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Umicore Q1 2023 Business Update and Outlook

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Operator: Hello, and welcome to Q1 2023 Business Update and Outlook organised by Umicore. My name is Alan. I will be your coordinator for today's event. Please note, this conference is being recorded. And for the duration of the call, your line will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Mathias Miedreich, CEO, and Wannes Peferoen to begin today's conference.

Mathias Miedreich: Thank you very much, and good evening to everybody who is listening. As said, I'm here with Wannes to talk to you today and to give you an update on our Q1 performance as well as how we see the outlook for the remainder of the year.

If we go to the first page, you will see that Catalysis is the first topic that we will talk about. And I'm very happy to confirm that as planned Catalysis continues with its strong performance also into this year. The very good cost position and strong volumes enable a performance that was again increased above the levels of the previous year.

The volumes have especially been strong in Europe and North America, enabled by the local market dynamics and a favourable platform mix; on top of that, combined with a good traction in HDD in Europe, but as well again in China.

So in addition to this Q1 performance, AC also made significant steps to further secure its future performance by securing a strong majority of the Euro 7 awards for gasoline that are now largely concluded, resulting in a further market share growth versus Euro 7. so, altogether, the assumption that we have that the Q1 2023 or the year of '23 will even outperform the record year of '22 are fully confirmed by these results. And in Precious Metal Chemistry and Fuel Cell & Stationary Catalysts, we also have a solid start into this year.

If we go on the next page to E&ST, we can also report here that the first quarter has been executed as planned and as anticipated for E&ST with its different business units. The RBM performance was broadly in line with last year and is expected, as we said before, and we can confirm that later also in the outlook to continue to be in line with the previous year performance for the full year. And as we had communicated earlier, the implemented lithium hedging mechanism is in place and is working as planned. And that, of course, is good in a volatile lithium price environment.

We also have a very good traction in the preparation of our 2024 volume ramp-up. We talked about in previous calls about substantial growth that will introduce end of '23 and then get full traction in 2024 through all of the programmes that we are qualified, through all of the contracts that we have been securing and we can, in this call today, tell you that per the latest view, this is fully confirmed. And also, we have some good news to share that we see as a proof point as well on this growth forward because we have been able to close a new agreement with the Chinese battery OEM for the local supply.

So China supply in China of high-nickel CAM. so, this, as we said, is in itself a good news because as we know – as you know that in China, we have still capacity that can be utilised and with that agreement, we can do that pretty short term as the first deliveries will already start end of 2023.

Cobalt & Specialty Materials, we saw as anticipated and normalised performance below the exceptional profitability that we saw in Q1 '22 that was driven by a favourable cobalt price environment. And for Metal Deposition Solutions and Electro-Optic Materials, we also saw a stable year-on-year performance.

If we move to the next slide, we will talk about our third business group, Recycling. Recycling also started with a good operational performance into 2023. PMR, Precious Metal Refining, had a solid input of PGM-rich industrial by-products.

But at the same time, you can see also on the chart on the right side, the PGM price levels saw a visible drop in the first quarter, especially rhodium and palladium. And this, of course, is a headwind for the results but also it reduces the availability of PGM-rich recyclables. And with that, the Q1 result for Recycling – for PMR and Recycling has been as anticipated below the previous year.

The Battery Recycling Solutions, we see a continued strong interest from the customer side. And interestingly, more and more the customers, and I think we have discussed it in one of the previous calls that are the cell makers that want to have partners to recycle the scraps produced in the Gigafactories that are now steeply ramping up in Europe and in North America. And we are profiting from that with our current setup that we have, but also the plan that we have already communicated to build more capacity of battery recycling in Europe.

Jewellery & Industrial Metals had a lower year-on-year performance, also driven by the impact of lower PGM prices in the recycling part of it, but also a lower demand for gold and silver investments products. And the Precious Metals Management group had a slightly higher contribution compared to last year, driven by favourable trading conditions and those trading conditions are always favourable when there is volatility, and that's what we see.

