalt & Specialty Materials business unit is operating in a difficult market context, especially for cobalt. And this is, of course, also related to the weaker environment that we see for the Battery Materials business as these metals are, of course, playing in both markets at the same time, and these are communicating vessels. For metals, the earnings are also reflecting that while our revenues are relatively stable.

Now the Metal Deposition Solutions, there we see solid performance, solid earnings, solid revenues. Electro-Optic materials, we see an increase in revenues. Our Germanium Solutions business is doing well. We see a slower demand in the optic fibres and we have some production backlog in the Infrared Solutions.

We also would like to highlight that we signed a long-term partnership with a company called STL on the refining of germanium in the Democratic Republic of Congo.

Now this is wrapping up the business group overview and section. So maybe Wannes, if you could guide us through the financial numbers, please.

Wannes Peferoen: Yes. Sure, Bart. Good morning to you all. As mentioned earlier by Bart, the performance across the different business segments was impacted by the softer macroeconomic environment and by a less favourable metal price environment. This resulted in revenues being 13% lower versus the same period last year, now amounting to €1.8 billion.

In Catalysis, volumes were down due to a less favourable customer and regional mix in the light-duty vehicle market in a more challenging heavy-duty diesel market in Europe and China.

In Battery Materials, while chem sales were broadly in line with the first half of last year, the revenues from the refining activities decreased. And additionally, last year's revenues still included a non-recurring lithium margin effect.

In Recycling, revenues were down due to the planned maintenance shutdown in Precious Metals Refining and the lower contribution from the trading activities.

Now the adjusted EBITDA amounted to €393 million, which is €125 million below last year's first half. With good traction of initiatives around efficiency, together with the PGM hedges, helped us to offset some of these market headwinds, in particular, in Catalysis and Recycling.

In Battery Materials, EBITDA declined due to the absence of last year's one-off items and due to the increased cost basis related to the greenfield investments in Poland and Canada.

The EBITDA margin for the Group remains strong at 21.8%. Margins in Catalysis increased despite lower volumes, clearly illustrating the increased quality of earnings. The ROCE of the Group reached 11.3%. This takes into account the impairment and write-off of capital employed in Battery Materials for €1.6 billion.

Last summer, we introduced a company-wide efficiency programme called Efficiency for Growth. For this year, we target a saving of €70 million. And today, we achieved more than 50% of that target. The implemented initiatives include charging partners for additional services, better prices and payment terms for raw materials and services, increased throughput in operations, optimising the usage of raw materials in our product and improving the yields in our processes, so basically reducing waste or the cost of rework.

Now considering the latest challenges in Battery Materials and the overall market softness, we are now identifying additional cost savings and cash improvement measures across the Group, and we expect to land on this target in the second half of this year.

Now moving to the consolidated P&L. Taking into account depreciation and amortisations of €152 million, adjusted EBIT amounted to €241 million versus €373 million in the same period last year. The adjusted net finance costs decreased to €56 million, reflecting higher interest income on our cash deposits. The financing cost of gross debt remained stable with the average cost of gross debt at 3.3%. And the cost of debt is expected to remain well under control, considering the maturities of the existing instruments and the conditions of the recently secured funding instruments.

The adjusted tax charge decreased to €67 million. This is driven by the lower adjusted taxable earnings. In combination with a higher provision for uncertain tax positions, this also resulted in an adjusted – effective tax rate of 36.3%.

The adjusted net profit Group share amounted to €118 million, which results in an adjusted EPS of €0.49. The Supervisory Board proposes an interim dividend of €0.25 per share, which will be paid on 21st August. The net result Group share was impacted by the non-cash impairment and write-off in Battery Materials of €1.6 billion and amounted to approximately minus €1.5 billion.

Now moving to the balance sheet. The balance sheet of the Group continues to be strong despite the €1.6 billion impairment and write-offs in Battery Materials. Liquidity is high with close to €1.3 billion of cash at the end of June. And considering the net financial debt of €1.4 billion and the equity of €2 billion, the net gearing ratio remains balanced at 41.6%.

