Capital Markets Day 2022

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Growth, Returns and Cash Flows

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Opening remarks

Thanks, Frank. Good morning, everybody, and thanks a lot for your interest in Umicore. I almost feel like apologising for this very innovative, creative title of my section. At the same time, I think it covers everything there is to say in this strategy.

What I would like to talk to you about in this section is, first of all, give you an insight in the value-creating framework we have in Umicore. That is how the different businesses actually fit together also, not just from a technology point of view, market point of view, but also financial point of view. So really, the synergies within these businesses from a financial point of view.

Secondly, obviously, share with you the ambitions we have in terms of our growth. And we will do that by looking at 2026 and 2030 because we really feel these are two distinct periods. And then, obviously, in order to generate that growth, we'll have to invest. So also explain you a bit about the investments, and how those relate to our returns and to our cash flows.

Now, before we look at the future, allow me to look, only with two slides, to the past in the rear-view mirror because I think accountability is important. In 2015, we were standing here as well with an ambitious strategy. So I think it makes sense to explain to you and see whether what we promised then, what we achieved of that.

And secondly, because as mentioned already by Mathias, this plan again builds a lot on the previous plans. So I think in order to also understand the ambition, it's important to calibrate where we start from.

Horizon 2020 Strategy Financial Targets

Delivered on financial targets

This first slide talks about the financial targets we had set in our Horizon 2020 strategy communicated in 2015. Two legs: accelerating profitable growth, sounds familiar, you see the targets here; and secondly, higher investments but also a return on those investments.

So what did we achieve 2020, with a bit of a difficult reference here, given COVID. But you see that we achieved those targets. In 2021, obviously, with the recovery, and then with record metal prices, we over-achieved again.

The only caveat on this slide is you see the return on capital employed. We set a target at 15%. We did reach it in 2021. But in 2020, we were below that. Again, not the easiest of reference, yes, but I think this relates also to, as you know, the headwinds we have in the delayed capacity utilisation of our Chinese plant in Rechargeable Battery Materials. But overall, I would say that we have overreached our target.

Horizon 2020 Strategy Drove Step-Change

Doubled in size: earnings, capital employed and value

The second slide is meant to look at absolute values because growth rates are important, but sometimes, you lose track of what it means in absolute values. You'll hear a lot talking – us talking about transformation. This is a transformational strategy. I just want to highlight, actually, between 2015 and 2021, this Company, this Group already went through an important transformation.

We basically doubled the size of the Group through different metrics, except for the number of colleagues which increased by 26%. But for the rest – you see revenues, EBITDA – even if you correct for the 2021 record metal prices, we have doubled this Group. Capital employed, you know that part of that still has to fully yield its payback.

But also from a market value perspective, we have increased enterprise value by about €5 billion. And approximately 90% was translated in shareholder value in market cap, corresponding to 15% annual total shareholder return. Acknowledging that the last few years, we've seen quite a lot of volatility in our share price. And clearly, this is something we want to avoid as much as we can in our future strategy.

You'll see a lot of balance in these numbers. If you look at the growth rates by different business section, you'll see that there's been a lot of balancing in the Group, which is important as well to keep the equilibrium overall.

Right. Let's look forward into the strategy. Before we do so, I need to talk about metal prices. I know this is a complicating factor also from a financial communication perspective. But this is who we are, this is what our business is, how we create value.

Metal Price Assumptions, Going Forward

Right. Let's look forward into the strategy. Before we do so, I need to talk about metal prices. I know this is a complicating factor also from a financial communication perspective. But this is who we are, this is what our business is, how we create value.

Anticipate non-linear price changes interlinked to the pace of electrification

So we wanted to share with you the assumptions on metal prices that we have used. We still haven't found the crystal ball. However, we felt that particularly related to the precious metal prices, it was probably not appropriate to just say, 'We take metal prices where they are today,' given that today, we're still pretty close to record peak level.

Strategy is not predicated on today's high precious metal prices

So what we have assumed again, we are positive. You see that because especially for PGMs, there are some structural supply-demand tightness elements. You have the platinum which will benefit from fuel cells. But what we have assumed in this plan is a gradual normalisation of PGM prices, going forward.