Going to the next slide, this will already be my last slide before we have a chance to go into Q&A.

I would like to conclude this short presentation by sharing the full year guidance for our three Umicore business group.

So for Catalysis, the adjusted EBIT/EBITDA is expected somewhat above the 2022 record levels, slightly above current market expectations. As we said, continued strongly the performance story of Automotive Catalysts. They continue to benefit from strong market position in gasoline catalyst applications and a further recovery of the automotive supply chain and the Chinese heavy-duty market.

In E&ST, the adjusted EBITDA is anticipated somewhat below the 2022 levels, slightly above current market expectations. And we said already before that this is due to the mix of the business units because rechargeable battery materials, we confirm that earnings are expected to be in line with the 2022 level.

And in Cobalt & Specialty Materials, we see normalisation in 2023 compared to the exceptional 2022 profitability. Recycling, we see an adjusted EBIT and EBITDA expected to be in the lower range of the current market expectations. And this, as you might see, it's a mechanical impact. It's impacted by the lower PGM prices and the related less supportive supply environment for

PGM-rich recyclables. And of course, this is taking into account the current outstanding strategic metal hedges.

So to summarise this presentation, we had a strong start in all three business groups into 2023, operationally strong first quarter. Catalysis is on track to, again, beat the previous year in growth and in profitability. E&ST is absolutely in plan for our 2023 performance as we have foreseen it. And for the 2024 growth, we have some very promising recent news to substantiate it. And Recycling will remain operationally strong over the semester with the recent decline in PGM pricing creating some headwinds in earnings for this business group.

With that, I would like to close the presentation, and we would be happy to go into a question and answer session with you.

Questions and Answers

Operator: Thank you. If you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. You will be advised when to ask your question. We'll pause for just a quick moment to allow everyone an opportunity to signal for questions. We will take our first question from Sebastian Bray from Berenberg. Your line is open. Please go ahead.

Sebastian Bray (Berenberg): Hello. Good evening, and thank you for taking my questions. I'll start with the guidance for Rechargeable Battery Materials in light of the comments around lithium hedging policy. On an underlying basis, ex-metals of this business unit, am I right in saying that profitability is up year-on-year '23 versus '22 as per the guidance?

Wannes Peferoen: Hi, good evening. Wannes here. so, looking at E&ST, I would say, looking at the different components for RBM, we are in line with last year. And also for CSM, as we have shared earlier, this is where we had exceptionally strong results in '22. And therefore '23, we executed and accepted some of the decline. so, here, I would say we are also in line with what we anticipated.

Sebastian Bray: Just to clarify, from what I understood at the full year call or perhaps I've misunderstood, we have the 2022 EBIT for Rechargeable Battery Materials, which is not disclosed, but benefited substantially from higher lithium prices. And what you're saying is for this year, the nominal number is going to be pretty similar at the EBIT level. But I don't know what the lithium price hedging effect is or if that's purely taken out. But to me it sounds as if the underlying profitability of Rechargeable Battery Materials, excluding Lithium, is up year-on-year. Is that right? Or am I wrong with that assumption?

Wannes Peferoen: There's a couple of elements to consider. I mean as you rightfully indicated, last year we had the lithium margin that contributed. In the course of last year, we also started implementing the hedging, reducing the exposure or taking away the exposure to the lithium price volatility. But at the same time, we also carried over some of the lithium margin, meaning that we locked in the prices, so, the price delta. And now this year, we're delivering the products, shipping out the product, we are effectively materialising some of that margin. So, that's one element. The margin is less than last year.

Another element that also plays a role is last year we had the start-up of Nysa, where there's also quite a bit of testing mass – volume mass production testing that was executed, and that is also at the lower pace this year. so, those elements are taken into account, I would say, we are rather flat rather than line with last year.

Sebastian Bray: That's helpful. Thank you. And the second question is on the Catalysis segment. Can I probe a comment about winning for majority of Euro 7 business? If I were to take the market share of Umicore as it stands on a run rate basis for gasoline platforms, does Umicore already have over 50% market share in Europe? In other words, is the use of the phrase majority a new thing? Or is it just a bigger majority for Euro 7? Thank you.