Now looking at the cash flow. I would like to highlight that the free operating cash flow amounted to €168 million. Cash flow from operations before movements in net working capital amounted to €185 million. Our net working capital for the Group decreased with €269 million.

And next to decline in PGM prices, the strong focus on payment plans and inventory management helped us to reduce the working capital needs in Catalysis and in Recycling.

Capital expenditures, including the capitalised development expenses decreased to €285 million, which is almost 20% lower than last year's first half. This reduction is primarily driven by Battery Materials with the key investments in the first half of the year being the expansion of the European and North American footprint and some upgrades to the Korean plant.

As mentioned earlier by Bart, we are actively managing the cash out across the company. For 2024, we aim to keep the CAPEX below €650 million by pausing or delaying projects across the company.

Now looking at the net cash flow bridge. You can see that the net financial debt increased with €166 million and now amounts to €1.4 billion. This equals a leverage of 1.7 times the last 12 months adjusted EBITDA. The free operating cash flow of €168 million covered partially the cash out related to taxes and financing dividends and also an equity injection into IONWAY of €100 million.

We continue to be committed to a strong balance sheet going forward. And although we expect net financial debt to move up towards the end of the year, we continue to expect our leverage to remain well below 2.5 times by the end of the year.

Now as Bart mentioned earlier, we want to highlight also that the Group has a debt profile that is well spread, as you can see in this graph. We have an average maturity of 5.6 years and the long-term debt is fixed rate. Also important to highlight is that the debt to refinance between 2024 and 2026, and this includes a 2025 repayment of the €500 million convertible bond, is fully covered by the new debt contracted in the first half of this year. So this year, we concluded an eight-year loan agreement with the European Investment Bank for €350 million, supporting the financing of our R&D activities at attractive conditions. The first tranche of €250 million was drawn in February and a second tranche of €100 million will be called early 2025.

Next to this EIB loan, we completed in April, a fixed rate sustainably linked US private placement note for €499 million. This consists out of tranches with maturities ranging from 7 to 12 years and a weighted average maturity of more than 9 years. We have drawn the funds in the meantime in the course of July.

Now as we shared earlier, we have entered into forward contracts looking in larger shares and longer periods of the strategic metal exposure at historically attractive prices. In this graph, you can see that over the past six months, we increased forward metal hedges, in particular for rhodium in 2027 and even in 2028 now and across the entire period for gold and silver.

We also increased forward hedges for platinum, but to a lesser extent, as we expect more upside on this metal given its usage or future usage in Fuel Cell catalyst applications. This metal hedging approach enables us to protect future cash flows from metal price volatility and it also provides better visibility on our future earnings.

So here, I would like to conclude the section on the financial performance, and hand it back to Bart. Thank you.

Bart Sap: Yes. Thank you, Wannes, for that. And let's now have a look at the outlook for 2024.

So based on the performance in the first half of the year and assuming precious metal prices remain at current levels for the remainder of the year, Umicore reconfirms that it anticipates 2024 Group adjusted EBITDA to be within a range of €760 million to €800 million.

So for the Battery Materials business, we are expecting volumes in line or slightly below versus last year. We will have an EBITDA around breakeven with a one-off of €50 million, which is positive, included in that number. For Catalysis, we are expecting the EBITDA of the business Group 2024 to be in line with the previous record year, and this despite the lower price environment.

For the Recycling business units, the EBITDA will be below the level of previous year, but broadly in line with the current market expectations. And for Specialty Materials, here also, the expected EBITDA will be below last year, and this is somewhat below the current market expectations.

So now before going to the Q&A, I would like to still make a wrap-up.

So what have we been sharing with you right now? First thing to remember is that we are adjusting to the new reality in Battery Materials. The market situation has changed. It's affecting the overall industry and also Umicore has to react to that and respond to that and see that reality. That's what we are doing, and we're taking actions immediately.