You see it on the graph, shows you the average historic precious metal prices. And you see what we composed as a consensus in the market. And the message is that what we assumed in our plan follows that trend; if anything, it's probably a bit more conservative.

The key takeaway for you is that the numbers I will show in a minute, therefore, do include quite a substantial headwind, earnings headwind, because of this normalisation effect, particularly in recycling.

Battery material metals (Co, Ni and Li) simulated at average 2021 prices

Now, what will become much more important in the future, given the growth of rechargeable battery materials, is, obviously, the battery material metals and those prices. We expect some volatility, as we've seen in the last few years. Instead of trying to predict that volatility, we have assumed in the plan prices at the average level of 2021.

Interesting as well is that most likely, there will be an interlink between precious metal prices, and particularly PGM prices, and these battery material prices, related to the pace of electrification.

Differentiated Sources of Value Creation

Balancing growth, returns and cash flows for the Group

Okay. Now, we're really going to look forward. What I wanted to say at the outset of the numbers is that we always have a bottom-up planning. That means that it's our business units that come with a plan. We think that's important from an internal ownership perspective. So this is not a corporate plan. And obviously, we link that up with our Group value creation framework. And that framework, I would like to explain a bit more in detail.

We have structured it through three drivers: earnings growth, defined as EBITDA growth; the return-driver, which is we need to earn a return above our cost of capital defined by return on capital employed; and thirdly, free cash flow – free operational cash flow generation.

It's really the combination of these three, not the exclusivity of one or the other, that drives the value. And we would like to do is, first on the Group level and then on the business unit levels, show how each of these drivers really add to the value creation.

Earnings growth

So this is the Group. Let's start with earnings growth. No surprise, I mean, that is on the high side because we – I mean, with our plan, we have attractive earnings growth, driven mostly by, obviously, Rechargeable Battery Materials and then also, especially in the second half of the decade, Battery Recycling Solutions. And again, the caveat on the metal prices that will impact exactly the growth. But as Frank mentioned, very strong growth is the basis of this plan.

Return-driver

Secondly, and this is obviously related to returns, not isolated, is that we see in this plan, our Group returns above the cost of capital across the plan. Our cost of capital pre-tax, we have somewhat below 10%. That's a reference. And you'll see that, just like we've realised in the past, that across this plan, despite the fact that we will have significant growth investments for the Group, we see that return above the cost of capital.

Free operational cash flow generation

And then, lastly, free cash flow generation. Clearly, that's a more challenging one, given the growth we have in RBM. That's why you see that it's relatively on the low contribution side.

You see arrows. I should have explained that. The arrows is where we see the trend between 2026 and 2030. And you clearly see that from a free cash flow perspective, we do see the payback also from Rechargeable Battery Materials, but also from the Battery Recycling Materials. You see that in the second half of a decade, hence the trend. And also on the returns, you see that we do see between 2026 and 2030, a further increase of the returns from the business.

On free cash flow generation, if you – and I will show that – look at Catalysis and Recycling, clearly there, we have a lot of free cash flow. So this is, again, the Group perspective.

Umicore Group Earnings Growth Ambition

Secular earnings growth while maintaining attractive historical margins

So a bit linking it to what Frank said, it's the combination of extremely high growth, start-up growth, I would say seasoned start-up because we've been around for a long time. But at the same time, combining it with return on capital employed – we're not leaving that metric, it's very important to us – and then a lot of free cash flow generation that we will invest in our growth businesses.

2026 ambition

Quantifying this, in terms of the growth ambition – and we have taken here for earnings EBITDA because we feel that's really the KPI that probably best will track that path and is also, from market perspective, most used.

So this is where we start from, between 2015 and 2021, 18% growth. If we move to 2026, our ambition is to be at approximately €1.5 billion EBITDA for the Group. Again, this includes the normalisation of PGM prices already in there. And from a revenue perspective, we expect to have €2.5 billion to €3 billion of revenue growth between 2021 and 2026. So the way to read it is that by 2026, revenues are expected to be somewhere between €6.5 billion to €7 billion. At the margin EBITDA, marginal Group level above 20%.