Mathias Miedreich: Yeah. so, actually, how it should be interpreted instead. Today, we have a certain market share. It's a strong market share in gasoline in Europe. And I think we have not disclosed this market share. And now what was happening is that the sourcing for the Euro 7 portions has been going on for the last couple of months and is in Q1 of this year coming to close because all of the major platforms have been sourced.

In looking to what Umicore has been able to win out of those sourcings, we can clearly see that we have win – we have won the largest share of the incumbents today and that will effectively when those projects go into production, which Euro 7 is projected to be 2025, will then also materialise in our market share. And what I can confirm is that the market share of Euro 6 is below the market share of Euro 7, or in other words, through the recent project wins, we will be seeing our market share going up from end of '24 and then especially '25 onwards in that segment.

Sebastian Bray: That's helpful. Thank you. And last one from me. Chinese contracts that you have won, is there anything different about the pricing of that contract relative to the rest of the world? Is there some type of spot linkage or is it fixed price?

Mathias Miedreich: Yeah. Let me maybe give you some flavour to that contract. And at this point in time, and you will also see that we didn't disclose the name here because it is still an ongoing negotiation for other elements of that. You might remember that some time ago we had said that our strategy was to combine business deals between European volumes and Chinese volumes and to basically kind of a package deal approach.

And this agreement that we now have is a positive confirmation of that because the Chinese portion of it has been secured, and we are executing it towards the ramp up end of the year, which is excellent news for us because it's very short-term ability to utilise capacities that were not utilised so, far.

On the European portion, we are not yet so far – not yet to say that we can confirm that we have secured the business. And we have agreed with our customers that we will only go in further details once the full package has been concluded. so, bear with us a little bit – we will give you more details, but, unfortunately, we cannot do it right now.

Sebastian Bray: That's helpful. Thank you for taking my questions.

Operator: We will take our next question from Georgina Fraser from Goldman Sachs. Your line is open. Please go ahead.

Georgina Fraser (Goldman Sachs): Hi, Mathias. Hi, Wannes. I was just wondering if you could give us some idea on the kind of impact that the new recycling guidance might have on your cash flow or any other assumptions that we should be taking into consideration and what you've seen in the first quarter and any impact on the outlook for cash on the back of that would be helpful.

And then I know that the last time that we spoke, it sounded like there was quite a lot of activity going on in terms of battery material negotiations. If you could give us an update on the pace of those kind of customer inquiries? And if you could give us an idea of further contracts to expect. Thanks.

Mathias Miedreich: so, yeah, thank you, Georgina. I will start with the second and give the first one to Wannes. so, indeed, the traction is pretty hot, if you want. And there were two regions that, in fact, affected is Europe, where mostly the discussions are around those packaged deals that I have just touched. And then, of course, it is North America because in North America we have said last time that we are working with several customers for the North American business opportunities, and that is also further progressing.

So I could say the optimism that you have hopefully heard from us during our last call, I can confirm that this optimism is continuing, if not increasing, and we will further work on this in the course of the year. But we are already very happy that we have now the ability to give you the news on the Chinese contract, but we see that also as one of a stepping stone of others to come, of course.

Wannes Peferoen: Okay. And then coming to the cash flow generation, maybe looking first at the first quarter, what we see is with the strong performance of Catalysis is that we, again, are well ahead of target basically in the cash flow generation in Catalysis. And I'm also looking at Recycling. As you know, there is that exposure of the EBIT and EBITDA to the PGM prices.

So on that end, yes, there is a negative impact on the cash flow generation. But at the same time, as you also know, looking at the working capital, this is where declining PGM prices helped and even more than offset the impact that we see on EBITDA. so, overall, looking at the cash flow generation, also here, we are well on track.

Georgina Fraser: That's very helpful. Thank you.

Operator: We will take our next question from Ranulf Orr from Citi. Your line is open. Please go ahead.