We have tried – we have actually shared with you today our view on 2024. We have shared with you a base scenario what we have today, contracts and footprints that we have. We have mentioned to you that there's a significant painful impairments that we have been taken. And therefore, we now from this basis, will continue to review our Battery Materials business. And I'll come back to that in the Capital Markets Day in Q1 2025.

Now when situations are difficult or some areas are not growing as planned, it's always tempting to look at the things that can be better. That's human, that must be that way. At the same time, we should also remind ourselves what we do have and also focus on the strong fundamentals that we are building on.

Our three other business groups are performing well. They are world-class businesses, and they really are the backlog of the company, and this helps us to go through these more difficult moments, especially for our Battery Materials business.

Another strong fundamental in our organisation is our people. We have a deep expertise. We have a deep knowledge. And this is what you hit each and every time when you talk with industry participants out there, that credibility, that depth we have. I also have seen from our colleagues, the resilience and the courage and the willingness to succeed, and we're going to face these challenges head-on and have full trust that together. We will get through this step by step, day-by-day.

Today is a period of repositioning for sizing opportunities which will come in the future. If that day comes, we will be ready.

So thank you for that. And I would like now to go to Q&A.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. Kindly limit to one question only. We will take the first question from line Ranulf Orr from Citi. The line is open now. Please go ahead. Hi Ranulf, your line is open now. Please go ahead. There's no response from Ranulf's line. We will take the next question from line, Chetan Udeshi from JP Morgan. The line is open now. Please go ahead.

Chetan Udeshi (JP Morgan): Yeah. Hi. Thanks for taking my question. I was just wondering, first, just coming to your auto catalyst business, pretty strong margins. Is this all underlying, or was there some unique specific one-off that may have supported the numbers? Because clearly, the margins in your Catalyst business has been surprising on the upside now for the last two, three years, consistently.

And just in the context of some recent data suggesting maybe things are worsening in autos, can you also remind us or just indicate to us what you see in the business as we look into third quarter at this point?

Just coming back to Battery Materials. It feels like at the moment, yes, you are adjusting to the new reality, but it doesn't feel like you are taking any dramatic actions at this point in terms of footprint optimisation. If anything you are saying your EBIT will remain below breakeven now until 2026. So is it the base case for Umicore now to just wait for the market to recover and then participate in that recovery? Is that where we should think about your Battery Materials strategy going forward?

Bart Sap: Yes. Thank you for that. And maybe Wannes you take the first part on the auto cat regarding the financials.

Wannes Peferoen: Yes. Sure, Bart. So looking at Automotive Catalysts, on the one hand, we have the volumes and the revenues. We are at the level where the volumes are peaking. And in '24, you see that the volumes have somewhat come down. At the same time, structurally in Catalysis, the teams have been working on EfG (Efficiency For Growth-, and EfG consisted of different components.

First of all, there is the top line, where the teams have been very active in pricing upwards, I would say, also including additional elements in the pricing. But also if you look at the procurement of raw materials used in production and in the product. Those are also subject to price negotiations. And also looking at efficiency in the process. This is where improvement continues to be made in order to drive the costs down. So it's really a structural improvement of the quality of earnings.

I think also looking at the return on capital endpoint, what we also see is that the team is working on the net working capital. So reducing the inventory necessary across the operations, but also on payment terms with suppliers, improving those payment types also helping to bring down the net working capital. So also that plays into the overall equation looking at gross here.

Bart Sap: Yes. Exactly, Wannes. And I think this is basically the result and an applause to the many colleagues and the changing culture that we had over the last three years in that business. So going forward, please don't only look at the top line, but also look at the structural improvement in that quality of earnings and basically the lower PGM dependency that we will see going forward.

So yes, we're proud of that. And yes, it's exceptional, but that's the merit of hard work and the position that we have in the industry.

Now your question on H2 is that in our forecast, we did factor in some slowdown in those sales. So we see some softness in the market. We're still not at the level of 2019, that's for sure. And we also see that in, overall, the average lifetime of a car is now 12 years instead of 10 years. So we do see that in this macroeconomic environment, consumers have been postponing already quite a while buying a new car. So I am not sure how the next years will evolve, but if these consumers aptly buy a new car, this would lead to an upside for this business potentially later on, especially if the electrification growth rates would remain a bit more muted as they are now today.