Metal prices. So, in our base numbers, we have a normalisation of PGM prices. But just to show you the underlying growth, what we have also done, and that's the shaded bubbles, is to give you the like-for-like if we would take precious metal prices at the average levels of 2020. Okay?

So this is just – for the rest, you don't have to pay too much attention. But you see that underlying this, there is quite substantial growth, double-digit growth rate at 2020 levels. It also shows that the metal prices we have used in 2026 are below the average that was there in the market in 2020.

2030 vision

Now, let's look at 2030. The vision we have for 2030 is an acceleration on the top line, basically having the same increase in revenues between 2026 and 2030 – so that's four years, compared to the previous five years – and to maintain an EBITDA margin of above 20%.

This growth, whether it's between 2026 and 2030, or 2021 and 2026 will not be linear – I think it's bit of an obvious one, but still important to mention – because the businesses we serve are not linear because the metal prices are not linear. So that's an important thing to note.

Maybe the most important thing on this slide is at the bottom. That is phased growth conditional upon value creative returns from contracts. What it means is this growth will be phased. That also means the investments will be phased. And clearly, it only makes sense for us to go after this growth if we are convinced that we will have a return above – and sufficiently above – our cost of capital, not just in an Excel sheet in our offices, but through the agreements we will reach with our customers.

If we map the margin, from a historic perspective, you'll see that the margins we have on the Group level in this plan are actually, let's say, close to the average levels we've seen over the last ten years. So attractive margins, even including the normalised PGM prices, which are at play here.

So now, we'll try to do the same thing for each of the business sections so you can see also the synergies between them.

Catalysis: Balancing Growth, Returns and Cash Flows

Catalysis, we see and we start this plan as a growth business. Bart will explain that.

Earnings growth

We're really convinced that there's a real opportunity to capture what we call an unprecedented value peak in Automotive Catalysts in this decade, especially in the first half of the decade. What we'll also do, clearly on the Fuel Cell side, is prepare for the growth acceleration in that business.

We see that payback mostly in the second half of the decade – not because we're late, but because of the market – and then, further increasing after 2030. You see the arrow, which I think is an obvious one. That is the internal combustion engine towards the end of the decades, yeah, moving out, in terms of the mix and that, obviously, from a growth perspective, will have an impact.

Return-driver

Return-driver. The Catalysis business has consistently, with the exception of the COVID year, generated a return well above our cost of capital. And in this plan, that is absolutely to continue. And you see the arrow, we see that increasing towards 2030 because of a reduction in capital employed in Automotive Catalysts.

Again, about Fuel Cells. The good thing about Fuel Cells is that the capital intensity is relatively limited. And in terms of payback, we see the payback in Fuel Cells more towards the end of the decade. Again, nothing because of our position, but because of the pace of growth in this market.

Free operational cash flow

Free operational cash flow. Clearly, Catalysis will be a very important high free cash flow driver. Again, Bart will explain that. And we'll transition its business model from a growth model to a free cash flow model, not too early, not too late.

Catalysis: Committed to Capture Medium-Term Growth while Driving Efficiency and Cash

So if you look at Catalysis, it's very clear, I think, how Catalysis will contribute to the value creation, which is a return well above cost of capital, free cash flow, which will fund our growth opportunities. And then, we're going to prepare for the growth in Fuel Cells to take over. Quantifying that, in terms of growth, EBITDA, so history, last five years, 15% growth. You see again some of the metal price impact in that.

2026 ambition

The ambition for 2026 is to have an EBITDA of close to €0.5 billion in this business, which equates to mid-single-digit growth rates. Again, if we plot metal prices onto this – so again, like-for-like average 2020 metal prices – you see that the underlying growth is actually more closer to double-digit growth rates. And maintaining margins, you see that EBITDA margin of more than 20%, which is less than 21% but I think we all acknowledge that 2021, from that perspective, was a pretty exceptional year.

2030 vision

If we would have put ourselves in 2030, we expect revenues to be somewhere between 2021 and 2026 level, and with a margin which is comparable to 2026. So basically, EBITDA margin above 20%.