Ranulf Orr (Citi): Hi there. Thanks for the questions. Firstly, just going back to the Chinese agreement, supply agreement. Can you confirm, I know early stages, if that's take-or-pay at this stage?

And secondly, can you quantify or help us understand what the PGM headwind for Catalysis this year is likely to be? I understand the benefits when PGM prices are rising, just those two for now. Thank you.

Mathias Miedreich: Very good. so, let me – I mean, it's on the China topic, please bear with us because we don't want to violate what we have agreed with our customers. I can give you maybe a little bit more flavour on what this actually is. It is 20,000 tonnes of high nickel cathode active material. so, while we normally use the conversion factor of around 1.5 gigawatt hours, here is a little bit less because it's high nickel, and it's when I say high-nickel, it's actually above 80%. so, going into the high high-nickel area, which means translated it's around 15 gigawatt hours, 14.8 or something like that.

The reason why I'm mentioning that is because you might have also heard in the last weeks and months that there's increased success of Chinese OEMs, Chinese battery EV OEMs to export to have credential models also in Europe and North America. But of course, the European market requirements are different in terms of driver behaviour and customer preferences. so, while in China, of course, still LFP is a very largely used solution, but with the increase of this export performance of the Chinese OEMs, they are more and more in need also for NMC and especially high nickel NMC type of technologies, and that's – we were very happy that we can support one of them also in that regard.

So I cannot give you any more contractual details of that. We will be able to do that once we have concluded the other side of the story as well.

Wannes Peferoen: And then bringing it to Catalysis and the PGM headwind. I mean as you actually say, we do experience some headwind in Catalysis from PGMs. At the same time, looking at the net effect, we have been able to offset. And that's, first of all, we see year-over-year volume growth, so, we have a volume impact. But also looking at the margin side, this is where we continue to make progress, and this comes from the product mix, where we have a more favourable product mix and also where we have been able to further increase prices, on the one hand.

On the other hand, we also continue to improve on the operational efficiency. so, all those elements, looking at volume and margin enable us to basically absorb to offset what we have as headwinds from PGM in Catalysis.

Ranulf Orr: Great. That's very clear. And if I could just sneak in a final one. Could you please give us an update on the timeline for starting construction in Canada, please?

Mathias Miedreich: Yeah, absolutely. so, what we have said earlier is that we will start construction this year or let's put it the other way around. That to be able to fulfil the requirements of our customers to produce for them when they need the material, we need to start construction within 2023, and we are on track for that plan.

Ranulf Orr: Okay. Thank you.

Operator: We will take our next question from Geoff Haire from UBS. Your line is open. Please go ahead.

Geoff Haire: Yes. Good evening. Thanks for having this call. I just wanted to ask a couple of questions. Just a confirmation question. On the Recycling, I think that the lower working capital offset the EBITDA, but did it also offset the free cash flow generation in the first quarter from Recycling in the quarter?

And then the other question I had was, just given the inflation that we're seeing on a global basis, are you seeing inflationary pressures on the CapEx that you sort of guided to back in June last year at the Capital Markets Day? And then I just wondered why you haven't given a full year guidance as is normal at the time of year for Umicore.

Mathias Miedreich: Yeah. I think I got all your three questions. I would take the middle one in CapEx, and Wannes will talk about the cash flow and the rationale on the guidance. so, now, of course, the plans that we are building are not immune of inflation or, let's say, the inflation is everywhere in the world.

Now there are two effects that we are – we have that counter against that. The first one is that we are continuously working on optimisation of CapEx density, which is a process that we have started already long before the inflation was hitting, and we have further increased that. so, to a certain extent, we are able to compensate inflation by simply using less CapEx density, and that worked out pretty well for the projects that we are carrying forward.

And then there is the other mechanism, which – actually three mechanisms. The second mechanism is our customers because for some of the contracts, and we have disclosed that earlier, some of the key contracts, we have also an inflation coverage on CapEx, which makes us even more immune on that. And there is a third layer, which also looks promising and looks in the right direction that in this business, for this activity, especially in North America, there's a lot of government funding – government grants and funding in place, and we had closed agreements previously. But governments are also understanding that with an inflation that is happening, this needs to be revisited. And also here, we see very positive signs.