Now coming to your question on the Battery Materials business. What I've been focusing on for the first months that I'm here now, it's now roughly two-and-a-half months, if I'm calculating in a royal way, is that we want to bring clarity, and I'm using a layered structured approach. So first, clarity on 2024. That's what the market needs immediately. That's what we need to do. We brought that clarity.

Now secondly, we're taking stock of what we have. And we looked at the customer commitments, the customer contracts that we have on which we can build. And we look at the capacity that we have available in China, Korea, and, of course, Europe. We brought those together in a base scenario. And this is the basis from which we're now continuing our Battery Materials review.

So you should not read any conclusions in these statements. It's the base from which we're starting our review. We're looking at many opportunities, many different scenarios, and we will be further refining those as we go forward in the next months. And our conclusions will come in Q1 2025.

We're following a structured detailed process, thoroughness, that's what we do here at Umicore, and we'll take our time. And that's why I decided that the Capital Markets Day will be in Q1 2025.

Chetan Udeshi: So can I confirm, so are you saying the numbers you are putting in the slide, which is EBIT anticipated to be below breakeven in '25 and '26? That's before any actions that you might take, post the strategic review?

Bart Sap: Exactly. And that's a very important remark that you make here, and would have been better if I told it myself, but indeed, this is the assumption for the base plan. So any further actions, talking about cost improvement, talking about bigger decisions or, more bold decision, as you refer to it, are not included in that. So this is what we know today with what we have today without doing any further actions.

Chetan Udeshi: Okay. And last question. In terms of your take-or-pay agreements, have you really retested them in this market scenario? Because we've seen in the past with Umicore, the take-or-pay agreements have an hold or haven't held in the past. So I guess this is a concern that, why would customers still hold them in this environment?

Bart Sap: Well, there's a reason why there are take-or-pay mechanisms, Chetan. The reason is that the Battery Materials business is a nascent business. That means supply chains have to be shaped. And if you want to do investments, there has to be an outlook on offtake. And there has to be a level of security because, I mean, these are business, these are expensive and these are huge investments that we're making right now. That's why these contracts have been drafted that way. That is the underlying spirit of both parties signing these contracts and both parties have signed, knowingly, these contracts.

I can confirm that today, these contracts are in full force. And of course, that we will stand by these contracts, and there's not any discussion ongoing on these mechanisms as we speak.

Chetan Udeshi: Thank you.

Bart Sap: Thank you.

Operator: Thank you. We will take the next question from line, Ranulf Orr from Citi. The line is open now. Please go ahead.

Ranulf Orr: Hi there. Can you hear me now?

Bart Sap: Yes. Welcome.

Ranulf Orr: Yes, great. Thanks for the question. So firstly, just on IONWAY. I mean, I guess, in light of the discussions today, I mean, what should we make of the recent press articles regarding IONWAY stropping new sites in Canada, talking to the government there and North Spain as well. I mean does that sort of signal a shift to even more reliance on JVs and sort of partnership funding?

Second question, given maybe now feels like the time for transparency, I mean, can you give more specifics on what the positive one-offs in Battery Materials were last year?

And then thirdly, could you just talk about the mood across the employee base in the company given the struggles in Battery Materials and how you're sort of supporting that?

Bart Sap: Yes. Thank you. Indeed, on IONWAY, I think you also saw the news article that came out yesterday with the CEO Blome from PowerCo. I mean, they still see a very strong trend going forward. They reconfirm their position and their belief in that path. And as you know, IONWAY is a joint venture that we have together with PowerCo. And our conversations are in a positive spirit. We continue on our path.

What we have included in our base scenario is what we know today, the waves that we are building and basically committing to at this point in time. Anything that would come in the future would come on top, of course, of that base model, which is not included today. So we stand by our IONWAY joint venture. And of course, we're looking into different options and scenarios as any other joint venture would do together with the other shareholders. So yes, we're still very excited about this venture.