We've also put here the expected contribution of Fuel Cell catalysts in percentage of the Catalyst EBITDA. And you see by 2030, that's less than 30%. That's a lot of money because Catalyst is a big segment. The message is that there's really – most of that, I would say, growth acceleration in Fuel Cell, we expect to see after this decade, after 2030.

E&ST: Balancing Growth, Returns and Cash Flows

Earnings growth

E&ST (Energy & Surface Technologies). Growth, that's an obvious one, unprecedented transformational growth in Rechargeable Battery Materials. And by the way, not just to 2030, but beyond because of the revolution that is happening.

Return-driver

Important, the return-driver, looking at E&ST and RBM, because we have a concentration of investments in this plan basically running up to 2026 – think about the expansion of the footprint in Europe and North American side, which is included in this plan. It does mean that if we take the picture, in terms of return versus capital – cost of capital, that in 2026, we expect E&ST to be somewhat below that hurdle rate. But you see the arrow, that is the payback of that, is in the second half of the decade. And shortly after 2026, we see – we do see E&ST going to value creative territory, from that perspective.

Free operational cash flow

Free operational cash flow, also quite obvious. The first part of the decade will be a lot about funding so we will have a negative free operating cash flow in E&ST. The arrow shows that the payback is expected more in the second half of that decade.

Quantifying it, 15% growth the last five years.

E&ST: Rechargeable Battery Materials to drive transformative growth

2026 ambition

Quantifying it, 15% growth the last five years. 2026, the ambition is to have an EBITDA somewhere between €0.6 billion and €0.8 billion. Clearly, there's a bit more range here because of the dynamics in this market. And you see that, in terms of revenues, we expect to add something like €2.5 billion to €3 billion from 2021, which gives a margin somewhat below 20% EBITDA.

Why is that? Because also in that period, we'll have quite a lot of start-up, ramp-up growth costs, basically, that are not fully, yeah, paid off by 2026 because a lot of these investments will start to yield around that time.

2030 vision

And that you will see coming through in 2030 because there we see margins higher than we have in 2026. And we do see, in terms of growth – top line growth, again, an acceleration because of a short period of time, we expect to have more earnings growth.

Again, please mind the bottom comment. It's phased growth conditional upon value creative agreements.

We don't have a lot of time to – almost no time to talk about the other businesses than Rechargeable Battery Materials. There's some real jewels in there. The message is they will continue to do very well with margins above 20% and to capture the growth opportunities in their respective markets.

Recycling: Balancing Growth, Returns and Cash Flows

Earnings growth

Recycling, to finish off. So in terms of growth, Recycling is really two tales. On the one hand, you have the PMR business, if I can simplify it, which will obviously come up from its peak earnings from 2021 because we have assumed to go back to normalised precious metal price.

It doesn't mean there is no growth in PMR – I mean, Denis will explain that – but the effect of metal prices is there. But on the other hand, you see Battery Recycling coming through – Kurt will explain that – especially in the second half of the year. So how do you map that on this graph?

Normalising PGM prices, which, again, is our assumption, you have, obviously, in terms of growth, that is a headwind. If you would take stable metal prices, you will see that looks different. And then, you have Battery Recycling, where we will have the – in the plan, we have the first industrial scale plant to be commissioned by 2026 of 150,000 tonnes, with the payback clearly in the second half of the decade and then further growth beyond.

Return-driver

Return-driver. Recycling, irrespective of the investments in Battery Recycling, is a business that will continue to generate returns well above the cost of capital.

You see the arrow from 2026 to 2030, a bit moving to the middle. That is just, I would say, some dilutive effect, from an accounting perspective, because we will have the investment in Battery Recycling. And obviously, we also have the impact of the PGM prices normalising – continue to normalise after 2026. So nothing structural.

Free operational cash flow, again, Recycling will be, next to Catalysis, a very strong free cash flow generator, which we intend to invest, reinvest in our growth businesses. Quantifying Recycling, you see the peak, again, driven by metal prices.