So overall, I can give you the confidence that this is not a major headwind that we see.

Wannes Peferoen: Okay. And then taking it back to free cash flow. so, as I mentioned earlier, so, the price effect of PGMs on the working capital is favourable, and it's a multiple versus the price effect on the EBITDA. so, free cash flow-wise, yes, it is favourable, I would say, in the short term.

Looking at the full year guidance, as you might have seen, looking at the PGM prices and the recent evolution, it is still rather recent looking at the last couple of weeks. so, that's where we prefer to see how it evolves over the next two weeks to what extent it stabilises or it recovers or further deteriorate before we give any further guidance or be more precise, I would say.

Mathias Miedreich: Yeah. I think the overall message that we wanted to give is the business has started in the year as planned. We are progressing over the year, as we had said it before. There is only one change that should be taken into account, which is a mechanical impact, obviously, of precious metal prices to our recycling results.

But Automotive Catalysts or catalysis will do the outperformance of last year and will it better than the market expectation.

In E&ST, all boxes are ticked for RBM in performance in '23, but as well the ramp-up for '24 and going onwards. And of course, you can expect that in Recycling, we do everything possible from an operational point of view to find countermeasures. But to a certain extent, it's just a mechanical thing that we have to see.

And as Wannes rightfully said, it's too early, too recent that we can give a solid top level guideline. We prefer to guide you on the different segments because this is absolutely gives us the granularity that we think that is important to know.

Geoff Haire: Sorry, can I just confirm, did Wannes just say that you'll be giving – you'll be updating the guidance in two weeks for the full year – for the Group?

Wannes Peferoen: No, what I meant is that we will be evaluating over the next weeks and months basically.

Geoff Haire: Sorry, okay.

Mathias Miedreich: You can expect that our targets to have a more quantified guidance will be our half year results at the moment.

Geoff Haire: Okay.

Operator: We will take our next question from Chetan Udeshi from JP Morgan. Your line is open. Please go ahead.

Chetan Udeshi (JP Morgan): Yeah. Hi. Thanks. Just following on from previous question. Can I confirm that based on what you are indicating at the moment, we are looking at something in the range of €720 million to €730 million of EBIT for the Group? I mean it's just my calculation based on what you discussed for different segments? Or is that materially different from – or what you think is the Group number is materially different from that?

The second question was just coming to Energy & Surface Technologies guidance, the EBIT in this division was €55 million in second half. And I'm a bit surprised what will drive that number up from that, let's say, €110 million run rate in the second half of last year to what you seem to be saying closer to €150 million, €160 because some of the – I mean the metal prices, cobalt, nickel are down from second half at the moment. And you seem to be saying the volumes are not going to improve much in cathode till the end of the year. so, what is driving that uplift from second half run rate, which seems quite a significant uplift from second half run rate in E&ST for full year '23 in the guidance?

And the last question is, I mean, can you quantify the benefit from the structural hedging from metal prices because it's an important piece of the puzzle and given the upcoming CapEx ramp, I guess, it's good for us to know how much cash can be lost from, let's say, the strategic metal hedging in the next year or two if the metal prices were to remain at these levels? Thank you.

Mathias Miedreich: Yeah. Thank you, Chetan. Three very relevant questions. Let me again answer the middle one on the E&ST guidance, and Wannes will talk about your calculation that you made and also the hedging topic.

So let me build again the E&ST guidance for you block by block. so, last year, we had a certain impact of lithium on the results for RBM. And going forward into 2023, we see that we have two elements for E&ST. On the one hand, we say that RBM will have a similar performance or the same performance like it had in the year before. While CSM, Cobalt & Specialty Materials, will be below the previous year's performance because there is a less favourable cobalt price environment, which is a quite significant impact in that business.