Now maybe on your question on the 2023. Wannes, could you please take that one?

Wannes Peferoen: Yeah. So looking at transparency, looking at showing better the underlying performance. What we have decided today is to show '24 to break up the business group into Battery Materials and Specialty Materials, and also to be explicit on '24, what are any unusual elements. And this is something we highlighted earlier in the course of June.

Now today, we are further setting that baseline that led to the impairment. Also here, we’re trying to create clarity. We’re trying to create transparency on where we are. So going forward, we will focus on '24, explaining what is driving the results, the underlying performance and where we are. So '24 is first – the base that we will work on.

Bart Sap: Yes. So thank you, Wannes. Regarding the mood of the employee base, well, I came a bit to it in my concluding slide or wrap up slide. And of course, everybody recognises that this situation where we are with Battery Materials is not where we want to be. We understand the seriousness, and yes, that impacts our colleagues.

Now what I've seen in the last two months is enormous resilience. I mean when I walk through the corridors here in the office or I go into the plants, people come to me and say, 'Bart, we are going to do this together.' We know that in difficult times, we're at our best. So I feel a lot of resilience, a lot of passion, a lot of belief, and I truly feel that we are uniting throughout the Group. The Group together wants to win. The Group together wants to get to these more difficult times. We'll have to make a tough decision. We're open to that. Our colleagues know that, but we are resilient. We have experience. We are strong. We have a basis to grow from – with our confidence that we have. And throughout the Group, I feel the support, and we'll get through this day by day, step by step.

Ranulf Orr: Great. Thank you very much. Maybe I could just try and clarify one more time. I mean the positive one-off in 2023. Was that bigger or smaller than the €50 million positive one-off this year?

Bart Sap: It was substantially larger, yes.

Ranulf Orr: Right. Thank you.

Bart Sap: And as we said at the time, it was driven by the lithium margin, but also looking at some of the valorisation we did on the scraps containing lithium, that also helped.

Ranulf Orr: Thank you very much.

Operator: Thank you. We will take the next question from line Riya Kotecha from Bank of America. The line is open now. Please go ahead.

Riya Kotecha (Bank of America): Hi, good morning. This is Riya speaking. I've got a couple of questions, please. My first one is on the Battery Materials impairment. So considering the impairment is mainly on the Asia assets, and why do you think the European ones maybe aren't the same at some point, given we're seeing similar trends in the European market in terms of shifts in battery technology?

My second question is a bit more on the value-creative nature of the business. And so now you've pushed out when you think this business will make its cost of capital, which is the last years of the decade versus just one year ago when that was expected to be closer to mid decades. How convinced are you internally in this projection? And therefore, whether this is a good business to play in when things can change so clearly.

And just following up on that, over the past one month since you first addressed the market, Bart, EVs have arguably become worse, ICE maybe a bit better. And at your 1H result, we can see that the returns you're making in Catalysis and PGM recycling are brilliant. It's over 40% in Catalysis and 70% in Recycling. And you're essentially recycling cash from that into a business that made a negative 5% ROCE at the first half, which obviously is under earning. But internally, what are the debates you're having as to why you think this is a good business to play in rather than an exit or sales from the assets?

Wannes Peferoen: Okay. Maybe let me start with the impairment exercise. So looking at the impairment exercise, what we did is we looked at the existing assets and the existing contracts. And as you know, looking at the existing business, we have the China volume that did not take off this year. We have the legacy contracts that are tailing off. And we also have the other contracts where we expect a delay of 18 months. So this is something we take into account when looking at our baseline.

At the same time, we also assume that we will minimise the expenses going forward that we'll use the existing asset base. So basically Europe, Korea and China. And based on the current volume commitments and volume projections in line with the current investment base, we also reduced substantially those following projections.

Now if you look at the final picture where you land and the impairments that you will get to, I think this is driven by a couple of elements. First of all, there is the assets in China where we believe and in the base case, we assume that those will remain underutilised. So that is driving a large part or a large share of the impairment. And that's why we also highlight it's mainly related to Asia. But also we can't do ramp up as the ramp up is somewhat slower in Europe. So there, that also drives some of the overall impairments, I would say.