Recycling: Strong Margins, Returns and Cash Flow and Battery Recycling Kicking in Mid-Decade

2026 ambition

Quantifying Recycling, you see the peak, again, driven by metal prices. So we expect this business in 2026 to have an EBITDA of close to €0.5 billion with revenues of more than €1 billion, which implies an EBITDA margin of more than 50% – more than 40%, sorry. If we, again, do the like-for-like to show you the underlying growth that is in the business, based on average 2020 metal prices, you see the shaded bubbles, we have, actually, a high-single-digit growth rate.

2030 vision

2030, approximately the same kind of revenues, and that's really the effect of these metal prices continuing to play. And EBITDA margins somewhat below 40%. So very healthy margins. And if you look at the absolute level of EBITDA and you put that on the historic perspective, you see that we're well above the historic earnings.

You see there Battery Recycling in percent of adjusted EBITDA for the segment. We wanted to also show that. And you see by 2030, it's already more than 30%. There is more growth opportunity than we have put in this plan in Battery Recycling. But we feel this is – to start from a realistic view, and clearly after 2030, but Kurt will explain that, there's much more growth opportunities ahead of us.

Growth Investments to Accelerate

Over three-fourths of Group CAPEX in Battery Materials, Battery Recycling and Fuel Cells

Right. An important slide, investments. So what have we, just as a recap, invested in the period 2015 to 2021? €2.8 billion. And you see most of that went to the E&ST business to, basically, the expansion in Rechargeable Battery Materials, but also quite a lot still in Catalysis to capture the growth in that market. We expect to see CAPEX, based on the ambition we have in the plan between 2022 and 2026, to be at €5 billion. And you see that the split is different.

We have a significantly higher portion in E&ST, which is, again, the increase in footprint in Europe, the North American plant, which is all in there. You see that Catalysis is substantially lower. That's the free cash flow kicking in and that will accelerate, again, after 2026. And you see the green part remains quite important. And that includes the investment in the industrial plant in Battery Recycling, which accounts for about €0.5 billion in the total.

RBM – the expansion of RBM is approximately €4 billion in the more than €5 billion, which means that if you look at the three most important growth engines of the Group, which is Fuel Cells, Rechargeable Battery Materials and Battery Recycling, together, in terms of CAPEX, they account to more than 75% of the Group CAPEX.

Discipline in CAPEX

What is very important on this slide, in terms of interpreting it, is discipline. This is very big amount. So first of all, this CAPEX will not be spent in one go. So it's a phased investment plan, which means that there's a number of decision points along the way. Secondly, you know, our commitment to returns. So we will only spend this money if we have enough visibility on having a return above – sufficiently above our cost of capital. And thirdly, what I think is really strategic and unique is the partnership model that was already referenced earlier on in Rechargeable Battery Materials; you do not spend €5 billion based on annual contracts.

So I think this is really predicated on the traction we see with customers with ongoing discussions to have a true partnership with our customers to have also a co-funding aspect into that. So that's – I think the word of discipline needs to be with this slide and definitely is in the ambitions we have, going forward.

Capital Allocation Shift to Accelerate: Doubling of Capital Employed Subject to Value Creative Returns

In terms of capital allocation, what it means is that we have, between 2015 and 2021, again, already doubled the capital and the size of the Group. If we put ourselves in 2026, we are expected to close to double again. You see the – relatively, sizes are different.

So the main driver behind this close to doubling is obviously Rechargeable Battery Materials and Battery Recycling.

In Catalysis, we expect to see a stable capital base up until 2026 because there's still growth to be captured. We have the investments also in Fuel Cells. But then, towards the second half of the decade, we should see a substantial reduction in the capital base in Catalysis, partly also because of substantial working capital releases.

E&ST will grow to something like two-thirds of the total Group average capital employed base, obviously driven by the RBM expansion.

And then, in Recycling, you see that is going up. This is the investments we have in Battery Recycling, the €0.5 billion which is to come onstream in 2026, in addition to some ESG investments in Hoboken.

2030, further growth, without any doubt, because of the growth opportunity. However, not in every segment. In E&ST, that's the growth we expect to be able to capture – continue to capture in Rechargeable Battery Materials. Again, for Catalysis, we see that going down. And for Recycling, it will really depend on the ambition we put in after 2026 in Battery Recycling.