So let me dissect the sector now for RBM. so, in RBM, we have, again, in this year, a certain impact of preferential lithium treatment that we have been able to lock in in the year before, and that has a consequence now in the year of 2023. That's one element, but the impact is less than last year.

So how – you rightfully say how can then, in this sense, how can you say that the performance is the same? And there are two additional elements that are different compared to last year. The first one is the operational performance in Nysa. Last year in Nysa, we had a lot of start-up costs that were weighing on our margins because we went into the qualification processes, the mass production trials, all of the things you need to do to start up a plant, where you have to clean the plant, etc., etc. to three months of cleaning before you can start the production.

This year, we also have continued preparation for ramp-up and launch, but to a much lesser extent, cost intensive, and we are much more efficient how we are doing that. so, that is an upside. And if you want, operational performance, less cost, replacing and less favourable lithium impact.

And the third element that you also will see then in the second half of the year, especially in the fourth quarter is, as we said, an increase of activity, so, production volume that will then carry out into 2024. And one part of that is also to be contributed to the Chinese contract that have been able to close because that will already start production with smaller volume in Q4 2023.

So that would be the building blocks why we can say that there is a similar performance year-over-year. It's the same number, but it's a different composition, much more driven by operational impact at this point in time.

Now coming back to the other two questions, I hand over to Wannes.

Wannes Peferoen: Yes. Looking back at the first question on the more concrete guidance. Again, I think the purpose of today is that we do get a good insight of the different components of the Group and what is happening and how it's evolving and how we are performing.

At the same time, again, given some of the recent volatility on PGM prices, that's where we, again, prefer not to be precise at this very moment in time, given that we also want to evaluate how it will evolve over the next months.

Now going back on your question on can we share the benefit that we create from structural hedges. You're right. Indeed, we have structural hedges in place. And if I recall well, we shared the ratios during the call – the last call we had in mid-February. And that benefit – it's typically not something that we share in detail those benefits, but they are included in the guidance that we give. so, it's part of that guidance. so, that remains the open exposure, those that are not locked in. And that's something where allow me to come back to that where we are mid-July with an update on those exposures.

Chetan Udeshi: Thank you. Can I just confirm on E&ST? Are you expecting – let's say, if your number is – if I read slightly above consensus of, let's say, €150 million, do you think first half, second half will be equal in terms of contribution? Or do you need much bigger second half to get to, say, €150 million for E&ST?

Mathias Miedreich: Yeah. I think from the structure of the business, the second half will be on the higher side versus the first half because naturally, when the peaking – when the business is picking up, that's the effect that we will see. so, yes, second half will be better than the first half.

Chetan Udeshi: Understood. Thank you.

Operator: We will take our next question from James Hooper from Bernstein. Your line is open. Please go ahead.

James Hooper (Bernstein): Hi, everyone. Thanks for taking my questions. I have a couple, if I may. Just going back to the Euro 7 wins. Congratulations on – it sounds like you've been gaining share, but what are your customers saying? I think particularly do they like, let's say, [inaudible]? Is it perhaps kind of integrated offering between EV and ICE? Or is it technological?

And then my second question is an update on battery recycling plans. If you notice, for example, Fortum has just opened their facility in Finland. There seems to be some momentum in this space. so, I was wondering if the kind of plans to update the Hoboken facility or open the second one? Thanks.

Mathias Miedreich: Yeah, absolutely. so, first of all, Euro 7, we see actually two reasons why – hopefully, many reasons, but mainly two reasons why the customers choose Umicore outside of, of course, competitiveness and quality, etc. The first one is really technology because technology, we must not forget that Euro 7 is still a technology game.

And the technology is paying out for the customer, mostly in a way that they can fulfil the regulatory requirement with a minimum amount of PGM. And that's what the Umicore technologies provide. And that's why the customers source us versus the competition.

The second reason why they source us indeed has to do with our engagement in battery materials, but it's not in a way to have a couple of deals that we get awarded a battery business and catalyst business at the same time. It is more – and that's live feedback that I get from the CEOs or the senior leadership of our customers, is that they say Umicore in what we see into the future, probably is the only company that has skin in the game in combustion engine as well as in electrification, because – and I don't want to talk about competitors, but all of them make choices where they are only on one or the other.