Looking at the value creation. So yes, we continue to see in that base case scenario that there is a value creation towards the end of the decade. So this is, again, driven by the existing assets that we have and by the contracts that we have. At the same time, this is a base case. This is a scenario based on what we have today and what we see today, but it's also a base for future growth, I would say, for the strategic review, which is still ongoing.

Bart Sap: Yes. Indeed, that's right, Wannes. And the way you have to see it, Riya, is that the base scenario that we're showing right now is showing what we know today. We're not saying anything else. We're showing what we have today. In the meantime, we're still performing our further strategic review. We're engaging with our stakeholders. We're talking to our customers.

And the last weeks and months and besides, of course, working on all these things, I've been heavily engaging also with our customers. And I'm talking here battery makers, but also even further downstream OEMs. And I can tell you a bit what we were talking about in these meetings.

Clearly, everybody was talking about the slowdown in electrification and low growth rates. Everybody was talking about low-capacity utilisation, and we see this across. So battery makers that also based on flat bookings, you can see that also other catalyst material makers are facing the same.

The second part was then, okay, we now have this low-capacity utilisation, how long will it take to get back to a normal situation? That's where a lot of the discussion was revolving on. But every time in every meeting, and this is with potential as well as existing customers, Europeans or Asians, it always came back to Europe. And it said, what's your view on Europe?

You there have a strong asset in Europe. What's your view, for instance, on local content requirements? So we can clearly feel that these battery producers that these downstream producers are really still eyeing local supply chains in Europe. And if I’m in discussion with these customers, right, they're really also talking about NMC. And they're really saying, okay, we see that you have a plant, we see that you have contracts, let's see where we can go.

And therefore, as a critical or an important element in our further strategic review, which will take time because these conversations do take time, it will be reflecting, okay, how strong is now this different saving asset that we have in Europe. And I do believe that we have a strong differentiation. We have the biggest operational plans in Europe. We have contracts underpinning, and I see that other potential customers, including Asians are also clearly eyeing to Europe.

Yes, there will be some LFP, but there's also going to be a big space of NMC, and that's what my customers tell me. And that's why I also have that conviction.

And yes, if you look at the capacity available in Europe, this is way below the growth forecast that also our customers show today for NMC in Europe. So yes, I still see options beyond this, and this gives me conviction, of course, that we can go to value creation. If that path will not be clear, of course, we're following a structured process. And this will ultimately lead to the good solution, right? That's on that part.

Now for the rest, I think you were talking about the great returns in our business. And maybe Wannes, if you would like to speak with that further?

Wannes Peferoen: So maybe coming to the question really on the capital allocation. You're right, I mean looking at Catalysis, looking at Recycling, excellent grade business, world-class business. It's world-class performance. We allocated capital to Battery Materials as we also saw and still see a unique positioning and great return targets.

Given the current performance, this is where we are clearly taking actions where we are slowing down the CAPEX in Battery Materials, where we are making stock of where we are and looking how to further improve this. So at this very moment, we have that action of slowing down CAPEX in Battery Materials because of the challenges, and we have a strategic review going on.

Bart Sap: Exactly, Wannes. So basically, any capital allocation that we now see in the Battery Materials business will be to finish off mainly our Korean and European assets to serve all the contracts that we have under the belt today because we have strong contracts under the belt. And in future, excess or more capital allocation on top of what we do today is part of the strategic review, and we'll give you more insights in Q1.

Riya Kotecha: That's really clear. Thank you. I've just got two quick follow-up questions, if you don't mind. First, can you help quantify how much of a drag the underutilised China plant is on your EBIT for Battery Materials? And if you were to just shut the plant down, any idea of what uplift you would get?

And my second question is on the combustion engine outlook. Are you able to give us anything a bit more near-term into the third quarter about how the market has developed? Are you seeing any suppliers going into early summer shutdowns and just some context around that, would be really helpful.