Capital Allocation Shift to Accelerate: Group Returns above Cost of Capital with Some Temporary Dilution in E&ST

Capital allocation shift to accelerate. So we need to talk about returns.

Let's talk with – or start with Catalysis. This is the historic view on the top of the return on capital employed of the Catalysis business. You see it's been consistently, with the exception of 2020, creating a lot of value. We expect that absolutely to continue. So in 2026, the ambition is to be approximately at 20%, and to further grow that in the second half of the decade because of a decrease in the capital employed base.

E&ST. We expect E&ST, again, because of the concentration of investments between now and 2026, based on the caveat that the returns in the agreements are there, to be at something like 8% return on capital employed in 2026, with the payback coming in the years thereafter, in the second half of the decade. So that the ambition is, by 2030, that we are above the 12.5%.

Recycling continues to be well above cost of capital, 2026, 30%. Again, the normalisation of metal prices is in there. And 2030, something like 20%, well above our cost of capital so well into value creative territory, despite the price assumption. Which means that for the Group – across the plan, the Group is expected to be in value creative territory, to have return on capital employed above our cost of capital – well above our cost of capital – and to go to 15% by 2030.

Operational Cash Flow Profile

Substantial free cash flows in Catalysis and Recycling reinvested into E&ST

Cash flows. In the period 2020 to 2026, the plan we see is a total EBITDA generation of something like €6 billion to €7 billion. We draw your attention to the quite balanced distribution here between the three segments. That will change in the second half of the decade, clearly, with E&ST becoming much more important.

If we put next to that the investments we foresee in the plan in CAPEX, in working capital, also taking into account, again, the metal prices, what has happened in Catalysis, we expect to have roughly the same amount of investments, if I can put it, in that first part of the decade, which means that we have a very strong free cash flow generation in Catalysis and in Recycling, irrespective of the investments, for example, in Battery Recycling. And we intend to fully utilise that to fund our growth projects and mainly to fund the growth in Rechargeable Battery Materials – again, conditional upon the returns, obviously.

Funding Levers

Then, with these numbers, funding is very important. We start with a strong balance sheet. We've been around for a very long time so we understand the importance of a strong balance sheet, the volatility that we have in our markets.

The first thing to mention that in this plan, our funding policy remains unchanged, in the sense that we want to maintain investment grade status across the plan. We believe that we have a much more diversified funding opportunity and funding levers to pull than maybe in the past.

Strong free operational cash flow generation

First of all, on the free cash flow perspective, I just showed you that the generation of free cash flow from our different businesses, and especially in Catalysis and Recycling, is much more significant than in the past. So that will contribute.

ESG-focussed debt funding appetite

Secondly, there's clearly a lot of appetite to fund sustainable ESG projects, running into transition of the energy market, electrification. We feel if there's any company that ticks a lot of those boxes with our projects that we have, whether it's in Battery Recycling or in Rechargeable Battery Materials, that we want to capture that.

Co-funding partnership model

And then, very important, and I think really strategic, is the co-funding, the partnership model in Rechargeable Battery Materials.

Joint venture investment sharing

So that's – the traction we feel with customers is that they are willing to participate in the funding in return for the capacity commitment, the technology commitments. That could take the form of joint ventures, like the MOU we have with Volkswagen, or different other forms of, I would say, co-funding partnerships.

Grants and other funding incentive mechanisms

And then finally, we have grants and incentive mechanisms. I mean, the growth that we have had in this business requires support and does receive support from governments and other agencies. And so, clearly, that is going to be an important source of funding as well for us.

Capital market funding

And then we have, I would say, the optional one. We're a listed company. We always have the option to go for capital market funding in different forms, conditional, obviously, on the fact that it's a good proposition from a business and from a return perspective. But again, that is optional. It's really the other levers and the different levers we have that we intend to pull to the fullest extent.

With that, and before going into the Q&A, I hope, going back to the initial title of the section, we covered everything and hope that we've convinced you that we're really looking to balance the growth, the returns, the cash flows, with a focus on value creation of this company, not on the short term but on the medium and the long term. Thank you.