And with that, they simply tell us that if we have to do risk management, so, what is the – I'm not even talk about most reliable, but what is the partner with the lowest risk that in the future, something is going not as we wanted, then it's Umicore because the automotive industry always hates markets that are going down, where players are delivering parts or things that actually see no future because with that, they do crazy things on pricing. The history is long of that.

So they think and I think we are fully convinced that they're right, working with Umicore, gives them the advantage that we have skin in the game on electrification and would not sacrifice that with any strange moves that we would do on Automotive Catalysts, number one.

Number two, battery recycling, indeed, as I hinted a little bit in my presentation, we see quite some traction from the customer side. And when I say customer, it is in this case, of course, also the automotive OEMs, but more pronounced is the battery makers because the battery makers face a very big problem that is they ramp up their manufacturing sites with a high scrap rate. And we know that over the time of the production, they will never be able to go below 5-7%. so, it's a considerable amount, and they want to have partners that work with them on that, and we are in discussion with some of those to see how we can make it happen.

So in terms of preparation, we stick to our plan for battery recycling. And we see our conviction confirmed that this is not a market that will happen post 2030 when the end-of-life batteries come back, but it's a very active market that is forming right now, and it's mainly driven by battery scrap from Gigafactories.

James Hooper: Thank you very much. That's very helpful.

Operator: We will take our next question from Riya Kotecha from Bank of America. Your line is open. Please go ahead.

Riya Kotecha (Bank of America): Hi. Good evening. Just three questions, please. First, Volkswagen officially announced the Canada battery plan with a 90-gigawatt hour capacity while your agreement with them comes about 40-gigawatt hours. Should we interpret this as potential upside theme across current agreement? And if so, how do you think about incremental investment required to support growth here more generally even because auto OEMs seem to be focusing on this region given the IRA?

My second question is whether you can clarify the subsidies you expect in Canada. BW mentioned about a 10% CapEx subsidies from the Strategic Innovation Fund. Do you expect similar for your plans?

My third question is on the China contracts. Are you able to tell us a bit about the length of the contracts, and more widely to what extent will the profitability meet the margin targets that you set out at the Capital Markets Day of about 20% EBITDA.

And then related to this, and lastly, may I ask why it has been harder to negotiate the European proportion of the contracts? Is it because of the contract structure or the pricing? And if that is a European part, would that be upside to the 20,000 tonnes or just a reallocation to this plant? Thanks.

Mathias Miedreich: Thank you, Riya. Very good question. And let me go step by step. so, first Canada, 90-gigawatt hours. Indeed, our MoU that we signed with Volkswagen is lower than that. Now this 90 is also a projection into the future. so, if you look at this, there's a certain start and then there is a continuation.

Indeed, that is an upside. But first things first, and we don't have to make decisions today to invest more to cater that because it would be a matter of time as we first concentrate on the first steps on the 40. And if we find agreements that will going further also be as the first step is a value accretive investment for us. We will consider that.

But as you hopefully see it as a good news. And you're right, the traction for Canada is really good because a lot of OEMs, cell makers and others are going there. so, we are more than confirmed that this is the right decision. This also comes to the second question, subsidies. so, what I can tell you in terms of subsidies is that the – what you hear in the IRA context in the US that there are subsidies that go up to the level of 40-50% for companies that invest in the US and you can be sure – I can give you so much granularity. You can be sure that in Canada, it is not less because it's actually a means of competitiveness of Canada.

So all in all, I could say that the investment in Canada has the same mechanics than it would be in the US with the IRA. so, quite significant ratios here.

In China, for the two questions on the China business. so, first of all, the length here, it's a long-term contract. I'm not able to give you yet exact length because this is part of the overall discussions. And yes, the profitability of that business is supporting the plan that we have, that our RISE 2030 plan in terms of the target profitability.