Bart Sap: Yeah. No, of course, talking about specific operations that we typically don't do. Of course, I understand that this could be interesting information, but probably it's also an interesting information for more than just broader use. So this we cannot share.

Now right now, of course, this capacity is lowly utilised. That's also in the plan. But again, this is not the endpoint. We're still looking into options, how can we take use of this asset going forward. This is part of the strategic review, and this will lead ultimately to the decisions that we take. But today, that's not where we are.

Now if you ask on the evolution in the car market, we do see some softness in the last month, and that is reflected in our forecast. And if you assume that the current softness prevails, yes, of course, our outlook will stand. And that's why we confirm. So that's where we are today.

Riya Kotecha: Okay, thank you. That's really helpful.

Bart Sap: Thank you.

Operator: Thank you. We will take the next question from line, Charles Bentley from Jefferies. The line is open now. Please go ahead.

Charles Bentley (Jefferies): Hi. Can you hear me?

Bart Sap: Yes.

Charles Bentley: Wonderful. Can I just ask on the impairment. Can you just give any detail on the split between CAPEX and inventory adjustments? Because I remember two CEOs ago, there being an amount of permanently tied up working capital that appears to be capitalised at a very high cobalt price. So I'm just wondering like how much of this is related to pure CAPEX being taken down, and how much is working capital?

And as related to that, it's essentially how much CAPEX is kind of in the remaining capital employed of the business just so we have a good idea of like a run rate D&A rate. That would be my first question.

And the second one is just in terms of the strategic review, I mean, are all options on the table. I mean, obviously, you've got some very well positioned assets in Europe. I guess if you think about how attractive some of those are potentially, is the idea that you could completely exit the business, you could divest of everything in some way. Is that being considered, or is that purely – is that off the table? Thank you.

Wannes Peferoen: Let me maybe start with the impairment question, trying to break it down. So if you look at the impairment exercise, and then look at the capital employed before and after. The capital employed in Battery Materials stood at €3.1 billion. We now impair €1.6 billion non-cash, and that brings it down to €1.5 billion.

Now looking at the impairment, out of the €1.6 billion, €1.5 billion is related to non-current assets. And then if you look at those non-current assets, we have property, plant and equipment, where we took a €1 billion impairment. And looking at the property, plant and equipment before impairments at the end of June, we were at €2 billion net book value. After the impairment, we are now at €1 billion of net book value.

And then talking to the non-current inventory, this relates to the permanently start-up inventory in the operations which, indeed, is overvalued if you look at today's metal prices and we talk about cobalt, but we also talk about lithium. So looking at cobalt and lithium, this is where the overvaluation basically on the mark-to-market led to an impairment of €400 million on the permanent inventory.

Bart Sap: Yes. And to your broader question on the strategic review, well, in essence, of course, a strategic review looks at everything, right? I don't have any preconceived ideas today. So there's openness, right?

Now at the same time, I also said that we are looking at partnerships along the value chain. And you should not read too much in that as any conclusion on partnering of the business or selling of the business. My belief here is that this is a nascent industry. That means we have to bring visibility, and visibility you can only bring if you build supply chains. And that starts from all the way from raw materials all the way to the car OEMs.

And yes, I'm open and probably more open than we were in the past because initially, Umicore wanted to do a lot of things on its own. Now if there are options in certain sections of the value chain that would trigger more value creation or would unlock more potential, we will look into this, and we are open for these options. So again, we're looking at it holistically. We have a structured process. We have clear case that we're going through. And ultimately, that would lead to good decisions on which we will share the direction and the outcome in Q1.

Charles Bentley: Thanks very much.

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. It appears no further questions at this time. I will hand it back over to your hosts. Thank you.

Bart Sap: All right. Well, once more, thank you, everyone. Thank you for attending. For us, this was an important update that you can understand. Some of you we will see still in the days to come. But for everybody online, thank you for being here, and I wish you all a wonderful day.

Operator: Thank you for participating in today's call. You may now disconnect.

[END OF TRANSCRIPT]