Now the question is so, – and the European discussion, yes, it's an upside. so, it's nothing to – it's not a relocation. The China business is for China. The EU portion is an upside to that. Why is it harder to discuss? Because in Europe, we, of course, have the requirement that we apply the same contractual conditions that we would apply for any other customer that wants us to invest new money because it would mean, of course, the capacity – or I'd say, more CapEx to be invested.

And for that, as usual, with these contracts, we take our time because we think that we have very good arguments to create very favourable contractual conditions. All the other agreements have shown that, and there's the reason why it shouldn't be here the case but that takes a longer time. And also, of course, the side effect is that the SOP date for Europe is later, while the China SOP is already this year, end of this year. Europe is out there. so, we have also more time to conclude it. so, overall, that explains why the timing is not the same.

Riya Kotecha: Okay, that's clear. Thanks so, much.

Operator: We will take our final question of the day from Ranulf Orr from Citi. Your line is good – open. Please go ahead.

Ranulf Orr: Hi. Sorry for coming back with more questions. Just a few. Just firstly, back to PGMs. In prior years, you've at least quantified what the PGM price impact on EBIT would be at current levels. Would you mind being able to do that again for us now? I appreciate there's price volatility.

Secondly, on Recycling, it seems you often benefit as well in not just revising prices but very volatile PGM prices. And as you say, prices are exceptionally volatile at the moment. so, does that mean we could see significant offset to the declining prices and earnings not being negatively impacted as one might expect.

And then just thirdly, on cost inflation across the Group, like you did for last year, if you could please give us an idea of the amount for this one. Thank you.

Wannes Peferoen: Maybe let me start with the last one because I didn't entirely get the middle one, let's say. so, looking at cost inflation, that's something I think we have guided somewhat on during the discussion we had in February. We had a significant cost inflation effect in '22. And that's where we said looking for '23. We again will expect substantial cost inflation.

Now as you know, on the energy side, that's where the cost has come down. On the one hand, we have some of the energy consumption in the Group in particular before recycling in Belgium to a larger extent, hedged, but still there's also still an exposure, which creates some upside. so, I would say on the cost inflation, yes, that will be lower than what we initially guided on.

Looking at PGMs, I see your point, I understand your question where you indicate in past you have been guiding even at current levels. But still, I mean, again, it is very recent. It's something we have seen over the past weeks. Already over the past few days, we see some of the PGMs, in particular, rhodium, we see it moving up again. so, again, here, we believe it's too early to give a precise guidance looking at today's and current volatility.

And then maybe on the middle question, not entirely sure.

Mathias Miedreich: Yeah, maybe can you repeat the middle part – the second question?

Ranulf Orr: Yeah. so, I understood that when PGM prices were volatile, your trading business was able to capture excess profitability. And we are seeing very high levels of volatility in the market. And I was wondering if, again, you would generate sort of supernormal profits as a result of that.

Wannes Peferoen: That is entirely correct. so, in volatile times, that's where the trading business creates more margin. And what we also already have seen, has witnessed in fourth quarter. so, that is entirely correct.

Ranulf Orr: Okay. And can you quantify at least sort of point to the relative impact of the declining prices versus the high volatility in terms of the division's earnings?

Wannes Peferoen: I don't have it immediately with me. so, that would be hard.

Ranulf Orr: Fine. Thank you.

Operator: Thank you for all the questions today. Now I will hand you back to your host to conclude today's conference.

Mathias Miedreich: Yeah. Thank you very much for the good discussion. As usual, very on the point questions. Thanks for bearing with us with the kind of guidance that we have given. We are convinced that the progress that we have made in implementing our RISE 2030 strategy and the recent proof points that we can report out for our different segments are very encouraging for the year.

And as we have said, we will revert back in the midyear section when we report our H1 results. We will be able to give a more precise guidance. Please bear with us. We want to make sure that the volatility that is currently seen is better understood and not based on some data points in recent time.

So thank you very much, and looking forward to our next exchange.

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

[END OF TRANSCRIPT]